

2020

ANNUAL REPORT



*First American
Financial Corporation*

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

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



*First American
Financial Corporation*

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-1911571
(I.R.S. Employer
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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.00001 par value	FAF	New York Stock Exchange

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 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

Indicate by check mark whether the 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2020 was \$5,183,749,234.

On February 9, 2021, there were 109,849,486 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement with respect to the 2021 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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THIS ANNUAL REPORT ON FORM 10-K CONTAINS 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 CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS “BELIEVE,” “ANTICIPATE,” “EXPECT,” “INTEND,” “PLAN,” “PREDICT,” “ESTIMATE,” “PROJECT,” “WILL BE,” “WILL CONTINUE,” “WILL LIKELY RESULT,” OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS “WILL,” “MAY,” “MIGHT,” “SHOULD,” “WOULD,” OR “COULD.” THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

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, WITHOUT LIMITATION:

- INTEREST RATE FLUCTUATIONS;*
- CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;*
- VOLATILITY IN THE CAPITAL MARKETS;*
- UNFAVORABLE ECONOMIC CONDITIONS;*
- THE CORONAVIRUS PANDEMIC AND RESPONSES THERETO;*
- IMPAIRMENTS IN THE COMPANY’S GOODWILL OR OTHER INTANGIBLE ASSETS;*
- UNCERTAINTY FROM THE EXPECTED DISCONTINUANCE OF LIBOR AND TRANSITION TO ANY OTHER INTEREST RATE BENCHMARK;*
- FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;*
- REGULATORY OVERSIGHT AND CHANGES IN APPLICABLE LAWS AND GOVERNMENT REGULATIONS, INCLUDING PRIVACY AND DATA PROTECTION LAWS;*
- 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;*
- LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;*
- CLIMATE CHANGE, HEALTH CRISES, SEVERE WEATHER CONDITIONS AND OTHER CATASTROPHE EVENTS;*
- 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;*
- 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 MANAGEMENT FRAMEWORK;*

- *SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS, CYBERATTACKS AND INTRUSIONS, OR UNAUTHORIZED DATA DISCLOSURES;*
- *INNOVATION EFFORTS OF THE COMPANY AND OTHER INDUSTRY PARTICIPANTS AND ANY RELATED MARKET DISRUPTION;*
- *ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS;*
- *THE COMPANY'S USE OF A GLOBAL WORKFORCE;*
- *INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS; AND*
- *OTHER FACTORS DESCRIBED IN THIS ANNUAL REPORT ON FORM 10-K, INCLUDING UNDER THE CAPTION "RISK FACTORS" IN ITEM 1A OF PART I.*

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, a Delaware corporation (the “Company”), holds the financial services businesses of the Company’s prior parent. On June 1, 2010, 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 title insurance, settlement services and other financial services and risk solutions 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. The segment also provides products, services and solutions that are designed to mitigate risk in, or otherwise facilitate real estate transactions. Many of these products, services and solutions involve the use of real property-related data, including data derived from its proprietary databases. In addition, it provides banking, trust, warehouse lending and wealth management 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.

The substantial majority of our business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. It is our strategy to profitably grow our core title insurance and settlement services business, strengthen our enterprise through data and process advantage and manage and actively invest in complementary businesses where the Company has a competitive advantage. To achieve this, we focus on continued improvement of our customers’ experiences with our products, services and solutions, including through digital transformations, and on enhancing our services offered to title agents. In an effort to speed the delivery of our products, increase efficiency, improve quality, improve the customer experience and decrease risk, we are utilizing innovative technologies, processes and techniques in the creation of our products and services. These efforts include streamlining the title and closing processes by converting certain manual processes into automated ones. 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 designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant data and records; provides appraisals and other valuation-related products and services; provides lien release, document custodial and default-related products and services; and provides warehouse lending services and banking, trust and wealth management services. In 2020, 2019, and 2018 the Company derived 92.2%, 91.5%, and 91.9% of its consolidated revenues, respectively, from this segment.

Overview of Title Insurance Industry

In most instances in the United States, and in certain instances internationally, mortgage lenders and purchasers of real estate desire to be protected from loss or damage in the event of defects in the title of the subject property. 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 preliminary title report or commitment, 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 preliminary title reports and commitments, 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 generally are real estate buyers and mortgage lenders. A title insurance policy indemnifies the named insured and certain successors in interest against certain 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, or for automatic increases in coverage over time. 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 and, in many instances, curing identified title defects. These searches, examinations and curative efforts distinguish title insurers from other insurers, such as property and casualty insurers. Whereas title insurers generally insure against losses arising out of circumstances existing as of the date of the policy, property and casualty insurers generally insure against losses arising out of events that occur subsequent to policy issuance. As a result of these differences, title insurers typically experience relatively low claims, as a percentage of premiums, when compared to property and casualty insurers, but have relatively high expenses. The primary expenses incurred by a title insurer pertain to underwriting (including the costs associated with searching and examining title), the curative process, and sales, as well as other administrative expenses. Where the policy is issued by an agent, the premium retained by the agent is the primary expense for the insurer.

The Closing Process. In the United States, 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 third party, such as a real estate broker or agent, lawyer or closer, orders the title insurance on behalf of an insured or in certain instances, such as with respect to a lender, the insured orders on its own behalf. 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. 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.

In the United States, the closing or settlement function, sometimes called an escrow in the western 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 title insurer or agent typically provides 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 typically 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 search is typically performed by or on behalf of the agent, and the agent collects, 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 by geography and from agent to agent. 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, when a title insurer has issued a commitment to insure a particular transaction, it may be requested to issue a closing protection letter that protects a lender or borrower, or in some states also a seller, from a loss of funds, under certain conditions, caused by the actions of the title insurer or its 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 errors and omissions 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 jurisdiction to jurisdiction.

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, the District of Columbia and certain United States territories. We also offer title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea and various other established and emerging markets as described in the "International Operations" section below.

The substantial majority of our title insurance and closing business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. Residential purchase activity is typically slower in the winter months with increased volumes in the spring and summer months and is sensitive to interest rates. Residential refinance activity is not seasonal, but is generally correlated with 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 and financing availability and we typically see elevated activity towards the end of the year. However, changes in general economic conditions in the United States and abroad, can cause fluctuations in these traditional patterns of real estate activity, and changes in the general economic conditions in a geography can cause fluctuations in these traditional patterns of real estate activity in that geography.

Distribution, Sales and Marketing. 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. 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, we market to real estate agents and brokers, mortgage brokers, real estate attorneys, mortgage originators, homebuilders and escrow service providers. We also market directly to firms that purchase and sell residential real estate on a large-scale basis. For refinance and default-related business for customers with centrally managed platforms, we market to mortgage originators, servicers and government-sponsored enterprises. For the commercial business, we market primarily to commercial real estate principals, developers, and investors; real estate investment trusts; law firms; commercial lenders; life insurance companies; commercial brokers and mortgage brokers. In some instances, we may supplement the efforts of our sales force with general marketing. Our marketing efforts emphasize our product offerings, the quality and timeliness of our services, our financial strength, process innovation and our national presence. We also provide educational information on our website and through other means to help consumers and others better understand our services, the homebuying/settlement process in general, and real estate market economic trends.

In our agency channel, we issue policies in accordance with agreements with authorized agents. These agreements typically state the conditions under which the agent is authorized to issue our title insurance policies. The agency agreement also typically prescribes the circumstances under which the agent may be liable to us if a policy loss occurs, as well as the services we provide to the agent and the price for those services. Those services vary by geography and from agent to agent. We are continuing to seek to provide additional services to our agents, including banking services and closing-related services, in an effort to reduce risk and enhance relationships with our agents. As is standard in our industry, our agents typically operate with a substantial degree of independence from us and typically act as agents for other title insurers.

Within the agency channel, our sales and marketing efforts are directed at the agents themselves and emphasize the quality and timeliness of our underwriting support, our financial strength and our agency-based product offerings. Premium splits also are of importance in attracting and retaining agents.

International Operations. We provide products and services in a number of countries outside of the United States, and our international operations accounted for approximately 5.2% of our title insurance and services segment revenues in 2020. Today we have direct operations and a physical presence in several countries, including Canada, the United Kingdom, South Korea and Australia. While reliable data are not available, we believe that we have the largest market share for title insurance outside of the United States.

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 certain 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. In jurisdictions where we have limited claims experience, it is more difficult to set prices and reserve rates.

Data and Title Plants. Our title insurance business is heavily dependent on data. Underwriting decisions require comprehensive and accurate data. In an attempt to enhance efficiency and reduce risk, certain underwriting functions are increasingly being automated. As discussed further in the Innovation and Intellectual Property section below, our ability to automate underwriting decisions has accelerated as we have improved the breadth and quality of our data assets and our analytic tools.

Our title plants constitute 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 data and records generally may be searched more efficiently. Many of our title plants also index prior title insurance policies, adding to searching efficiency.

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. In certain circumstances we assume and cede 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 for a portion of the total risk under the terms of the reinsurance agreement. In addition to reinsurance arrangements involving other industry participants, we maintain a global treaty reinsurance program provided by a syndicate of highly rated reinsurers. Subject to the treaty limits and certain other limitations, the program generally covers claims that arose 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 each coinsurer is liable for its specified percentage share of the total liability.

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 at 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 service, quality, price, customer relationships and the ease of access and use of our products. 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 and scope of coverage are also important. In addition, 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.

Data and Analytics. Our data and analytics business offers analytic solutions for title underwriting automation, fraud risk management, compliance and valuations that are powered by our extensive collection of property information and ownership data and recorded documents. These solutions enable our title insurance operations, lenders, other title companies and other real estate industry participants to make informed, and increasingly automated, decisions to manage workflow and auditing and compliance operations.

Trust, Wealth Management and Banking Services. Our federal savings bank subsidiary offers trust, wealth management and deposit products and related services, including fund transfer services. The bank does not originate loans. As of December 31, 2020, the bank administered fiduciary and custody assets having a market value of \$4.4 billion, which includes managed assets of \$2.1 billion. The bank's balance sheet had assets of \$4.4 billion, with deposits of \$3.9 billion and stockholder's equity of \$405.2 million. The bank's deposits have traditionally consisted almost entirely of funds deposited by its affiliates, but increasingly the bank is seeking deposits from title agents that are not affiliates. While the majority of the bank's deposited funds are from third parties to be held in trust pending the closing of commercial and residential real estate transactions, the bank also maintains other deposits, including operating funds deposited by its affiliates.

Specialty Insurance Segment

Home Warranty. 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. In addition, under the contract, the holder is responsible for a service fee for each trade call. First year warranties are marketed through real estate brokers and agents, and we also market directly to consumers. We generally sell renewals directly to consumers. Revenues associated with home warranties sold at the time of a home purchase are dependent upon activity in the residential purchase market, which is cyclical and seasonal. Residential purchase activity is typically slower in the winter months with increased volumes in the spring and summer months and is sensitive to interest rate fluctuations. However, changes in general economic conditions in the United States and abroad, can cause fluctuations in this traditional pattern of activity, and changes in the general economic conditions in a geography can cause fluctuations in the traditional patterns of activity in that geography. Our home warranty business currently operates in 35 states and the District of Columbia.

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. The majority of policy liability is in the western United States, including approximately 59% in California. We purchase reinsurance to limit risk associated with large losses from single events.

In January 2021, our property and casualty insurance subsidiaries entered into book transfer agreements with Safeco Insurance, a Liberty Mutual Company ("Safeco"), and Heritage Insurance Holdings, Inc. ("Heritage"). The agreements provide our qualifying property and casualty insurance agents and customers an opportunity to transfer their policies to Safeco or, in certain circumstances, Heritage. The entry into these agreements is the result of the initiation of a process by the Company, announced in October 2020, to exit its property and casualty business. We expect the transfer to be completed by the end of the third quarter of 2022. We will seek to non-renew the policies that are not transferred.

Corporate

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

Innovation and Intellectual Property

In an effort to speed the delivery of its products, increase efficiency, improve quality, improve the customer experience and decrease risk, the Company is increasingly utilizing innovative technologies, processes and techniques in the creation of its products and services. These efforts include streamlining the closing process by converting certain manual processes into automated ones, which we believe improves the customer experience by

simplifying and reducing the time it takes to close a transaction, reducing risk and improving communication. We are also deploying innovation solutions leveraging our bank to make the closing process more flexible. The Company increasingly is employing advanced technologies to automate various internal processes, including processes related to the building, maintaining and updating of title plants and other data assets, as well as the search and examination of information in connection with the issuance of title insurance policies.

The Company relies on a combination of patents, trademarks, copyright and trade secret laws, non-disclosure agreements, contractual provisions and a system of internal safeguards to protect our intellectual property rights and proprietary information. We have a number of patents of varying lengths issued and additional patent applications pending in the United States and internationally, including patents for title automation, loan risk assessment, online platforms, optical character recognition and data extraction. We also believe that many of our brands have accumulated substantial goodwill in the marketplace.

Human Capital Resources

As of December 31, 2020, the Company employed 19,597 employees, with 12,849 of them located in the United States and 6,748 outside of the U.S. We strive to have a positive, collaborative culture that engages employees, as we believe engaged employees serve our customers well. We believe this combination, along with the efficient operation of our business, ultimately benefits our stockholders. As part of this effort, we participate in competitions that recognize the quality of our workplace, which competitions we believe provide a framework for improving, and insights for evaluating, our employee engagement efforts. Moreover, receipt of awards in connection with those competitions facilitates our efforts to retain desired talent. The success of our efforts is demonstrated through our inclusion on the Fortune 100 Best Companies to Work For[®] list in the United States for the last five years and the Best Workplaces[™] in Canada list for the last six years, as well as a number of similar lists in local areas. In addition, we have been recognized on the Fortune[®] and Great Place to Work[®] lists for Best Workplaces for Women and Best Workplaces for Diversity for four years in a row. We also have implemented many professional development programs to build and strengthen the skill set of our employees. And, reflecting our perspective on the benefits of a diverse workforce, we have formed a Diversity, Equity and Inclusion Council, which is focused on the development of employee-centered actions to enhance the recruitment, engagement, development, and retention of diverse employees.

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, First American Title Insurance Company, is a Nebraska corporation and, accordingly, is primarily regulated by the Nebraska Department of Insurance. Insurance regulations 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, which may make it difficult or prohibitive for a third party to acquire our Company.

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 generally are 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.

Certain laws and regulations, such as the cyber security requirements of the New York Department of Financial Services, require the Company to maintain certain information security standards and practices.

In addition to state-level regulation, our domestic subsidiaries that operate in the insurance business, as well as our home warranty, banking 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, in matters which impact consumers. This authority includes the enforcement of federal consumer financial laws, including the Real Estate Settlement Procedures Act. Regulations issued by the CFPB, or the manner in which it interprets and enforces existing consumer protection laws, have impacted and could continue to impact the way in which we conduct our businesses and the profitability of those businesses.

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 and supervised by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) regulates and supervises the Company, as a savings and loan holding company, including its non-banking subsidiaries that are part of the holding company system. Federal banking laws and regulations require third parties to obtain prior approval to acquire control of our federal savings bank or our Company, which may make such an acquisition of our Company by a third party more difficult or prohibitive.

Cybersecurity and Data Protection

The Company dedicates significant resources to securing its systems and to protecting non-public personal information and other confidential information. These include resources dedicated to intrusion prevention such as firewalls, endpoint protection and behavior analysis tools, among others. They also include resources dedicated toward vulnerability identification through the performance of vulnerability scans and penetration tests, among other methods.

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 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 credit, liquidity, and interest rate risks.

As of December 31, 2020, 93% of our investment portfolio consisted of debt securities. As of that date, 64% of our debt securities portfolio was either United States government-backed or rated AAA, and 98% was either rated or classified as investment grade. Percentages are based on the estimated fair values of the securities. Credit ratings reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected.

In addition to our debt and equity 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.

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 10 to 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

The following "risk factors" could materially and adversely affect the Company's business, operations, reputation, financial position or future financial performance. 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.

STRATEGIC RISK FACTORS

1. The Company's risk management framework could prove inadequate, which could adversely affect the Company

The Company's risk management framework is designed to identify, monitor and mitigate risks that could have a negative impact on the Company's financial condition or reputation. This framework includes departments or groups dedicated to enterprise risk management, information security, disaster recovery and other information technology-related risks, business continuity, legal and compliance, compensation structures and other human resources matters, vendor management and internal audit, among others. Many of the processes overseen by these departments function at the enterprise level, but many also function through, or rely to a certain degree upon, risk mitigation efforts in local operating groups. Similarly, with respect to the risks the Company assumes in the ordinary course of its business through the issuance of title insurance policies and the provision of related products and services, the Company employs localized as well as centralized risk mitigation efforts. These efforts include the implementation of underwriting policies and procedures, automated risk-decisioning tools and other mechanisms for assessing and managing risk. Underwriting title insurance policies and making other risk-assumption decisions frequently involves a substantial degree of individual judgment and, accordingly, underwriters are maintained at the state, regional, divisional, and corporate levels with varying degrees of underwriting authority. These individuals may be encouraged by customers or others to assume risks or to expeditiously make risk determinations. If the Company's risk mitigation efforts prove inadequate, the Company could be adversely affected.

2. The Company is pursuing various innovative initiatives, which could result in increased title claims or otherwise adversely affect the Company

In an effort to speed the delivery of its products, increase efficiency, improve quality, improve the customer experience and decrease risk, the Company is increasingly utilizing innovative technologies, processes and techniques in the creation of its products and services. These efforts include streamlining the closing process by converting certain manual processes into automated ones, which the Company believes will improve the customer experience by simplifying and reducing the time it takes to close a transaction, reducing risk and improving communication. The Company increasingly is employing advanced technologies to automate various processes, including various processes related to the building, maintaining and updating of title plants and other data assets, as well as the search and examination of information in connection with the issuance of title insurance policies. As a result of the recent reduction in interest rates in connection with the coronavirus pandemic, the Company has experienced a significant increase in refinance orders. To facilitate the processing of these orders, the Company has expanded the use of certain of these advanced technologies. Risks from these and other innovative initiatives include those associated with potential defects in the design and development of the technologies used to automate processes, misapplication of technologies, the reliance on data that may prove inadequate, and failure to meet customer expectations, among others. As a result of these risks, the Company could experience increased claims, reputational damage or other adverse effects, which could be material to the Company.

3. Potentially disruptive innovation in the real estate industry and/or the Company's participation in these efforts could adversely affect the Company

In addition to the Company's innovative activities, other participants in the real estate industry are seeking to innovate in ways that could adversely impact the Company's businesses. These participants include certain of the Company's sources of business, competitors and ultimate customers. Innovations by these participants may change the demand for the Company's products and services, the manner in which the Company's products and services are ordered or fulfilled and the revenue or profitability derived from the products and services. The Company has made and will likely continue to make high-risk, illiquid investments in some of these participants, typically during their early- and growth-stages. If any of these companies do not succeed, the Company could lose and/or be required to impair all or part of its investment in the unsuccessful company. The risk of such

impairment is generally greater during periods of economic uncertainty, such as that currently being experienced in the United States. The prospects of these investments also depend on a number of factors in addition to the condition of the general economy, including the general availability of capital, the performance of and volatility in the public markets, the condition of the real estate industry, the competitive environment for such participants and the operational and financial performance of such participants. These investments could also facilitate efforts that ultimately disrupt the Company's business or enable competitors. Accordingly, the Company's efforts to anticipate and participate in these transformations could require significant additional investment and management attention and may not succeed. These innovative efforts by third parties, and the manner in which the Company, its agents and other industry participants respond to them, could therefore have an adverse effect on the Company.

4. The coronavirus pandemic and the responses thereto could adversely affect the Company

The coronavirus pandemic and responses to it have created significant volatility, uncertainty and disruption in the broader economy. The extent to which the coronavirus pandemic impacts the Company's business, operations and financial results will depend on numerous factors that the Company may not be able to accurately predict, including: the duration and scope of the pandemic and restrictions and responses to it; governmental, business and individual actions that have been and continue to be taken in response to the pandemic; the ongoing impact of the pandemic on economic activity and actions taken in response, including the efficacy of governmental relief efforts; the availability and efficacy of vaccines; the effect on participants in real estate transactions and the demand for the Company's products and services, including as a result of higher unemployment, business closures and economic uncertainty; and the Company's ability to sell and provide, or its efficiency in selling and providing, its services and solutions, including as a result of illness, travel restrictions, governmental closure orders and partial or full closures of business and government offices. For example, in the second and third quarters of 2020, the Company experienced a decrease in the number of opened commercial orders relative to the same periods of the prior year, and experienced a decrease in the number of opened residential purchase orders early in the pandemic. The Company also experienced increased volatility in the Company's investment portfolio early in the pandemic. The Company is also taking certain underwriting risks that could result in increased claims. In addition, the Company has made changes to certain of its production processes that also could result in increased claims. While the Company is unable to predict the ultimate impact the coronavirus pandemic and related responses will have on its businesses, these events adversely affected the Company early in the pandemic, and still could adversely affect, its business and results of operations and, if prolonged, could materially adversely affect the Company's financial condition. The impacts of the coronavirus pandemic may also exacerbate the risks discussed elsewhere in Part I, Item 1A of this Annual Report.

OPERATIONAL RISK FACTORS

5. 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, among others:

- 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 affordability is declining.

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

6. Unfavorable economic conditions adversely affect the Company

Historically, 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, have created a difficult operating environment for the Company's core title and settlement businesses. Uncertainty and a deterioration in economic conditions in connection with the coronavirus pandemic adversely affected the Company early in the pandemic. These conditions also tend to negatively impact the amount of funds the Company receives from third parties to be held in trust pending the closing of commercial and residential real estate transactions. The Company deposits a substantial portion of these funds, as well as its own funds, with the federal savings bank it owns. The Company's bank invests those funds and any realized losses incurred on those investments 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. Moreover, during periods of unfavorable economic conditions, the return on these funds deposited at the Company's bank, as well as funds the Company deposits with third party financial institutions, tends to decline. Certain rules promulgated in connection with the coronavirus pandemic allow certain borrowers to request forbearance of the payment of their mortgages. In certain circumstances, if a borrower requests forbearance on a mortgage originated through the Company's warehouse lender before that mortgage is sold to a third party, the Company's warehouse lender may have to retain that loan. In addition, the Company holds investments in entities, such as title agencies and settlement service providers, some of which have been negatively impacted by these conditions, as well as other securities in its investment portfolio, which also may be, and recently have been, negatively impacted by these conditions. 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 or return on its investments and increased credit risk from customers and others with obligations to the Company.

7. Climate change, severe weather conditions, health crises and other catastrophe events could adversely affect the Company

Climate change, global or extensive health crises, severe weather and other catastrophe events could adversely affect the Company. These include impacts on the results of the Company's property and casualty insurance business due to any increase in the frequency and severity of wildfires, hurricanes, floods, earthquakes or other catastrophe or severe weather events, as well as increased claims in the Company's home warranty business. Home warranty claims, including those pertaining to climate control units, tend to rise as temperatures become extreme, especially in geographies where extreme temperatures are infrequent, and as people spend more time at home, such as during the coronavirus pandemic. In addition, the Company manages its financial exposure for losses in its title insurance business and in its property and casualty insurance business with third-party reinsurance. Catastrophic events could adversely affect the cost and availability of that reinsurance. Moreover, to the extent climate change, health crises, severe weather conditions and other catastrophe events impact companies or municipalities whose securities the Company invests in, the value of its investment portfolio may also decrease due to these factors. In addition, these factors may impact real estate markets and the broader economy, which could also impact the Company. The frequency, severity, duration, and geographic location and scope of such health crises, catastrophe and severe weather events are inherently unpredictable, and, therefore, the Company is unable to predict the ultimate impact climate change and such events will have on its businesses.

8. 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 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.

9. Changes in the Company's relationships with large mortgage lenders or government-sponsored enterprises could adversely affect the Company

Large mortgage lenders and government-sponsored enterprises, because of their significant role in the mortgage process, have significant influence over the Company and other service providers. 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, any refusal of these parties to accept the Company's products and services, the modification of the government-sponsored enterprises' requirement for title insurance in connection with mortgages they purchase or the use of alternatives to the Company's products and services, could have a material adverse effect on the Company.

10. 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 could adversely affect the Company

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 "A2" by Moody's Investor Services, Inc., "A" by Fitch Ratings, Inc., "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 \$1.5 billion of total statutory capital and surplus as of December 31, 2020. 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.

11. 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 largely independent of the Company. There is no guarantee that these title agents will fulfill their contractual obligations to the Company, which contracts include limitations that are designed to limit the Company's risk with respect to their activities. 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. Case law in certain states also suggests that the Company is liable for the actions or omissions of its agents in those states, regardless of contractual limitations. 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.

12. Systems damage, failures, interruptions, cyberattacks and intrusions, and unauthorized data disclosures by the Company or its service providers 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 and other technologies (collectively referred to as “systems”), some of which it owns and manages and some of which are owned and/or managed by third parties, including providers of distributed computing infrastructure platforms commonly known as the “cloud.” The Company and its agents, suppliers, service providers, and customers use these systems to receive, process, store and transmit business information, including non-public personal information as well as data from suppliers and other information upon which the Company’s business relies. The Company also uses these systems to manage substantial cash, investment assets, bank deposits, trust assets and escrow account balances on behalf of itself 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 these systems and are only available electronically. Accordingly, for a variety of reasons, the integrity of these systems and the protection of the information that resides thereon are critically important to the Company’s successful operation.

These systems have been subject to, and are likely to continue to be the target of, computer viruses, cyberattacks, phishing attacks and other malicious activity. These attacks have increased in frequency and sophistication, including in the wake of the coronavirus pandemic. The Company’s employees working remotely are more susceptible to social engineering attacks, intrusions and other malicious activity, and this risk has increased given that a substantial number of the Company’s employees are working from home as a result of the coronavirus pandemic. The Company’s applications and infrastructure also have known and unknown vulnerabilities. Once identified, the Company’s information technology and information security personnel seek to remediate these vulnerabilities based on the level of risk presented. For a number of reasons, including the introduction of new vulnerabilities, resource constraints, competing business demands and dependence on third parties, a number of unremediated vulnerabilities will always exist. Remediation of some vulnerabilities are outside of the control of the Company and third-party remediation efforts may not be timely provided or implemented, even when the level of risk is critical or high. 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 circumstances could expose the Company to system-related damages, failures, interruptions, cyberattacks and other negative events or could otherwise 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.

In conducting its business and delivering its products and services, the Company also utilizes service providers. These service providers and the systems they utilize are typically subject to similar types of system- and information security-related risks that the Company faces. The Company provides certain of these service providers with data, including nonpublic personal information. There is no guarantee that the Company’s due diligence or ongoing vendor oversight will be sufficient to ensure the integrity and security of the systems utilized by these service providers or the protection of the information that resides thereon. Adverse consequences for the Company in the event of a significant event involving the systems of its service providers or the information residing thereon include, among others, delays in the delivery of the Company’s products and services, direct or indirect financial loss, loss of business and reputational damage.

During the third quarter of 2019, the Company concluded an investigation regarding unauthorized access to non-public personal information as a result of a vulnerability in one of the Company’s applications. The investigation identified imaged documents containing non-public personal information pertaining to 32 consumers that likely were accessed without authorization. These 32 consumers were notified and offered complimentary credit monitoring services. This incident triggered numerous federal and state governmental inquiries as well as private lawsuits against the Company. While the incident is not expected to have a material impact on the Company’s business, it increases the risk associated with any future incidents, particularly the risk of damage to the Company’s reputation.

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, including those of the Company's service providers. 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 systems and sensitive information and the Company may be bound contractually and/or by regulation to comply with the same requirements. If the Company or its service providers fail to comply with applicable regulations and contractual requirements, the Company could be exposed to lawsuits, governmental proceedings or the imposition of fines, among other consequences.

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, otherwise harm its reputation and/or result in financial losses, litigation, increased costs or other adverse consequences that could be material to the Company.

13. Errors and fraud involving the transfer of funds may adversely affect the Company

The Company relies on its systems, employees and domestic and international banks to transfer its own funds and the funds of third parties. In addition to relying on third-party banks to transfer these funds, the Company's federal savings bank subsidiary transfers funds on behalf of the Company as well as title agents that are not affiliates of the Company. These transfers are susceptible to user input error, fraud, system interruptions, incorrect processing and similar errors that from time to time result in lost funds or delayed transactions. The Company's email and computer systems and systems used by its agents, customers and other parties involved in a transaction have been subject to, and are likely to continue to be the target of, fraudulent attacks, including attempts to cause the Company or its agents to improperly transfer funds. These attacks have increased in frequency and sophistication. Funds transferred to a fraudulent recipient are often not recoverable. In certain instances the Company may be liable for those unrecovered funds. The controls and procedures used by the Company to prevent transfer errors and fraud may prove inadequate, resulting in financial losses, reputational harm, loss of customers or other adverse consequences which could be material to the Company.

14. The Company's use of a global workforce involves risks that could adversely affect the Company

The Company utilizes lower cost labor in 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, health crises and other catastrophe events. Such disruptions could decrease efficiency and increase the Company's costs, which the Company has experienced during the coronavirus pandemic. Weakness of the United States dollar in relation to the currencies used in these countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in other countries is subject to heightened scrutiny in the United States and, as a result, the Company could face pressure to decrease its use of labor based outside the United States. Laws or regulations that require the Company to use labor based in the United States or effectively increase the Company's labor costs abroad also could be enacted. The Company may not be able to pass on these increased costs to its customers.

LEGAL AND COMPLIANCE RISK FACTORS

15. Regulatory oversight and changes in government regulation could require the Company to raise capital, make it more difficult to deploy capital, including dividends to shareholders and repurchases of the Company's shares, prohibit or limit the Company's operations, make it more costly or 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 wealth management 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. In general, in recent years, the Company experienced increasing regulatory oversight and became subject to increasingly complex statutory guidelines. This is due, among other factors, to the passing of, and significant changes in, laws and regulations pertaining to privacy and data protection and to the Company's status as a savings and loan holding company.

Regulatory oversight could require the Company to raise capital, and/or make it more difficult to deploy capital, including dividends to shareholders and repurchases of the Company's shares. For example, regulatory capital requirements for the Company have historically applied only at the subsidiary level, specifically to the Company's federal savings bank subsidiary and the Company's insurance underwriter subsidiaries. However, both the National Association of Insurance Commissioners and the Board of Governors of the Federal Reserve System have issued proposals for group capital calculations. These proposals, if finalized and adopted in their current forms, would apply to the Company at the group level and would be in addition to existing subsidiary-level capital requirements. It is possible that the requirements, particularly in an economic downturn, could have the effect of requiring the Company to raise capital and/or making it more difficult to otherwise deploy capital, including dividends to shareholders and repurchases of the Company's shares.

In addition, 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 costly or burdensome to conduct such operations or result in decreased demand for the Company's products and services or a change in its competitive position. 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. 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.

16. Scrutiny of the Company's businesses and the industries in which it operates by governmental entities and others could adversely affect the Company

The real estate settlement services industry, an industry in which the Company generates a substantial portion of its revenue and earnings, is subject to continuous scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at the industry generally, these groups also focus their attention directly on the Company's businesses from time to time. 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. The Consumer Financial Protection Bureau ("CFPB"), for example, has actively utilized its regulatory authority over the mortgage and real estate markets by bringing enforcement actions against various participants in the mortgage and settlement industries and we expect that such enforcement activity will intensify. Departments of insurance in the various states, the CFPB and other 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. Currently, the Company is the subject of a number of regulatory inquiries.

Further, from time to time plaintiffs' lawyers have targeted, and are expected to continue to target, the Company and other members of the Company's industry with lawsuits claiming legal violations or other

wrongful conduct. These lawsuits often involve large groups of plaintiffs and claims for substantial damages. These types of inquiries or proceedings have from time to time resulted, and may in the future result, in findings of a violation of the law or other wrongful conduct and the payment of fines or damages or the imposition of restrictions on the Company's conduct. This could impact the Company's 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. Currently the Company is a party to a number of class action lawsuits.

17. Regulation of title insurance rates could adversely affect the Company

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. These regulations 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.

18. Changes in certain laws and regulations, and in the regulatory environment in which the Company operates, could adversely affect the Company

Federal and state officials are discussing various potential changes to laws and regulations that could impact the Company's businesses, including the reform of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and additional data privacy regulations, among others. Changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could adversely impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations. In addition, in connection with the coronavirus pandemic, the Company and generally its agents have been deemed in most areas an essential business and have been permitted to operate. A change in this determination, particularly in jurisdictions where the Company generates a large portion of its revenues, could adversely impact the Company's businesses.

19. Recent and pending privacy and data protection laws and regulations could adversely affect the Company

An increasing number of federal, state, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data, including the California Consumer Privacy Act, the California Privacy Rights Act and the European Union General Data Protection Regulation. The effects of these privacy and data protection laws, including the cost of compliance and required changes in the manner in which the Company conducts its business, are not fully known and are potentially significant, and the failure to comply could adversely affect the Company. The Company has incurred costs to comply with these laws and to respond to inquiries about its compliance with them.

FINANCIAL RISK FACTORS

20. 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 and like-kind exchange 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.

21. 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 impaired, in which case the Company would be required to write off the portion believed to be impaired. In the third quarter of 2020, the Company committed to a plan to sell its property and casualty insurance business, which triggered goodwill and other intangible assets impairment tests. Based on the results of the impairment tests, the Company recorded pretax impairment losses to goodwill and other intangible assets of \$34.2 million and \$3.2 million, respectively, for the third quarter of 2020. Total goodwill and other intangible assets reflected on the Company's consolidated balance sheet as of December 31, 2020 are \$1.6 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.

22. Uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark may affect the Company's cost of capital and net investment income

In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. The Company has exposure to LIBOR-based financial instruments, such as LIBOR-based securities held in its investment portfolio. Borrowings under the Company's \$700.0 million senior unsecured credit facility and some of its warehouse credit facilities also are LIBOR-based, although each allows for the use of an unspecified alternative benchmark rate if LIBOR is no longer available. Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rate, may adversely affect the Company's cost of capital and the market for LIBOR-based securities, which could have an adverse impact on the earnings from or value of the Company's investment portfolio. At this time, the Company cannot predict the overall effect of the modification or discontinuation of LIBOR or the establishment of any alternative benchmark rate.

23. 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 debt securities. The investment portfolio also includes adjustable-rate debt securities, common and preferred stock, as well as money-market and other short-term investments. 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, including during the current pandemic. Debt and equity securities are carried at fair value on the Company's balance sheet. Changes in the fair value of debt securities is recorded as a component of accumulated other comprehensive income/loss on the balance sheet. For debt securities in an unrealized loss position, where the loss is determined to be due to credit-related factors, the Company records the loss in earnings. Changes in the fair value of equity securities are recognized in earnings. Changes in the fair value of securities in the Company's investment portfolio have had an adverse impact on the Company and could have a material adverse effect on the Company's results of operations, statutory surplus, financial condition and cash flow.

24. 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. In uncertain economic times, such as those currently being experienced as a result of the coronavirus pandemic, an even larger change is more likely. As examples, 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 \$134.3 million, and if expected ultimate losses for those same years were to fluctuate by 100 basis points, the resulting impact would be \$268.5 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.

Changes in laws or regulations impacting real estate, particularly when applied retroactively, may cause a material change in expected ultimate losses and corresponding loss rates for recent and/or older policy years. For example, the 2020 United States Supreme Court decision in *McGirt v. Oklahoma* calls into question the governing authority for certain real estate-related matters in Native American reservations once thought to have been disestablished. To the extent the Company, in those areas, underwrote title insurance policies or closed real estate transactions in conformity with authority that ultimately proves inapplicable, expected ultimate losses arising from those policies and transactions could change materially and could result in a material change to loss rates.

25. 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, 2020, under such regulations, the maximum amount available in 2021 from these insurance subsidiaries, without prior approval from applicable regulators, was dividends of \$555.4 million and loans and advances of \$115.6 million.

GENERAL RISK FACTORS

26. 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

Each of our business segments uses our executive offices 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 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 \$12.0 million as of December 31, 2020.

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.

It is, however, often not possible to assess the probability of loss. Lawsuits that are putative class actions 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 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, for 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 or one of its subsidiaries improperly charged fees for products and services, improperly performed debt collection practices, improperly handled property and casualty claims and gave items of value to builders 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:

- Antao Properties LLC vs. First American Title Insurance Company, filed on November 6, 2019 and pending in the United States District Court for the Middle District of Florida,
- Seymour vs. First American Title Insurance Company, et al., filed on January 12, 2021 and pending in the Superior Court of the State of California, County of Santa Barbara,
- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017 and pending in the Superior Court of the State of California, County of Sacramento, and
- Wilmot vs. 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.

These lawsuits are putative class actions for which a class has not been certified; however, the appellate court has remanded the Wilmot action back for certification of a subclass. 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.

The Company and/or its subsidiaries are also parties to consumer class actions and a securities class action in connection with the information security incident that occurred during the second quarter of 2019. All of these lawsuits are putative class actions for which a class has not been certified. 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.

While some of the lawsuits described above may be material to the Company’s financial 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, results of operations or cash flows.

In addition, the Company and its Board of Directors and certain executives are parties to a shareholder derivative action, Hollett vs. Gilmore, et al., filed on November 25, 2020 and pending in the United States District Court for the Central District of California. The allegations arise out of the information security incident that occurred during the second quarter of 2019 and the resulting legal proceedings and disclosures made at the time of the incident. While the ultimate disposition is not yet determinable, the Company does not believe it will have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

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, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and wealth management 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 and investigations include an inquiry by the New York Attorney General and the Massachusetts Attorney General into competitive practices in the title insurance industry. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company records 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. Some of 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.

Furthermore, these exams and investigations include two investigations initiated in connection with the information security incident that occurred during the second quarter of 2019, one being conducted by the Securities and Exchange Commission ("SEC") enforcement staff and the other by the New York Department of Financial Services. The SEC enforcement staff is questioning the adequacy of disclosures the Company made at the time of the incident and the adequacy of its disclosure controls. In September 2020, the Company received a Wells Notice informing the Company that the enforcement staff has made a preliminary determination to recommend a filing of an enforcement action by the SEC against the Company. The Company believes that its disclosures and disclosure controls complied with the securities laws and has availed itself of the opportunity to provide a response to convince the SEC that an enforcement action is inappropriate under the circumstances. The New York Department of Financial Services has alleged violations of its cyber security requirements for financial services companies and has filed a statement of charges and scheduled an administrative hearing in connection therewith. While the ultimate dispositions of the SEC and New York Department of Financial Services matters are 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.

The Company's Canadian operations provide certain services to lenders which it believes to be exempt from excise tax under applicable Canadian tax laws. However, in October 2014, the Canadian taxing authority provided internal guidance that the services in question should be subject to the excise tax. During July 2019, the Company received an assessment from the Canadian taxing authority. The amount of the assessment is \$15.7 million, which is based on the exchange rate as of, and includes interest charges through, December 31, 2020. As the Company does not believe that the services in question are subject to excise tax, it intends to avail itself of avenues of appeal, and it believes it is reasonably likely that the Company will prevail on the merits. Accordingly, the Company filed a notice of appeal with the Canadian taxing authority in March 2020. Based on the current facts and circumstances, the Company does not believe a loss is probable, therefore no liability has been recorded.

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.

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 9, 2021, was 2,200.

In January 2021, the Company’s board of directors declared a cash dividend of \$0.46 per share. 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, 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 3 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.

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 was terminated on November 3, 2020, the Company was authorized to repurchase up to \$250.0 million of the Company’s issued and outstanding common stock. Pursuant to the share repurchase program initially announced by the Company on November 4, 2020, which program has no expiration date, the Company may repurchase up to \$300.0 million of the Company’s issued and outstanding common stock. The following table describes purchases by the Company under the share repurchase programs that settled during each period set forth in the table. Prices in column (b) include commissions. Cumulatively, as of November 3, 2020, the termination date of the program initially announced in March 2014, the Company had repurchased \$169.0 million (including commissions) of its shares under the program. Cumulatively, as of December 31, 2020, the Company had repurchased \$58.0 million (including commissions) of its shares authorized under the November 2020 program and had the authority to repurchase an additional \$242.0 million (including commissions) under that program.

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
October 1, 2020 to October 31, 2020	172,925	\$47.44	172,925	\$ 84,502,964
November 1, 2020 to November 30, 2020	676,272	48.33	676,272	270,843,728
December 1, 2020 to December 31, 2020	568,270	50.77	568,270	241,994,465
Total	1,417,467	\$49.20	1,417,467	\$241,994,465

Unregistered Sales of Equity Securities

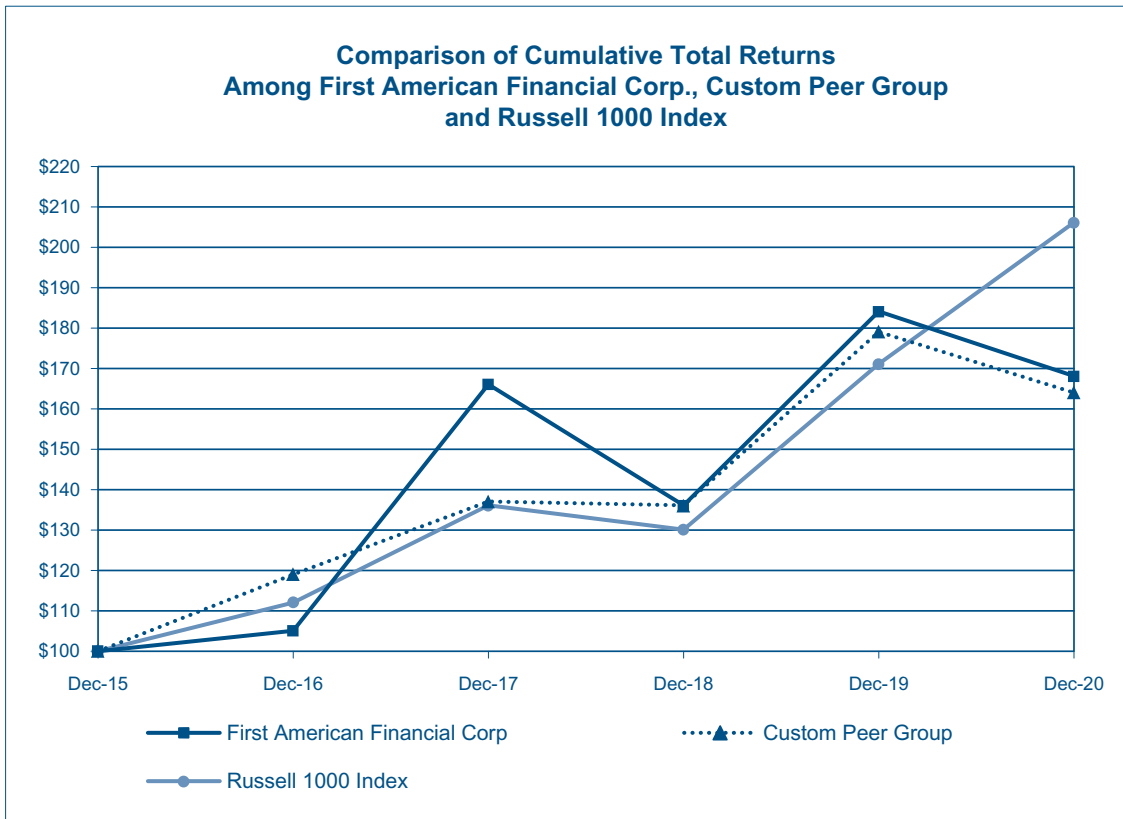
During the year ended December 31, 2020, the Company did not issue any unregistered common stock.

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 1000 Index and an industry peer group for the period from December 31, 2015 through December 31, 2020. The comparison assumes an investment of \$100 on December 31, 2015 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 1000 Index (1)
December 31, 2015	\$100	\$100	\$100
December 31, 2016	\$105	\$119	\$112
December 31, 2017	\$166	\$137	\$136
December 31, 2018	\$136	\$136	\$130
December 31, 2019	\$184	\$179	\$171
December 31, 2020	\$168	\$164	\$206

- (1) As calculated by Bloomberg Financial Services including reinvestment of dividends.
- (2) The custom peer group consists of the following companies: American Financial Group, Inc.; Assurant, Inc.; Axis Capital Holdings Limited; Cincinnati Financial Corporation; Everest Re Group, Ltd.; Fidelity National Financial, Inc.; Genworth Financial, Inc.; The Hanover Insurance Group, Inc.; Kemper

Corporation; Mercury General Corporation; Old Republic International Corp.; and W.R. Berkley Corporation each of which operates in a business similar to a business operated by the Company. 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 each of the five years in the period ended December 31, 2020, have been derived from the Company’s consolidated financial statements. The selected historical consolidated financial data should be read in conjunction with “Item 8. Financial Statements and Supplementary Data,” “Item 1—Business,” and “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

First American Financial Corporation and Subsidiary Companies

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(in thousands, except percentages, per share amounts and employee data)				
Revenues	\$ 7,086,667	\$ 6,202,061	\$ 5,747,844	\$ 5,772,363	\$ 5,575,846
Net income	\$ 700,496	\$ 709,848	\$ 475,898	\$ 421,863	\$ 343,476
Net income (loss) attributable to					
noncontrolling interests	\$ 4,067	\$ 2,438	\$ 1,402	\$ (1,186)	\$ 483
Net income attributable to the Company	\$ 696,429	\$ 707,410	\$ 474,496	\$ 423,049	\$ 342,993
Total assets	\$12,795,988	\$11,519,167	\$10,630,635	\$9,573,222	\$8,831,777
Notes and contracts payable	\$ 1,010,756	\$ 728,232	\$ 732,019	\$ 732,810	\$ 736,693
Stockholders’ equity	\$ 4,909,972	\$ 4,420,484	\$ 3,741,881	\$ 3,479,955	\$ 3,008,179
Return on average stockholders’ equity	14.9%	17.3%	13.1%	13.0%	11.9%
Dividends on common shares	\$ 198,663	\$ 188,440	\$ 178,487	\$ 159,284	\$ 131,541
Per share of common stock (Note A)—					
Net income attributable to the Company:					
Basic	\$ 6.18	\$ 6.26	\$ 4.21	\$ 3.79	\$ 3.10
Diluted	\$ 6.16	\$ 6.22	\$ 4.19	\$ 3.76	\$ 3.09
Stockholders’ equity	\$ 44.49	\$ 39.30	\$ 33.56	\$ 31.37	\$ 27.36
Cash dividends declared	\$ 1.78	\$ 1.68	\$ 1.60	\$ 1.44	\$ 1.20
Number of common shares outstanding					
Weighted-average during the year:					
Basic	112,746	113,080	112,613	111,668	110,548
Diluted	113,020	113,655	113,279	112,435	111,156
End of year	110,353	112,476	111,496	110,925	109,944
Other Operating Data:					
Title orders opened (Note B)	1,471	1,093	982	1,069	1,281
Title orders closed (Note B)	1,044	796	731	824	958
Number of employees (Note C)	19,597	18,412	18,251	18,705	19,531

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

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

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

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K 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 THE FACTORS SET FORTH ON PAGES 3-4 OF THIS ANNUAL REPORT. 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.

This Management’s Discussion and Analysis contains the financial measure adjusted debt to capitalization ratio that is not presented in accordance with generally accepted accounting principles (“GAAP”), as it excludes the effect of secured financings payable. The Company is presenting this non-GAAP financial measure because it provides the Company’s management and readers of this Annual Report on Form 10-K with additional insight into the financial leverage of the Company. The Company does not intend for this non-GAAP financial measure to be a substitute for any GAAP financial information. In this Annual Report on Form 10-K, this non-GAAP financial measure has been presented with, and reconciled to, the most directly comparable GAAP financial measure. Readers of this Annual Report on Form 10-K should use this non-GAAP financial measure only in conjunction with the comparable GAAP financial measure.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with GAAP 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. Equity 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 of accounting. Equity investments in which the Company does not exercise significant influence over the investee and without readily determinable fair values are accounted for at cost, less impairment, and are adjusted up or down for any observable price changes.

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 designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant data and records; provides appraisals and other valuation-related products and services; provides lien release, document custodial and default-related products and services; and provides warehouse lending services and banking, trust and wealth management 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, the District of Columbia and certain United States territories. The Company also offers title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea 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. The majority of policy liability is in the western United States, including approximately 59% in California. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 35 states and the District of Columbia.

In the third quarter of 2020, the Company initiated a plan to sell the property and casualty insurance business. In the fourth quarter of 2020, the Company, as a result of the sale process, determined to pursue a book transfer rather than a sale. In January 2021, the Company entered into book transfer agreements with two third-party insurers, which will provide qualifying agents and customers of the Company an opportunity to transfer their policies. The Company expects the transfers to be completed by the end of the third quarter of 2022. The Company will seek to non-renew policies that are not transferred.

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 Basis of Presentation and Significant Accounting Policies 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 through 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 an 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 conditions in the real estate and mortgage markets, 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 generally 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 by 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 concerning claims to determine what it considers to be the best estimate of the total amount required for the IBNR reserve.

The volume and timing of title insurance claims are subject to cyclical influences from both the 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 a 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 the sensitivity of claims to external conditions in the real estate and mortgage markets is an inherent feature of title insurance's business economics that applies broadly to the title insurance industry.

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 recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. In uncertain economic times, such as those currently being experienced as a result of the coronavirus pandemic, an even larger change is more likely. As examples, 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 \$134.3 million, and if expected ultimate losses for those same years were to fluctuate by 100 basis points, the resulting impact would be \$268.5 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 reserve for property and casualty insurance losses reflects management's best estimate of the amount necessary to settle all reported and unreported claims for the ultimate cost of insured losses based upon the facts of each case and the Company's experience with similar cases. The Company also utilizes the services of an independent actuary as part of its reserve analysis. Because the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process, the ultimate cost of insured losses may be more or less than the reserve amount. Reserve estimates are regularly analyzed and updated to reflect the most current information available.

The Company provides for claims losses relating to its home warranty business based on the average cost per claim and historical loss experience as applied to the total of current 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:

<u>(in thousands, except percentages)</u>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
Known title claims	\$ 64,601	5.5%	\$ 83,382	7.8%
IBNR title claims	<u>1,025,761</u>	<u>87.1%</u>	<u>903,994</u>	<u>85.1%</u>
Total title claims	1,090,362	92.6%	987,376	92.9%
Non-title claims	<u>87,642</u>	<u>7.4%</u>	<u>75,668</u>	<u>7.1%</u>
Total loss reserves	<u><u>\$1,178,004</u></u>	<u><u>100.0%</u></u>	<u><u>\$1,063,044</u></u>	<u><u>100.0%</u></u>

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

	<u>December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<u>(in thousands)</u>		
Balance at beginning of year	\$ 83,382	\$ 80,306	\$ 83,094
Provision transferred from IBNR title claims related to:			
Current year	19,843	19,783	17,770
Prior years	<u>125,227</u>	<u>143,372</u>	<u>147,271</u>
	<u>145,070</u>	<u>163,155</u>	<u>165,041</u>
Payments, net of recoveries, related to:			
Current year	17,582	16,297	14,338
Prior years	<u>146,522</u>	<u>145,910</u>	<u>151,433</u>
	<u>164,104</u>	<u>162,207</u>	<u>165,771</u>
Other	<u>253</u>	<u>2,128</u>	<u>(2,058)</u>
Balance at end of year	<u><u>\$ 64,601</u></u>	<u><u>\$ 83,382</u></u>	<u><u>\$ 80,306</u></u>

The provision transferred from IBNR title claims related to current year increased by \$0.1 million in 2020 from 2019 and increased by \$2.0 million in 2019 from 2018 and payments, net of recoveries, related to current year increased by \$1.3 million in 2020 from 2019 and increased by \$2.0 million in 2019 from 2018, reflecting variability in claims volumes characteristic of a policy year during its first year of development.

The provision transferred from IBNR title claims related to prior years decreased by \$18.1 million, or 12.7%, in 2020 from 2019 and decreased by \$3.9 million, or 2.6%, in 2019 from 2018. Payments, net of recoveries, related to prior years increased by \$0.6 million, or 0.4%, in 2020 from 2019 and decreased by \$5.5 million, or 3.6%, in 2019 from 2018. Generally, the provision transferred from IBNR title claims and payments are expected to decline with the runoff of older policy years that have higher expected ultimate losses, particularly policy years 2005 through 2008.

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

	December 31,		
	2020	2019	2018
		(in thousands)	
Balance at beginning of year	\$ 903,994	\$877,134	\$875,724
Provision related to:			
Current year	236,225	182,450	173,520
Prior years	26,231	—	—
	<u>262,456</u>	<u>182,450</u>	<u>173,520</u>
Provision transferred to known title claims related to:			
Current year	19,843	19,783	17,770
Prior years	125,227	143,372	147,271
	<u>145,070</u>	<u>163,155</u>	<u>165,041</u>
Other	4,381	7,565	(7,069)
Balance at end of year	<u>\$1,025,761</u>	<u>\$903,994</u>	<u>\$877,134</u>

“Other” activity primarily includes foreign currency translation gains and losses and ceded reinsurance claims.

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 5.0% for the year ended December 31, 2020 and 4.0% for the years ended December 31, 2019 and 2018, respectively. The current year rate of 5.0% reflects an ultimate loss rate of 4.5% for the current policy year and a net increase in the loss reserve estimates for prior policy years of 0.5% or \$26.2 million.

The provision related to current year increased by \$53.8 million, or 29.5%, in 2020 from 2019 as a result of a higher current year provision of 4.5% in 2020 compared to 4.0% in 2019 and increases in title premiums and escrow fees in 2020 from 2019. The provision related to current year increased by \$8.9 million, or 5.1%, in 2019 from 2018, as a result of increases in title premiums and escrow fees in 2019 from 2018.

For further discussion of title provision recorded in 2020, 2019 and 2018, see Results of Operations, page 45.

Fair value of investment portfolio. The Company categorizes the fair values 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 Company (observable inputs) and the Company’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 investment 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 17 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 values of the Company’s debt and equity securities are summarized as follows:

Fair value of debt securities

The fair values of debt securities were 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 values 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 values. 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 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.

Credit losses on debt securities

On January 1, 2020, the Company adopted updated accounting guidance that changed the impairment methodology for available-for-sale debt securities. Under the new guidance, when the fair value of an available-for-sale debt security falls below its amortized cost, entities must determine whether the decline in fair value is due to credit-related factors or noncredit-related factors. Declines in fair value that are credit-related are now recorded on the balance sheet through an allowance for credit losses with a corresponding adjustment to earnings and declines that are noncredit-related are recognized through other comprehensive income/loss.

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 impaired and it is written down to fair value with all losses recognized in earnings. As of December 31, 2020, 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 any debt securities before recovery of their amortized cost basis.

For debt securities in an unrealized loss position for which 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 Company determines whether the loss is due to credit-related factors or noncredit-related factors. For debt securities in an unrealized loss position for which the losses are primarily due to credit-related factors, the Company's policy is to recognize the entire loss in earnings. For debt securities in an unrealized loss position for which the losses are determined to be the result of both credit-related and noncredit-related factors, the credit loss is determined as 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 using the effective interest rate (i.e., purchase yield) and for variable rate securities the interest rate is fixed at the rate in effect at the credit loss measurement date.

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 recognized impairment losses, net of reversals, of \$3.2 million resulting from credit-related factors during 2020. The Company did not recognize any impairment losses related to its debt securities for 2019 and 2018.

Fair value of equity securities

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

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 the non-ordinary course lawsuits it is not possible to assess the probability of loss. Most of these non-ordinary course 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 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 non-ordinary course lawsuits are putative class actions, it is often impossible to estimate the possible loss or a range of loss, 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 and intangible assets acquired and liabilities assumed 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 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, may differ from actual results. 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 for which goodwill has been allocated. Those reporting units include title insurance, home warranty and property and casualty insurance. The Company's trust and other services reporting unit has no allocated goodwill and is, therefore, not assessed for impairment. 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 accounting 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 a qualitative assessment and perform a 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 a qualitative assessment indicate the more likely than not

threshold was not met, the Company may choose not to perform a quantitative impairment test. If, however, the more likely than not threshold is met, the Company will perform a quantitative test as required and discussed below.

Management's quantitative impairment testing 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, where appropriate, 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, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit.

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 expected cash flows 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 reporting unit.

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.

In the third quarter of 2020, the Company initiated a plan to sell its property and casualty insurance business, which triggered a goodwill impairment test for the property and casualty insurance reporting unit. Based on the results of the goodwill impairment test, the Company determined that the fair value of the property and casualty insurance reporting unit was less than its carrying amount. As a result, the Company recorded an impairment loss to goodwill of \$34.2 million for 2020. See Note 2 Disposition of the Property and Casualty Insurance Business to the consolidated financial statements for further information on the disposition of the business. For 2019 and 2018, the Company performed quantitative impairment tests and determined that the fair value of its property and casualty insurance reporting unit exceeded the carrying amount and, therefore, no additional analysis was required.

The Company chose to forego qualitative assessments for its title insurance and home warranty reporting units for 2020 and performed quantitative impairment tests. Based on the results of these tests, the Company determined that the fair values for both reporting units exceeded their carrying amounts and, therefore, no additional analysis was required. The results of the Company's qualitative assessments in 2019 and 2018 for its title insurance and home warranty reporting units supported the conclusion that their fair values were not more likely than not less than their carrying amounts and, therefore, a quantitative impairment test was not considered necessary. As a result of the Company's annual goodwill impairment assessments for the title insurance and home warranty reporting units, the Company did not record any goodwill impairment losses for 2020, 2019 or 2018.

Impairment of property and equipment. 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. In connection with the Company's decision in the third quarter of 2020 to sell the property and casualty insurance business, it recognized impairment losses on its software of \$17.6 million for 2020. See Note 2 Disposition of the Property and Casualty Insurance Business to the consolidated financial statements for further information on the disposition of the business. Impairment losses on property and equipment for 2019 primarily related to impairments of \$6.0 million on internally developed software. Impairment losses on property and equipment for 2018 were insignificant.

Impairment of lease assets. Management recognizes an impairment loss when the carrying amount of a lease asset is not recoverable and exceeds its fair value. The carrying amount is considered not recoverable if it exceeds the sum of the undiscounted future cash flows that are directly associated with, and that are expected to arise as a result of, the use and eventual disposition of the lease asset. An impairment loss is measured as the amount by which the carrying amount of a lease asset exceeds its fair value. Impairment losses related to the Company's commercial real estate may occur if the Company ceased using all, or a portion of, a leased property while a contractual obligation remains. Impairment losses related to commercial real estate leases were \$1.0 million and \$7.5 million for 2020 and 2019, respectively. Prior to 2019, operating lease commitments were not recognized as assets on the balance sheet. For further information on the Company's leasing arrangements see Note 1 Basis of Presentation and Significant Accounting Policies and Note 7 Leases to the consolidated financial statements.

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 income tax expense.

Recently Adopted Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance intended to reduce potential diversity in practice in accounting for the costs of implementing cloud computing arrangements (i.e., hosting arrangements) that are service contracts. The updated guidance aligns the requirements for capitalizing implementation costs for these arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance on a prospective basis, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued updated guidance as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements. The updated guidance eliminates, adds and modifies certain disclosure requirements related to fair value measurements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. Except for the

disclosure requirements, the adoption of this guidance, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and will recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance on a modified-retrospective basis, effective January 1, 2020, did not have a material impact, except for the disclosure requirements, on the Company's consolidated financial statements. See Note 1 Basis of Presentation and Significant Accounting Policies, Note 4 Debt and Equity Securities and Note 5 Allowance for Credit Losses – Accounts Receivable to the consolidated financial statements for further information on the Company's credit losses.

Pending Accounting Pronouncements:

In December 2019, the FASB issued updated guidance intended to simplify and improve the accounting for income taxes. The updated guidance eliminates certain exceptions and clarifies and amends certain areas of the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material 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 2020 were \$7.1 billion, which reflected an increase of \$884.6 million, or 14.3%, when compared with \$6.2 billion for 2019. This increase was primarily attributable to increases in direct premiums and escrow fees of \$328.3 million, or 12.3%, agent premiums of \$386.3 million, or 16.3%, and information and other revenue of \$225.5 million, or 28.6%, offset by a decline in investment income of \$94.1 million, or 29.8%. The Company's total revenues for 2020 also included \$105.0 million of net realized investment gains compared to \$66.4 million for the prior year. The increase in direct premiums and escrow fees attributable to the title insurance and services segment was \$301.9 million, or 13.8%. Direct premiums and escrow fees in the title insurance and services segment from domestic residential refinance and residential

purchase transactions increased \$340.5 million, or 113.2%, and \$98.2 million, or 10.4%, respectively, in 2020 when compared to 2019. Direct premiums and escrow fees in the title insurance and services segment from commercial transactions decreased \$128.9 million, or 16.8%, when compared to 2019.

According to the Mortgage Bankers Association's January 20, 2021 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) increased 58.6% in 2020 when compared with 2019. According to the MBA Forecast, the dollar amount of purchase originations increased 16.2% and refinance originations increased 109.0%. This volume of domestic residential mortgage origination activity contributed to increases in direct premiums and escrow fees for the Company's direct title operations of 10.4% from domestic residential purchase transactions and 113.2% from domestic refinance transactions in 2020 when compared to 2019.

During 2020, the level of domestic title orders opened per day by the Company's direct title operations increased 34.0% when compared to 2019. Residential refinance opened orders per day increased by 103.1%, residential purchase opened orders per day increased by 4.2%, and commercial opened orders per day decreased 9.1% in 2020 when compared to 2019.

In the third quarter of 2020, the Company initiated a plan to sell its property and casualty insurance business. As a result of this decision, the Company remeasured the assets and liabilities of its property and casualty insurance business at estimated fair value, less costs to sell, and recorded impairment losses to goodwill, other intangible assets, property and equipment and other assets totaling \$54.9 million in 2020. The impairment losses are included in impairments on disposal of business on the consolidated statements of income and in the operating results of the specialty insurance segment. In the fourth quarter of 2020, the Company, as a result of the sale process, determined to pursue a book transfer rather than a sale. In January 2021, the Company entered into book transfer agreements with two third-party insurers, which will provide qualifying agents and customers of the Company an opportunity to transfer their policies. The Company expects the transfers to be completed by the end of the third quarter of 2022. The Company will seek to non-renew policies that are not transferred.

The Company is increasingly utilizing innovative technologies, processes and techniques to speed the delivery of its products, increase efficiency, improve quality, improve the customer experience and decrease risk. These efforts include streamlining the closing process by converting certain manual processes into automated ones, in an endeavor to improve the customer experience by simplifying and reducing the time it takes to close a transaction, reducing risk and improving communication. The Company increasingly is employing advanced technologies to automate various processes, including various processes related to the building, maintaining and updating of title plants and other data assets, as well as the search and examination of information in connection with the issuance of title insurance policies. As a result of the reduction in interest rates in connection with the coronavirus pandemic, the Company has experienced a significant increase in refinance orders. To facilitate the processing of these orders, the Company has expanded the use of certain of these advanced technologies. While many of these initiatives are also designed to decrease risk, they present risks of their own. The degree to which these innovative efforts will be successful, and their ultimate impact on the Company's results of operations, is uncertain.

In addition to the Company's innovative activities, other participants in the real estate industry are seeking to innovate in ways that could impact the Company's businesses. These participants include certain of the Company's sources of business, competitors and ultimate customers. Innovations by these participants may change the demand for the Company's products and services, the manner in which the Company's products and services are ordered or fulfilled and the revenue or profitability derived from the products and services. The Company has made and will likely continue to make high-risk, illiquid investments in some of these participants, typically during their early- and growth-stages. If any of these companies do not succeed, the Company could lose and/or be required to impair all or part of its investment in the unsuccessful company. While the risk of failure or impairment for these investments is greater during periods of economic uncertainty, such as that currently being experienced in the United States, the Company is aware of certain circumstances involving one or

more of these investments and currently expects that within the next several quarters it will realize a gain on one or more of these investments and those gain(s), either individually or in the aggregate, could be material to the Company's financial results in any particular period. Whether the Company realizes such future gain(s), and the amount and, consequently, the materiality of such gain(s), is dependent upon a number of factors in addition to the condition of the general economy, including the general availability of capital, the performance of and volatility in the public markets, changes in the condition of the real estate industry, changes in the competitive environment for such participants and changes in the operational and financial performance of such participants. These investments could also facilitate efforts that ultimately disrupt the Company's business or enable competitors. Accordingly, the Company's efforts to anticipate and participate in these transformations could require significant additional investment and management attention and may not succeed. Subject to the foregoing, the ultimate degree to which these and other innovations in the real estate industry will impact the Company's business and results of operations is uncertain.

Additionally, the Company continues to monitor developments in its regulatory environment. Federal officials are discussing various potential changes to laws and regulations that could impact the Company's businesses, including the reform of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and data privacy regulations, among others. Changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations.

Coronavirus Pandemic Update

The coronavirus pandemic and responses to it have created significant volatility, uncertainty and disruption in the broader economy. The extent to which the coronavirus pandemic impacts the Company's business, operations and financial results will depend on numerous factors that the Company may not be able to accurately predict, including: the duration and scope of the pandemic and restrictions and responses to it; governmental, business and individual actions that have been and continue to be taken in response to the pandemic; the ongoing impact of the pandemic on economic activity and actions taken in response, including the efficacy of governmental relief efforts; the availability and efficacy of vaccines; the effect on participants in real estate transactions and the demand for the Company's products and services, including as a result of higher unemployment, business closures and economic uncertainty; and the Company's ability to sell and provide its services and solutions, including as a result of illness, travel restrictions, governmental closure orders and partial or full closures of business and government offices.

The Company's residential purchase business experienced a decline in April 2020 with purchase orders opened by the Company's direct title operations down significantly compared to April 2019. Government responses to the pandemic, however, resulted in low mortgage interest rates that stimulated residential refinance activity and improved housing affordability, leading to an elevated number of closed orders for both residential refinance and purchase transactions later in 2020. The Company expects this elevated level of activity to continue well into 2021.

The Company's commercial business experienced a more persistent decline in order volumes beginning in April 2020, however, in the fourth quarter activity returned to historical levels with the recovery varying by asset class.

Title Insurance and Services

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020 vs. 2019</u>		<u>2019 vs. 2018</u>	
				<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
(in thousands, except percentages)							
Revenues							
Direct premiums and escrow fees	\$2,489,992	\$2,188,056	\$2,052,951	\$301,936	13.8	\$135,105	6.6
Agent premiums . . .	2,759,455	2,373,140	2,284,906	386,315	16.3	88,234	3.9
Information and other	1,000,805	776,124	770,725	224,681	28.9	5,399	0.7
Net investment income	199,228	282,910	223,318	(83,682)	(29.6)	59,592	26.7
Net realized investment gains (losses)	86,194	55,722	(49,119)	30,472	54.7	104,841	213.4
	<u>6,535,674</u>	<u>5,675,952</u>	<u>5,282,781</u>	<u>859,722</u>	<u>15.1</u>	<u>393,171</u>	<u>7.4</u>
Expenses							
Personnel costs	1,834,832	1,701,742	1,671,846	133,090	7.8	29,896	1.8
Premiums retained by agents	2,184,420	1,874,266	1,799,836	310,154	16.5	74,430	4.1
Other operating expenses	999,701	805,480	793,364	194,221	24.1	12,116	1.5
Provision for policy losses and other claims	262,456	182,450	173,520	80,006	43.9	8,930	5.1
Depreciation and amortization	141,292	121,643	119,053	19,649	16.2	2,590	2.2
Premium taxes	69,256	62,938	62,646	6,318	10.0	292	0.5
Interest	18,211	15,220	7,513	2,991	19.7	7,707	102.6
	<u>5,510,168</u>	<u>4,763,739</u>	<u>4,627,778</u>	<u>746,429</u>	<u>15.7</u>	<u>135,961</u>	<u>2.9</u>
Income before income taxes	<u>\$1,025,506</u>	<u>\$ 912,213</u>	<u>\$ 655,003</u>	<u>\$113,293</u>	<u>12.4</u>	<u>\$257,210</u>	<u>39.3</u>
Margins	<u>15.7%</u>	<u>16.1%</u>	<u>12.4%</u>	<u>(0.4)%</u>	<u>(2.5)</u>	<u>3.7%</u>	<u>29.8</u>

Direct premiums and escrow fees increased \$301.9 million, or 13.8%, in 2020 from 2019 and \$135.1 million, or 6.6%, in 2019 from 2018. The increase in direct premiums and escrow fees in 2020 from 2019 was primarily due to increases in the number of domestic title orders closed by the Company's direct title operations, partially offset by decreases in the average domestic revenues per order closed. The increase in direct premiums and escrow fees in 2019 from 2018 was primarily due to an increase in the domestic title orders closed by the Company's direct title operations, partially offset by a decrease in domestic average revenues per order closed. The domestic average revenues per order closed were \$2,232, \$2,558 and \$2,600 for 2020, 2019 and 2018, respectively. The 12.7% decrease in average revenues per order closed in 2020 from 2019 was primarily due to a shift in the mix of direct revenues generated from higher premium commercial products to lower premium residential refinance products. The 1.6% decrease in average revenues per order closed in 2019 from 2018 was primarily due to a shift in the mix of direct revenues generated from higher premium commercial products to lower premium residential refinance products, partially offset by higher revenues per order from commercial transactions and higher residential real estate values. The Company's direct title operations closed 1,043,800, 795,800 and 730,800 domestic title orders during 2020, 2019 and 2018, respectively. The 31.2%

increase in orders closed in 2020 from 2019 and the 8.9% increase in orders closed in 2019 from 2018 were generally consistent with the changes in residential mortgage origination activity in the United States as reported in the MBA Forecast.

Agent premiums increased \$386.3 million, or 16.3%, in 2020 from 2019 and \$88.2 million, or 3.9%, in 2019 from 2018. 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 increase in agent premiums in 2020 from 2019 was generally consistent with the 11.4% increase in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2020 as compared with the twelve months ended September 30, 2019. The increase in agent premiums in 2019 from 2018 was generally consistent with the 2.6% increase in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2019 as compared with the twelve months ended September 30, 2018.

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 increased \$224.7 million, or 28.9%, in 2020 from 2019 and \$5.4 million, or 0.7%, in 2019 from 2018. The increase in information and other revenues in 2020 from 2019 was primarily attributable to revenues from recent acquisitions of \$80.1 million for 2020; growth in mortgage origination activity that led to higher demand for the Company's title information products; and revenues from services provided to support a temporary government program related to the coronavirus pandemic in Canada. The increase in information and other revenues in 2019 from 2018 was primarily attributable to the growth in real estate transactions and mortgage origination activity that led to higher demand for the Company's title information products, partially offset by changes in certain contractual arrangements that require the netting of production related costs against related revenues and lower demand for the Company's default information products due to a decrease in loss mitigation activities.

Net investment income decreased \$83.7 million, or 29.6%, in 2020 from 2019 and increased \$59.6 million, or 26.7%, in 2019 from 2018. The decrease in 2020 from 2019 was primarily attributable to lower short-term interest rates, which drove lower income from the Company's cash and investment portfolio, escrow balances and tax-deferred property exchange business. The increase in 2019 from 2018 was primarily attributable to higher average balances due primarily to strength in the Company's commercial business and higher short-term interest rates, which drove higher income from the Company's cash and investment portfolio, tax-deferred property exchange business and escrow balances.

Net realized investment gains totaled \$86.2 million for 2020 and were primarily from increases in the fair values of equity securities of \$38.7 million and gains from the sales of debt securities. Net realized investment gains for 2020 also include gains recognized on certain non-marketable investments. Net realized investment gains were \$55.7 million for 2019 and were primarily from an increase in the fair values of equity securities of \$56.3 million. Net realized investment losses were \$49.1 million for 2018 and were primarily from a decrease in the fair values of equity securities of \$32.6 million and losses from the sales of debt securities. Net realized investment gains for 2020, 2019 and 2018 included impairment losses of \$0.6 million, \$7.8 million and \$1.1 million, respectively. The impairment losses in 2020, 2019 and 2018 primarily related to internally developed software and the retirement of a trade name, respectively.

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 increased \$133.1 million, or 7.8%, in 2020 from 2019 and \$29.9 million, or 1.8%, in 2019 from 2018. The increase in personnel costs in 2020 from 2019 was primarily attributable to the impact of new acquisitions, which totaled \$37.0 million for 2020, and higher incentive compensation, salary, overtime and temporary labor expenses, partially offset by lower employee benefit expense. The increase in incentive compensation expense were due to higher revenue and profitability. The increases in salary expense were due to higher average salaries and higher headcount. The increases in overtime and temporary labor expenses were driven by higher volumes. The decreases in employee benefit expense were primarily due to the impact of lower expense related to the Company's expected 401(k) saving plan match. The increase in personnel costs was also partially attributable to increased share-based compensation expense due to a higher dollar value of restricted stock units granted in the first quarter of 2020 related to 2019 performance. The increase in personnel costs in 2019 from 2018 was primarily attributable to higher incentive compensation, employee benefit and overtime expenses, partially offset by lower salary, payroll tax and severance expenses. The increase in incentive compensation expense was due to the Company's higher profitability. The increase in employee benefit costs was due to a higher expected 401(k) savings plan match driven by improved financial results. The decrease in salary and payroll tax expense was driven by lower average headcount in 2019 when compared with 2018. Personnel costs included severance expenses of \$5.6 million, \$6.5 million and \$15.2 million for 2020, 2019 and 2018, 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 1,470,900, 1,093,000 and 981,800 domestic title orders in 2020, 2019 and 2018, respectively, representing an increase of 34.6% in 2020 from 2019 and an increase of 11.3% in 2019 from 2018.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in thousands, except percentages)		
Premiums retained by agents	<u>\$2,184,420</u>	<u>\$1,874,266</u>	<u>\$1,799,836</u>
Agent premiums	<u>\$2,759,455</u>	<u>\$2,373,140</u>	<u>\$2,284,906</u>
% retained by agents	79.2%	79.0%	78.8%

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 geographic mix of revenues from agency operations. The changes in the percentage of title premiums retained by agents in 2020 from 2019 and in 2019 from 2018 were primarily due to changes in the geographic mix of agency revenues.

Other operating expenses (principally related to direct operations) increased \$194.2 million, or 24.1%, in 2020 from 2019 and \$12.1 million, or 1.5%, in 2019 from 2018. The increase in 2020 from 2019 in other operating expenses was primarily attributable to higher production related costs due to increased transaction volumes; the impact of new acquisitions, which totaled \$33.3 million for 2020; professional services expense, software expense, and computer hardware related costs, partially offset by lower travel and entertainment expenses. The increase in 2019 from 2018 in other operating expenses was primarily attributable to higher software expense, higher production related costs driven by the growth in transaction activity, and impairments related to certain leases that were impacted by the consolidation of office locations from a previous acquisition. These increases were partially offset by lower foreign currency exchange losses, lower computer hardware related costs and lower regulatory costs due to the recording of a reserve related to a legacy regulatory matter during the third quarter of 2018. The increase in other operating expenses in 2019 from 2018 was also partially

offset by changes in certain contractual arrangements that require the netting of production related costs against related revenues.

The provision for policy losses and other claims, expressed as a percentage of title insurance premiums and escrow fees, was 5.0% for the year ended December 31, 2020 and 4.0% for the years ended December 31, 2019 and 2018, respectively.

The current year rate of 5.0% reflects an ultimate loss rate of 4.5% for the current policy year and a net increase in the loss reserve estimates for prior policy years of 0.5%, or \$26.2 million.

As of December 31, 2020, the IBNR claims reserve for the title insurance and services segment was \$1,025.8 million, which reflected management's best estimate. The Company's internal actuary determined a range of reasonable estimates of \$811.1 million to \$1,054.1 million. The range limits are \$214.7 million below and \$28.3 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 2019 rate of 4.0% reflected the ultimate loss rate for policy year 2019 and no change in the loss reserve estimates for prior policy years.

The 2018 rate of 4.0% reflected the ultimate loss rate for policy year 2018 and no change in the loss reserve estimates for prior policy years.

Depreciation and amortization expense increased \$19.6 million, or 16.2%, in 2020 from 2019 and \$2.6 million, or 2.2%, in 2019 from 2018. The increase in depreciation and amortization expense in 2020 from 2019 was primarily attributable to amortization of software and other intangible assets from new acquisitions of \$22.0 million for 2020. The increase in depreciation and amortization expense in 2019 from 2018 was primarily attributable to higher amortization expense associated with internally developed software.

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 1.3% for 2020 and 1.4% for 2019 and 2018, respectively.

Interest expense increased \$3.0 million, or 19.7%, in 2020 from 2019 and \$7.7 million, or 102.6%, in 2019 from 2018. The increases were primarily attributable to higher interest paid on secured financings payable due to higher average balances outstanding. The increase in 2020 from 2019 was partially offset by lower interest paid related to customer deposits at the Company's banking subsidiary, First American Trust, FSB, due to lower interest rates. The increase in 2019 from 2018 was also impacted by higher interest paid related to customer deposits at the Company's banking subsidiary, First American Trust, FSB due to increases in average balances and higher interest rates paid.

The profit margins for the title insurance business 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 the relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. Title insurance profit margins are also impacted by the segment's net investment income and net realized investment gains or losses, which may not move in the same direction as closed order volumes. 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 pretax margins were 15.7%, 16.1% and 12.4% for 2020, 2019 and 2018, respectively.

Specialty Insurance

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020 vs. 2019</u>		<u>2019 vs. 2018</u>	
				<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
(in thousands, except percentages)							
Revenues							
Direct premiums	\$497,533	\$471,217	\$454,718	\$ 26,316	5.6	\$ 16,499	3.6
Information and other . . .	13,439	12,742	11,802	697	5.5	940	8.0
Net investment income . .	9,123	11,249	10,190	(2,126)	(18.9)	1,059	10.4
Net realized investment gains (losses)	<u>12,328</u>	<u>10,682</u>	<u>(7,368)</u>	<u>1,646</u>	<u>15.4</u>	<u>18,050</u>	<u>245.0</u>
	<u>532,423</u>	<u>505,890</u>	<u>469,342</u>	<u>26,533</u>	<u>5.2</u>	<u>36,548</u>	<u>7.8</u>
Expenses							
Personnel costs	86,834	80,120	75,355	6,714	8.4	4,765	6.3
Other operating expenses	83,104	80,705	74,025	2,399	3.0	6,680	9.0
Provision for policy losses and other claims	317,051	263,590	279,113	53,461	20.3	(15,523)	(5.6)
Depreciation and amortization	7,535	7,225	6,721	310	4.3	504	7.5
Impairments on disposition of business	54,935	—	—	54,935	—	—	—
Premium taxes	<u>8,248</u>	<u>7,674</u>	<u>7,129</u>	<u>574</u>	<u>7.5</u>	<u>545</u>	<u>7.6</u>
	<u>557,707</u>	<u>439,314</u>	<u>442,343</u>	<u>118,393</u>	<u>26.9</u>	<u>(3,029)</u>	<u>(0.7)</u>
Income before income taxes . .	<u>\$ (25,284)</u>	<u>\$ 66,576</u>	<u>\$ 26,999</u>	<u>\$ (91,860)</u>	<u>(138.0)</u>	<u>\$ 39,577</u>	<u>146.6</u>
Margins	<u>(4.7)%</u>	<u>13.2%</u>	<u>5.8%</u>	<u>(17.9)%</u>	<u>(135.6)</u>	<u>7.4%</u>	<u>127.6</u>

Direct premiums increased \$26.3 million, or 5.6%, in 2020 from 2019 and \$16.5 million, or 3.6%, in 2019 from 2018. The increases were primarily attributable to higher premiums earned in the home warranty business driven by an increase in the number of home warranty residential service contracts issued and an increase in the average price charged per contract.

Net realized investment gains for the specialty insurance segment were \$12.3 million for 2020 and were primarily from the increase in the fair values of equity securities of \$6.8 million. Net realized investment gains for 2020 also included a gain recognized from the sale of real estate. Net realized investment gains for the specialty insurance segment were \$10.7 million for 2019 and were primarily from the increase in the fair values of equity securities of \$10.4 million. Net realized investment losses were \$7.4 million for 2018 and were primarily from a decrease in the fair values of equity securities of \$6.1 million and losses from the sales of debt securities.

Personnel costs and other operating expenses increased \$9.1 million, or 5.7%, in 2020 from 2019 and \$11.4 million, or 7.7%, in 2019 from 2018. The increase in 2020 from 2019 was primarily attributable to

increased salary expense, due to higher average headcount, and higher advertising expense related to the home warranty business. The increase in 2019 from 2018 was primarily attributable to increases in professional services, salary, advertising and employee benefit expenses. The increase in salary expense was due to higher average salaries.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 53.2% in 2020, 49.8% in 2019 and 53.8% in 2018. The increase in the claims rate in 2020 from 2019 was primarily attributable to higher claims frequency driven by claims in the appliance and plumbing trades likely due to the coronavirus pandemic. The decrease in rate in 2019 from 2018 was attributable to a decrease in the severity and frequency of claims. The decrease in the severity of home warranty claims was due to more efficient claims management, which was mainly driven by improved rates with contractors and more efficient allocation of claims to contractors.

The provision for property and casualty claims, expressed as a percentage of property and casualty insurance premiums, was 94.7% in 2020, 73.7% in 2019 and 82.3% in 2018. The increase in rate in 2020 from 2019 was primarily attributable to higher claim severity. The decrease in rate in 2019 from 2018 was primarily attributable to a decrease in the severity of claims, which was partially due to the wildfires that occurred in 2018. The 2019 provision also benefitted from recoveries received during 2019 related to wildfires that occurred in 2018.

In connection with the Company's decision to sell its property and casualty insurance business it recorded impairment losses to goodwill, other intangible assets, property and equipment and other assets totaling \$54.9 million in 2020.

Premium taxes as a percentage of specialty insurance segment premiums were 1.7% in 2020 and 1.6% in 2019 and 2018.

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. However, in January 2021, the Company entered into book transfer agreements with two third-party insurers related to its property and casualty insurance business and will seek to non-renew policies that are not transferred. 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. Specialty insurance profit margins are also impacted by the segment's net investment income and net realized investment gains or losses, which may not move in the same direction as premium revenues. The pretax margin loss was 4.7% for 2020 and the pretax margins were 13.2% and 5.8% for 2019 and 2018, respectively.

Corporate

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020 vs. 2019</u>		<u>2019 vs. 2018</u>	
				<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
(in thousands, except percentages)							
Revenues							
Net investment income							
(losses)	\$ 14,245	\$ 21,896	\$ (3,115)	\$(7,651)	(34.9)	\$25,011	NM ¹
Net realized investment							
gains	<u>6,515</u>	<u>—</u>	<u>—</u>	<u>6,515</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>20,760</u>	<u>21,896</u>	<u>(3,115)</u>	<u>(1,136)</u>	<u>(5.2)</u>	<u>25,011</u>	<u>NM¹</u>
Expenses							
Personnel costs	19,811	24,143	1,748	(4,332)	(17.9)	22,395	NM ¹
Other operating expenses	37,187	38,148	33,879	(961)	(2.5)	4,269	12.6
Depreciation and							
amortization	152	153	153	(1)	(0.7)	—	—
Interest	<u>40,562</u>	<u>33,223</u>	<u>33,569</u>	<u>7,339</u>	<u>22.1</u>	<u>(346)</u>	<u>(1.0)</u>
	<u>97,712</u>	<u>95,667</u>	<u>69,349</u>	<u>2,045</u>	<u>2.1</u>	<u>26,318</u>	<u>38.0</u>
Loss before income taxes	<u>\$(76,952)</u>	<u>\$(73,771)</u>	<u>\$(72,464)</u>	<u>\$(3,181)</u>	<u>(4.3)</u>	<u>\$(1,307)</u>	<u>(1.8)</u>

(1) Not meaningful

Net investment income totaled \$14.2 million and \$21.9 million in 2020 and 2019, respectively, and net investment losses totaled \$3.1 million in 2018. The change in net investment income for all three years was primarily attributable to fluctuations in earnings on investments associated with the Company's deferred compensation plan.

Net realized investment gains for the corporate segment totaled \$6.5 million for 2020 and were primarily from the sale of real estate. There were no realized investment gains or losses for the corporate segment for 2019 and 2018.

Corporate personnel costs and other operating expenses were \$57.0 million, \$62.3 million and \$35.6 million in 2020, 2019 and 2018, respectively. The decrease in 2020 when compared to 2019 was primarily attributable to lower expenses related to the Company's deferred compensation plan. The increase in 2019 when compared to 2018 was primarily attributable to higher expenses related to the Company's deferred compensation plan.

Interest expense increased \$7.3 million, or 22.1%, in 2020 from 2019 and decreased \$0.3 million, or 1.0%, in 2019 from 2018. The increase in 2020 from 2019 was due to the interest accrued on the \$450.0 million of 4.00% senior unsecured notes that the Company issued in May 2020.

Eliminations

The Company's inter-segment eliminations were not material for 2020, 2019 and 2018.

Income Taxes

Income taxes differ from the amounts computed by applying the federal income tax rate of 21%. A reconciliation of these differences is as follows:

	Year ended December 31,					
	2020		2019		2018	
	(in thousands, except percentages)					
Taxes calculated at federal rate	\$193,887	21.0%	\$190,054	21.0%	\$128,003	21.0%
State taxes, net of federal benefit	22,317	2.4	18,028	2.0	9,941	1.6
Change in liability for tax positions	252	—	(13,563)	(1.5)	875	0.1
Foreign income taxed at different rates	5,162	0.6	782	0.1	7,287	1.2
Tax reform impact	—	—	—	—	(6,804)	(1.1)
Unremitted foreign earnings	(2,183)	(0.2)	2,588	0.3	(146)	—
Other items, net	3,339	0.3	(2,719)	(0.3)	(5,516)	(0.9)
	<u>\$222,774</u>	<u>24.1%</u>	<u>\$195,170</u>	<u>21.6%</u>	<u>\$133,640</u>	<u>21.9%</u>

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 24.1% for 2020, 21.6% for 2019 and 21.9% for 2018. The differences in the effective tax rates year over year are typically due to changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contributions to pretax income and changes in the ratio of permanent differences to income before income taxes. In addition, the tax rate for 2020 reflected the impairment of nondeductible goodwill related to the Company's Specialty Insurance segment and a benefit from foreign tax law changes. The tax rate for 2019 also reflected the resolution of state tax matters from prior years. The Company's effective tax rate for 2018 also reflected an adjustment made to its initial 2017 estimates for the comprehensive tax reform legislation known as the Tax Cuts and Jobs Act.

Net Income and Net Income Attributable to the Company

Net income and per share information are summarized as follows:

	Year ended December 31,		
	2020	2019	2018
	(in thousands, except per share amounts)		
Net income attributable to the Company	<u>\$696,429</u>	<u>\$707,410</u>	<u>\$474,496</u>
Net income per share attributable to the Company's stockholders:			
Basic	<u>\$ 6.18</u>	<u>\$ 6.26</u>	<u>\$ 4.21</u>
Diluted	<u>\$ 6.16</u>	<u>\$ 6.22</u>	<u>\$ 4.19</u>
Weighted-average common shares outstanding:			
Basic	<u>112,746</u>	<u>113,080</u>	<u>112,613</u>
Diluted	<u>113,020</u>	<u>113,655</u>	<u>113,279</u>

See Note 15 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, dividends on its common stock, and may include business acquisitions, investments in unconsolidated entities and repurchases of 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. Based on the Company's ability to generate cash flows from operations, its liquid-asset position and amounts available on its revolving credit facility, management believes that its resources are sufficient to satisfy its anticipated operational cash requirements and obligations for at least the next twelve months. In making this assessment, management considered the impact that the coronavirus pandemic and related responses has had, or is expected to have, on the Company's liquidity and capital resources, such as uncertainty related to cash flows from operations and potential volatility in the Company's investment portfolio, among other factors.

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 totaled \$1.1 billion, \$913.1 million and \$793.2 million for 2020, 2019 and 2018, respectively, after claim payments, net of recoveries, of \$471.3 million, \$415.3 million and \$450.8 million, respectively. The principal nonoperating uses of cash and cash equivalents for 2020, 2019 and 2018 were purchases of debt and equity securities, advances and repayments under secured financing agreements, dividends to common stockholders, capital expenditures and for 2020, acquisitions and repurchases of company shares. The most significant nonoperating sources of cash and cash equivalents for 2020, 2019 and 2018 were proceeds from the sales and maturities of debt and equity securities, borrowings and collections under secured financing agreements, and for 2020, proceeds from issuance of unsecured senior notes. In addition, the decrease in deposits at the Company's banking operations for 2019 reflected a nonoperating use of cash and cash equivalents, and the increases in deposits for 2018 reflected nonoperating sources of cash and cash equivalents. The net effect of all activities on total cash and cash equivalents were decreases of \$210.5 million for 2020 and increases of \$18.8 million and \$79.9 million for 2019 and 2018, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. During 2020, the Company's board of directors approved two increases in the Company's quarterly cash dividend. In January 2020, the quarterly cash dividend was increased to 44 cents per common share, representing a 5% increase from the prior level of 42 cents per common share. In November 2020, the quarterly cash dividend was increased to 46 cents per common share, representing another 5% increase. The dividend increase was effective beginning with the December 2020 dividend. 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, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

In November 2020, the Company announced that its board of directors had approved a new share repurchase plan, which authorizes the repurchase of up to \$300.0 million of the Company's common stock and of which \$242.0 million remained as of December 31, 2020. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. Also, in November 2020, the

Company terminated its prior share repurchase plan which authorized the repurchase of up to \$250.0 million of the Company's common stock. Cumulatively, during the year ended December 31, 2020, the Company repurchased and retired, under both the current and prior authorizations, 3.2 million shares of its common stock for a total purchase price of \$138.6 million.

During the year ended December 31, 2020, the Company completed acquisitions for an aggregate purchase price of \$397.6 million, which were funded through cash on hand and additional borrowings of \$120.0 million 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 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, 2020, under such regulations, the maximum amount available to the holding company from its insurance subsidiaries in 2021, without prior approval from applicable regulators, was dividends of \$555.4 million and loans and advances of \$115.6 million. However, the timing and amount of dividends paid by the Company's insurance subsidiaries to the holding company falls within the discretion of each insurance subsidiary's board of directors and will depend upon many factors, including the level of total statutory capital and surplus required to support minimum financial strength ratings by certain rating agencies. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

As of December 31, 2020, the holding company's sources of liquidity included \$206.9 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 2020, the Company issued \$450.0 million of 4.00% senior unsecured notes due in 2030. Interest is due semi-annually on May 15 and November 15, beginning November 15, 2020. The Company used a portion of the net proceeds from the sale to repay all borrowings outstanding under its credit facility, increasing the unused capacity thereunder to the full \$700.0 million size of the facility.

The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement, which is comprised of a \$700.0 million revolving credit facility, 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 in an aggregate amount not to exceed \$350.0 million. Unless terminated earlier, the credit agreement will terminate on April 30, 2024. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Proceeds under the credit agreement may be used for general corporate purposes. At December 31, 2020, the Company had no outstanding borrowings under the facility.

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 credit 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, Inc., Standard &

Poor's Rating Services and/or Fitch Ratings Inc. The minimum applicable spread for Alternate Base Rate borrowings is 0.25% and the maximum is 1.00%. The minimum applicable spread for Adjusted LIBOR rate borrowings is 1.25% and the maximum is 2.00%. The rate of interest on any term loans incurred in connection with the expansion option 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, 2020, 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 maintain separate financing arrangements. The primary financing arrangements maintained by subsidiaries of the Company are as follows:

- FirstFunding, Inc., a specialized warehouse lender to correspondent mortgage lenders, maintains secured warehouse lending facilities with several banking institutions. At December 31, 2020, outstanding borrowings under these facilities totaled \$516.2 million.
- First American Trust, FSB, a federal savings bank, maintains a secured line of credit with the Federal Home Loan Bank and federal funds lines of credit with certain correspondent institutions. In addition, First American Trust, FSB is a party to master repurchase agreements under which securities may be loaned or sold. At December 31, 2020, no amounts were outstanding under any of these facilities.
- First Canadian Title Company Limited, a Canadian title insurance and services company, maintains credit facilities with certain Canadian banking institutions. At December 31, 2020, no amounts were outstanding under these facilities.

The Company's debt to capitalization ratios were 23.7% and 18.5% at December 31, 2020 and December 31, 2019, respectively. The Company's adjusted debt to capitalization ratios, excluding secured financings payable of \$516.2 million and \$278.4 million at December 31, 2020 and December 31, 2019, were 17.0% and 14.1%, respectively.

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, 2020, 93% of the Company's investment portfolio consisted of debt securities, of which 64% were either United States government-backed or rated AAA and 98% were either rated or classified as investment grade. Percentages are based on the estimated fair values of the securities. Credit ratings reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. For further information on the credit quality of the Company's investment portfolio at December 31, 2019, see Note 4 Debt and Equity Securities to the consolidated financial statements.

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

Capital expenditures. Capital expenditures, which are primarily related to software development costs and purchases of property and equipment and software licenses, totaled \$120.6 million, \$110.5 million and \$125.5 million for 2020, 2019 and 2018, respectively.

Contractual obligations. A summary of the Company's contractual obligations at December 31, 2020, due by period, is as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u> (in thousands)	<u>3-5 years</u>	<u>More than 5 years</u>
Notes and contracts payable (1)	\$1,018,239	\$ 6,367	\$261,640	\$300,232	\$ 450,000
Interest on notes and contracts payable	246,854	43,299	75,802	47,503	80,250
Secured financings payable	516,155	516,155	—	—	—
Operating leases	324,069	86,695	127,780	69,972	39,622
Deposits	3,276,949	3,276,949	—	—	—
Claims losses	1,178,004	254,506	264,153	170,241	489,104
Employee benefit plans	381,981	15,417	33,617	34,143	298,804
	<u>\$6,942,251</u>	<u>\$4,199,388</u>	<u>\$762,992</u>	<u>\$622,091</u>	<u>\$1,357,780</u>

(1) The amounts presented exclude debt issuance costs and discounts on senior unsecured notes.

The timing of payments related to claims losses is estimated and is not set contractually. Nonetheless, based on historical claims experience, the Company anticipates the above payment patterns. Changes in future claims settlement patterns, judicial decisions, legislation, economic conditions and other factors could affect the timing and amount of actual claims payments. The timing and amount of payments in connection with employee benefit plans are based on the Company's current estimates and require the use of assumptions. Changes in assumptions could affect the amount and timing of employee benefit plan payments.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled \$7.1 billion and \$7.3 billion at December 31, 2020 and 2019, respectively, of which \$3.1 billion and \$3.2 billion, respectively, were held at First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt 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 \$4.4 billion and \$4.2 billion at December 31, 2020 and 2019, respectively. 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. 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 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 with various financial institutions. The results from these programs are included as income or a reduction in expense, as appropriate, in the consolidated statements of income 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 \$2.9 billion and \$3.0 billion at December 31, 2020 and 2019, 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 returns on such proceeds.

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.

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 debt securities, which includes a high proportion of fixed-income securities, and from its financing activities. In general, the fair value of a fixed-income security increases or decreases inversely with a change in market interest rates. The Company also considers its investments in preferred stock to be exposed to interest rate risk. The fair values of the Company's debt securities portfolio at December 31, 2020 and 2019 were \$6.4 billion and \$5.9 billion, respectively. One means of assessing the exposure of the Company's debt securities 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 debt securities portfolio (including investments in preferred stock) at December 31, 2020 to decrease by approximately \$200 million, or 3.1%, and \$442 million, or 6.9%, respectively, and at December 31, 2019 to decrease by approximately \$197 million, or 3.3%, and \$421 million, or 7.1%, respectively.

With respect to adjustable-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, 2020, the Company had no outstanding borrowings under the facility and as of December 31, 2019, had \$160.0 million outstanding. Assuming the full utilization of available funds under the facility of \$700.0 million at December 31, 2020 and 2019, 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 for 2020 and 2019.

The Company's interest bearing escrow deposit liabilities totaled \$1.7 billion and \$1.8 billion at December 31, 2020 and 2019, respectively. These variable-rate customer savings accounts are subject to market rate fluctuations. The weighted-average interest rate was 0.13% and 0.17% for 2020 and 2019, respectively.

Assuming increases in interest rates of 25 and 50 basis points and that the deposit amounts at December 31, 2020 and 2019 are held constant for the entire year, interest expense for 2020 would be higher by \$4.1 million and \$8.3 million, respectively, and 2019 would be higher by \$4.6 million and \$9.2 million, respectively.

Equity Price Risk

The Company is also subject to equity price risk related to its equity securities portfolio. The fair value of the Company's equity securities portfolio (excluding preferred stock of \$19.5 million and \$18.1 million) was \$444.6 million and \$374.2 million as of December 31, 2020 and 2019, respectively. Assuming broad-based declines in equity market prices of 10% and 20%, with all other factors held constant, the fair value of the Company's equity securities portfolio at December 31, 2020 could decrease by \$44.5 million and \$88.9 million, respectively, and at December 31, 2019 could decrease by \$37.4 million and \$74.8 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 rating of AA. For further information on the credit quality of the Company's investment portfolio at December 31, 2020, see Note 4 Debt and Equity Securities to the consolidated financial statements.

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of First American Financial Corporation and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, 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 the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of the Incurred But Not Reported Loss Reserve—Title Claims

As described in Notes 1 and 11 to the consolidated financial statements, as of December 31, 2020, approximately \$1.025 billion of the Company's reserve for known and incurred but not reported claims represented the incurred but not reported ("IBNR") loss reserve balance for the title insurance and services segment. Management provides for title insurance losses through a charge to expense when the related premium revenue is recognized. The amount charged to expense is generally determined by applying a loss provision rate to total title insurance premiums and escrow fees. Management estimates the loss provision rate at the beginning of each year and reassesses the rate quarterly, which involves an 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 loss development factors. For recent policy years at early stages of development (generally the last three years), IBNR is generally 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. Current economic and business trends are also reviewed and used in the reserve analysis. These include conditions in the real estate and mortgage markets, 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.

The principal considerations for our determination that performing procedures relating to the valuation of the IBNR loss reserve—title claims is a critical audit matter are the significant judgment by management when developing their estimate of the IBNR loss reserve, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the actuarial methods, which included significant assumptions related to loss development factors and expected loss rate. Also, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the

effectiveness of controls relating to management’s valuation of the IBNR loss reserve—title claims, including controls over the selection of actuarial methods and development of significant assumptions related to loss development factors and expected loss rate. For certain product lines, these procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in developing an independent estimate of the IBNR loss reserve for title claims, on a test basis, and comparison of this independent estimate to management’s actuarially determined reserve. Developing the independent estimate involved testing the completeness and accuracy of data provided by management. For other product lines, procedures also included, among others, testing the completeness and accuracy of data provided by management and the involvement of professionals with specialized skill and knowledge to assist in evaluating the appropriateness of management’s actuarial methods and evaluating the reasonableness of assumptions related to loss development factors and expected loss rate used in those methods.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 16, 2021

We have served as the Company’s auditor since 2009.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values)

	December 31,	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,275,466	\$ 1,485,959
Accounts and accrued income receivable, less allowances of \$13,994 and \$12,676	385,086	324,385
Income taxes receivable	951	10,967
Investments:		
Deposits with banks	45,856	44,422
Debt securities, includes pledged securities of \$93,586 and \$91,636 (amortized cost of \$6,121,004 and \$5,796,755; allowance for credit losses of \$132 at December 31, 2020)	6,354,822	5,913,636
Equity securities	464,126	392,318
Other investments	350,016	239,067
	7,214,820	6,589,443
Secured financings receivable	748,312	287,459
Property and equipment, net	445,132	442,014
Operating lease assets	265,963	291,385
Title plants and other indexes	584,785	579,674
Deferred income taxes	14,484	18,283
Goodwill	1,378,628	1,150,908
Other intangible assets, net	194,474	91,833
Other assets	287,887	246,857
	\$12,795,988	\$11,519,167
LIABILITIES AND EQUITY		
Deposits	\$ 3,276,949	\$ 3,337,431
Accounts payable and accrued liabilities:		
Accounts payable	56,035	58,576
Personnel costs	314,467	218,415
Pension costs and other retirement plans	452,093	439,390
Other	157,138	103,975
	979,733	820,356
Deferred revenue	271,977	252,331
Reserve for known and incurred but not reported claims	1,178,004	1,063,044
Income taxes payable	53,784	25,475
Deferred income taxes	291,220	266,108
Operating lease liabilities	295,762	322,776
Secured financings payable	516,155	278,412
Notes and contracts payable	1,010,756	728,232
	7,874,340	7,094,165
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, \$0.00001 par value; Authorized—300,000 shares; Outstanding—110,353 shares and 112,476 shares	1	1
Additional paid-in capital	2,214,935	2,300,926
Retained earnings	2,655,495	2,161,049
Accumulated other comprehensive income (loss)	39,541	(41,492)
Total stockholders' equity	4,909,972	4,420,484
Noncontrolling interests	11,676	4,518
Total equity	4,921,648	4,425,002
	\$12,795,988	\$11,519,167

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,		
	2020	2019	2018
<i>Revenues:</i>			
Direct premiums and escrow fees	\$2,987,525	\$2,659,273	\$2,507,669
Agent premiums	2,759,455	2,373,140	2,284,906
Information and other	1,013,360	787,831	781,467
Net investment income	221,290	315,413	230,289
Net realized investment gains (losses)	105,037	66,404	(56,487)
	<u>7,086,667</u>	<u>6,202,061</u>	<u>5,747,844</u>
<i>Expenses:</i>			
Personnel costs	1,941,477	1,806,005	1,748,949
Premiums retained by agents	2,184,420	1,874,266	1,799,836
Other operating expenses	1,119,108	923,298	900,208
Provision for policy losses and other claims	579,507	446,040	452,633
Depreciation and amortization	148,979	129,021	125,927
Impairments on disposition of business (Note 2)	54,935	—	—
Premium taxes	77,504	70,612	69,775
Interest	57,467	47,801	40,978
	<u>6,163,397</u>	<u>5,297,043</u>	<u>5,138,306</u>
Income before income taxes	923,270	905,018	609,538
Income taxes	222,774	195,170	133,640
Net income	700,496	709,848	475,898
Less: Net income attributable to noncontrolling interests	4,067	2,438	1,402
Net income attributable to the Company	<u>\$ 696,429</u>	<u>\$ 707,410</u>	<u>\$ 474,496</u>
Net income per share attributable to the Company's stockholders:			
Basic	<u>\$ 6.18</u>	<u>\$ 6.26</u>	<u>\$ 4.21</u>
Diluted	<u>\$ 6.16</u>	<u>\$ 6.22</u>	<u>\$ 4.19</u>
Cash dividends declared per share	<u>\$ 1.78</u>	<u>\$ 1.68</u>	<u>\$ 1.60</u>
Weighted-average common shares outstanding:			
Basic	<u>112,746</u>	<u>113,080</u>	<u>112,613</u>
Diluted	<u>113,020</u>	<u>113,655</u>	<u>113,279</u>

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income	\$700,496	\$709,848	\$475,898
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities	88,248	125,283	(38,418)
Unrealized gains on debt securities for which credit-related portion was recognized in earnings	387	—	—
Foreign currency translation adjustment	13,678	13,960	(26,796)
Pension benefit adjustment	(21,280)	(20,161)	12,680
Total other comprehensive income (loss), net of tax	<u>81,033</u>	<u>119,082</u>	<u>(52,534)</u>
Comprehensive income	781,529	828,930	423,364
Less: Comprehensive income attributable to noncontrolling interests	4,067	2,437	1,384
Comprehensive income attributable to the Company	<u>\$777,462</u>	<u>\$826,493</u>	<u>\$421,980</u>

See Notes to Consolidated Financial Statements

**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 income (loss)	Total stockholders' equity	Noncontrolling interests	Total
Balance at								
December 31, 2017	110,925	\$ 1	\$2,236,351	\$1,311,112	\$ (67,509)	\$3,479,955	\$ 3,070	\$3,483,025
Cumulative effect								
adjustment	—	—	—	40,550	(40,550)	—	—	—
Net income for 2018	—	—	—	474,496	—	474,496	1,402	475,898
Dividends on common								
shares	—	—	—	(178,487)	—	(178,487)	—	(178,487)
Purchase of Company shares	(425)	—	(18,801)	—	—	(18,801)	—	(18,801)
Shares issued in connection								
with share-based								
compensation	996	—	(599)	(3,506)	—	(4,105)	—	(4,105)
Share-based compensation	—	—	41,145	—	—	41,145	—	41,145
Net activity related to								
noncontrolling interests	—	—	194	—	—	194	(947)	(753)
Other comprehensive loss	—	—	—	—	(52,516)	(52,516)	(18)	(52,534)
Balance at								
December 31, 2018	111,496	1	2,258,290	1,644,165	(160,575)	3,741,881	3,507	3,745,388
Cumulative effect								
adjustment	—	—	—	1,283	—	1,283	—	1,283
Net income for 2019	—	—	—	707,410	—	707,410	2,438	709,848
Dividends on common								
shares	—	—	—	(188,440)	—	(188,440)	—	(188,440)
Purchase of Company shares	(47)	—	(2,066)	—	—	(2,066)	—	(2,066)
Shares issued in connection								
with share-based								
compensation	1,027	—	2,182	(3,369)	—	(1,187)	—	(1,187)
Share-based compensation	—	—	42,474	—	—	42,474	—	42,474
Net activity related to								
noncontrolling interests	—	—	46	—	—	46	(1,426)	(1,380)
Other comprehensive income	—	—	—	—	119,083	119,083	(1)	119,082
Balance at								
December 31, 2019	112,476	1	2,300,926	2,161,049	(41,492)	4,420,484	4,518	4,425,002
Net income for 2020	—	—	—	696,429	—	696,429	4,067	700,496
Dividends on common								
shares	—	—	—	(198,663)	—	(198,663)	—	(198,663)
Purchase of Company shares	(3,191)	—	(138,603)	—	—	(138,603)	—	(138,603)
Shares issued in connection								
with share-based								
compensation	1,068	—	1,831	(3,320)	—	(1,489)	—	(1,489)
Share-based compensation	—	—	50,709	—	—	50,709	—	50,709
Net activity related to								
noncontrolling interests	—	—	72	—	—	72	3,091	3,163
Other comprehensive								
income	—	—	—	—	81,033	81,033	—	81,033
Balance at								
December 31, 2020	<u>110,353</u>	<u>\$ 1</u>	<u>\$2,214,935</u>	<u>\$2,655,495</u>	<u>\$ 39,541</u>	<u>\$4,909,972</u>	<u>\$11,676</u>	<u>\$4,921,648</u>

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 700,496	\$ 709,848	\$ 475,898
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	579,507	446,040	452,633
Depreciation and amortization	148,979	129,021	125,927
Impairments on disposition of business	54,935	—	—
Amortization of premiums and accretion of discounts on debt securities, net	39,471	26,781	26,994
Net realized investment (gains) losses	(105,037)	(66,404)	56,487
Share-based compensation	50,709	42,474	41,145
Equity in earnings of affiliates, net	(5,718)	(2,836)	(2,717)
Dividends from equity method investments	6,679	5,628	4,909
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(471,334)	(415,321)	(450,756)
Net change in income tax accounts	29,309	16,399	42,079
(Increase) decrease in accounts and accrued income receivable	(52,870)	(27,240)	5,264
Increase in accounts payable and accrued liabilities	130,036	45,549	15,303
Increase in deferred revenue	18,667	10,343	2,741
Other, net	(39,170)	(7,193)	(2,742)
Cash provided by operating activities	1,084,659	913,089	793,165
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(392,541)	(19,674)	(79,171)
Net decrease (increase) in deposits with banks	609	(8,307)	3,361
Purchases of debt and equity securities	(2,862,157)	(2,340,836)	(3,157,893)
Proceeds from sales of debt and equity securities	850,057	1,331,192	1,501,402
Proceeds from maturities of debt securities	1,629,563	1,006,755	640,558
Investments in unconsolidated entities	(80,970)	(101,000)	(1,210)
Proceeds from sales of investments in unconsolidated entities	11,910	—	—
Net change in other investments	(10,751)	(3,842)	(5,582)
Advances under secured financing agreements	(17,584,088)	(8,001,099)	(2,380,878)
Collections of secured financings receivable	17,123,235	7,789,951	2,374,329
Capital expenditures	(114,084)	(106,979)	(118,170)
Proceeds from sales of property and equipment	13,951	647	2,630
Proceeds from insurance settlement	123	960	—
Cash used for investing activities	(1,415,143)	(452,232)	(1,220,624)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	(60,482)	(448,752)	715,617
Borrowings under secured financing agreements	15,442,490	7,991,617	2,380,976
Repayments of secured financings payable	(15,204,747)	(7,789,518)	(2,374,426)
Net proceeds from issuance of unsecured senior notes	443,936	—	—
Borrowings under unsecured credit facility	120,000	160,000	—
Repayments of borrowings under unsecured credit facility	(280,000)	(160,000)	—
Repayments of notes and contracts payable	(5,865)	(5,569)	(5,294)
Net activity related to noncontrolling interests	(2,653)	(1,154)	(745)
Net payments in connection with share-based compensation	(1,489)	(1,187)	(4,105)
Repurchases of Company shares	(138,603)	(2,066)	(18,801)
Payments of cash dividends	(198,663)	(188,440)	(178,487)
Cash provided by (used for) financing activities	113,924	(445,069)	514,735
Effect of exchange rate changes on cash	6,067	3,042	(7,373)
Net (decrease) increase in cash and cash equivalents	(210,493)	18,830	79,903
Cash and cash equivalents—Beginning of year	1,485,959	1,467,129	1,387,226
Cash and cash equivalents—End of year	\$ 1,275,466	\$ 1,485,959	\$ 1,467,129
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	\$ 53,887	\$ 46,266	\$ 39,183
Premium taxes	\$ 71,806	\$ 68,276	\$ 68,526
Income taxes, less refunds of \$3,250, \$1,604 and \$7,255	\$ 193,454	\$ 178,743	\$ 91,745

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation and Significant Accounting Policies:

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 designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant data and records; provides appraisals and other valuation-related products and services; provides lien release, document custodial and default-related products and services; and provides warehouse lending services and banking, trust and wealth management 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, the District of Columbia and certain United States territories. The Company also offers title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea 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. The majority of policy liability is in the western United States, including approximately 59% in California. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 35 states and the District of Columbia.

In the third quarter of 2020, the Company initiated a plan to sell the property and casualty insurance business. In the fourth quarter of 2020, the Company, as a result of the sale process, determined to pursue a book transfer rather than a sale. In January 2021, the Company entered into book transfer agreements with two third-party insurers, which will provide qualifying agents and customers of the Company an opportunity to transfer their policies. The Company expects the transfers to be completed by the end of the third quarter of 2022. The Company will seek to non-renew policies that are not transferred.

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

Coronavirus Pandemic

The coronavirus pandemic and responses to it have created significant volatility, uncertainty and disruption in the broader economy. The extent to which the coronavirus pandemic impacts the Company’s business, operations and financial results will depend on numerous factors that the Company may not be able to accurately predict, including: the duration and scope of the pandemic and restrictions and responses to it; governmental, business and individual actions that have been and will continue to be taken in response to the pandemic; the

**FIRST AMERICAN FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ongoing impact of the pandemic on economic activity and actions taken in response, including the efficacy of governmental relief efforts; the availability and efficacy of vaccines; the effect on participants in real estate transactions and the demand for the Company's products and services, including as a result of higher unemployment, business closures and economic uncertainty; and the Company's ability to sell and provide its services and solutions, including as a result of illness, travel restrictions, governmental closure orders and partial or full closures of business and government offices. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the financial statements, some of which consider the impact or expected impact of the coronavirus pandemic. Actual results could differ from the estimates and assumptions used due to the uncertainty created by the coronavirus pandemic, as well as other factors.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") 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. Equity 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 of accounting. Equity investments in which the Company does not exercise significant influence over the investee and without readily determinable fair values are accounted for at cost, less impairment, and are adjusted up or down for any observable price changes.

Use of estimates

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

Cash equivalents

The Company considers cash equivalents to include all unrestricted short-term investments that have an initial maturity of 90 days or less.

Accounts and accrued income receivable

Accounts receivable are generally due within thirty days and are recorded net of an allowance for credit losses. The Company considers accounts outstanding longer than the contractual payment terms as past due. The Company determines the 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 the Company and the current condition, and future expectations, of the general economy and industry as a whole. Amounts are written off in the period in which they are deemed to be uncollectible.

The Company's policy is to present accrued interest receivable on financial assets measured at amortized cost within accounts and accrued income receivable on the balance sheet. Accrued interest receivable at December 31, 2020 totaled \$2.5 million. The Company has elected to not measure an allowance for credit losses for accrued interest receivable and maintains a policy that all receivables ninety days past due are written off as credit loss expense. Accounts are placed on non-accrual status, and accrual of interest is discontinued, when management determines that collectibility of contractual amounts is not reasonably assured. Payments of interest for accounts in non-accrual status are applied under the cost recovery method.

**FIRST AMERICAN FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investments

Deposits with banks

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

Debt securities

Debt securities are carried at fair value and consist primarily of investments in obligations of the United States Treasury, foreign governments, various U.S. and foreign corporations, certain state and political subdivisions and mortgage-backed securities. The Company classifies its debt securities as available-for-sale with unrealized gains or losses recorded as a component of accumulated other comprehensive income/loss.

Interest income, as well as the related amortization of premium and accretion of discount, on debt securities are recognized under the effective yield method and are included in the accompanying consolidated statements of income in net investment income. Realized gains and losses on sales of debt securities are determined on a first-in, first-out basis.

On January 1, 2020, the Company adopted updated accounting guidance that changed the impairment methodology for available-for-sale debt securities. Under the new guidance, when the fair value of an available-for-sale debt security falls below its amortized cost, entities must determine whether the decline in fair value is due to credit-related factors or noncredit-related factors. Declines in fair value that are credit-related are now recorded on the balance sheet through an allowance for credit losses with a corresponding adjustment to earnings and declines that are noncredit-related are recognized through other comprehensive income/loss.

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 impaired and it is written down to fair value with all losses recognized in earnings. As of December 31, 2020, 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 any debt securities before recovery of their amortized cost basis.

For debt securities in an unrealized loss position for which 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 Company determines whether the loss is due to credit-related factors or noncredit-related factors. For debt securities in an unrealized loss position for which the losses are primarily due to credit-related factors, the Company's policy is to recognize the entire loss in earnings. For debt securities in an unrealized loss position for which the losses are determined to be the result of both credit-related and noncredit-related factors, the credit loss is determined as 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 using the effective interest rate (i.e., purchase yield) and for variable rate securities the interest rate is fixed at the rate in effect at the credit loss measurement date.

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.

**FIRST AMERICAN FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company recognized impairment losses, net of reversals, of \$3.2 million resulting from credit-related factors for the year ended December 31, 2020. The Company did not recognize any impairment losses related to its debt securities for the years ended December 31, 2019 and 2018.

The Company's policy is to present accrued interest receivable on debt securities within accounts and accrued income receivable on the balance sheet. Accrued interest receivable on debt securities at December 31, 2020 totaled \$29.1 million. The Company has elected to not measure an allowance for credit losses for accrued interest receivable on debt securities and maintains a policy that all receivables ninety days past due are written off as credit loss expense. Debt securities are placed on non-accrual status, and accrual of interest is discontinued, when management determines that collectibility of contractual amounts is not reasonably assured. Interest income is recognized on a cash basis for interest payments received on debt securities in non-accrual status.

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, 2020 and 2019, the fair values of such investments totaled \$93.6 million and \$91.6 million, respectively. See Note 3 Statutory Restrictions on Investments and Stockholders' Equity for additional discussion of the Company's statutory restrictions.

Equity securities

Equity securities are carried at fair value and consist primarily of investments in exchange traded funds, mutual funds and marketable preferred stocks of corporate entities. Changes in the fair values of the Company's equity securities are recognized in net realized investment gains/losses on the consolidated statements of income.

Other investments

Other investments consist primarily of equity investments in which the Company exercises significant influence, but does not control and is not the primary beneficiary; equity investments in which the Company does not exercise significant influence over the investee and without readily determinable fair values; investments in real estate; and notes receivable.

Equity investments in which the Company exercises significant influence but does not control, and is not the primary beneficiary, are accounted for under the equity method of accounting. These investments are initially measured at cost and are generally adjusted by the Company's share of equity in the income or losses of the investee. The carrying values of these investments are 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 is impaired, the Company assesses the 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 is operating.

The Company has elected to measure equity investments in which it does not exercise significant influence over the investee and without readily determinable fair values at cost, less impairment, adjusted up or down for any observable price changes from orderly transactions for the identical or a similar investment of the same issuer. The carrying values of these investments are written down, or impaired, to fair value when a qualitative assessment indicates that the fair value is less than the carrying value. In making the determination as to whether

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

an individual investment is impaired, the Company assesses such qualitative factors as the current and expected financial condition of each relevant entity, the market conditions in the industry in which the entity operates and the entity's anticipated ability to generate sufficient cash flows.

Investments in real estate are classified as held for sale and carried at the lower of cost or fair value, less estimated selling costs.

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.

Secured financings receivable and payable

The Company's secured financings receivable are collateralized by mortgage loans on residential real estate. Collections of the receivable balance occur upon sale of the underlying mortgage loan to investors in the secondary market, generally within 30 days and more typically in less than 10 days. No allowance for credit losses has been recorded due to, among other factors, the Company typically identifying investors in the underlying mortgage loans prior to making advances, the short-term nature of these receivables, the underlying mortgage loans are predominantly Qualified Mortgages (QM) and due to the receivable having no history of significant prior credit losses. Interest income is recorded on an accrual basis during the period the principal balance remains outstanding.

Secured financings payable reflect borrowings under secured warehouse lending facilities with several banking institutions. Repayment of the warehouse borrowing occurs upon sale of the mortgage loan to investors as noted above. Interest expense is recorded during the period the borrowing remains outstanding.

Property and equipment

Buildings and furniture and equipment are initially recorded at cost and are generally depreciated using the straight-line method over estimated useful lives ranging from 5 to 40 years and from 2 to 15 years, respectively. Leasehold improvements are initially recorded at cost and are amortized over the lesser of the remaining term of the respective lease or the estimated useful life, using the straight-line method. Computer software developed for internal use and for use with the Company's products is amortized over estimated useful lives ranging from 3 to 15 years using the straight-line method. Software development and implementation costs, which include certain payroll-related costs of employees directly associated with developing or implementing software and payments to third parties directly associated with developing or implementing software are capitalized during the application development or implementation stage until the software is ready for its intended 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.

**FIRST AMERICAN FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In connection with the Company's decision in the third quarter of 2020 to sell the property and casualty insurance business, it recognized impairment losses on its capitalized software of \$17.6 million for the year ended December 31, 2020. See Note 2 Disposition of the Property and Casualty Insurance Business for further information on the disposition of the business. Impairment losses on property and equipment for the year ended December 31, 2019 primarily related to impairments of \$6.0 million on internally developed software. Impairment losses on property and equipment for the year ended December 31, 2018 were insignificant.

Leases

The Company is, generally, a lessee in leases of commercial real estate, including office buildings and office space, and also certain equipment. Most of the Company's leases of commercial real estate include one or more options to renew, with renewal terms that can extend the lease term from one to five years, and some leases include options to terminate the lease within the first year.

In connection with its lease commitments, the Company recognizes a lease liability equal to the present value of future lease payments discounted using its incremental borrowing rate and recognizes a lease asset equal to the lease liability, adjusted for any prepaid or accrued lease payments, lease incentives and initial direct costs.

As most of the Company's leases do not provide an implicit discount rate, the Company applies its incremental borrowing rate, which is based on the information available as of the commencement date, in determining the present value of its lease payments.

The Company does not separately account for nonlease components (e.g., common-area maintenance costs) from the associated lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) on leases of commercial real estate and instead accounts for both components as a single lease component for purposes of recognizing lease assets and liabilities. Variable lease costs, which include any variable lease and nonlease components and rents that vary based on changes to an index or rate, are expensed as incurred.

The Company excludes any leases with an initial term of 12 months or less from recognition on the balance sheet and for which lease expense is recognized on a straight-line basis over the lease term.

Management recognizes an impairment loss when the carrying amount of a lease asset is not recoverable and exceeds its fair value. The carrying amount is considered not recoverable if it exceeds the sum of the undiscounted future cash flows that are directly associated with, and that are expected to arise as a result of, the use and eventual disposition of the lease asset. An impairment loss is measured as the amount by which the carrying amount of a lease asset exceeds its fair value. Impairment losses related to the Company's commercial real estate may occur if the Company ceased using all, or a portion of, a leased property while a contractual obligation remains. Impairment losses related to commercial real estate leases were \$1.0 million and \$7.5 million for the years ended December 31, 2020 and 2019, respectively. Prior to 2019, operating lease commitments were not recognized as assets on the balance sheet.

For further information on the Company's leasing arrangements see Note 7 Leases.

Title plants and other indexes

Title plants and other indexes included title plants of \$536.3 million and \$530.5 million and capitalized real estate data of \$48.5 million and \$49.2 million at December 31, 2020 and 2019, respectively. Title plants are

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carried at 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 initially recorded at cost and is amortized using the straight-line method over estimated useful lives ranging from 5 to 15 years.

Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of title plants 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.

Business Combinations

Amounts paid for acquisitions are allocated to the tangible and intangible assets acquired and liabilities assumed and are based on their estimated fair values at the date of acquisition. The excess of the fair value of purchase consideration over the fair values of the 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 for which goodwill has been allocated. Those reporting units include title insurance, home warranty and property and casualty insurance. The Company's trust and other services reporting unit has no allocated goodwill and is, therefore, not assessed for impairment. 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 accounting 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 a qualitative assessment and perform a 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 a qualitative assessment indicate the more likely than not threshold was not met, the Company may choose not to perform a quantitative impairment test. If, however, the more likely than not threshold is met, the Company will perform a quantitative test as required and discussed below.

Management's quantitative impairment testing 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, where appropriate, 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, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit.

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

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technique, which utilizes expected cash flows 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 reporting unit.

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.

In the third quarter of 2020, the Company initiated a plan to sell its property and casualty insurance business, which triggered a goodwill impairment test for the property and casualty insurance reporting unit. Based on the results of the goodwill impairment test, the Company determined that the fair value of the property and casualty insurance reporting unit was less than its carrying amount. As a result, the Company recorded an impairment loss to goodwill of \$34.2 million for the year ended December 31, 2020. For 2019 and 2018, the Company performed quantitative impairment tests and determined that the fair value of its property and casualty insurance reporting unit exceeded the carrying amount and, therefore, no additional analysis was required.

The Company chose to forego qualitative assessments for its title insurance and home warranty reporting units for 2020 and performed quantitative impairment tests. Based on the results of these tests, the Company determined that the fair values for both reporting units exceeded their carrying amounts and, therefore, no additional analysis was required. The results of the Company’s qualitative assessments in 2019 and 2018 for its title insurance and home warranty reporting units supported the conclusion that their fair values were not more likely than not less than their carrying amounts and, therefore, a quantitative impairment test was not considered necessary. As a result of the Company’s annual goodwill impairment assessments for its title insurance and home warranty reporting units, the Company did not record any goodwill impairment losses for the years ended December 31, 2020, 2019 or 2018.

Other intangible assets

The Company’s finite-lived intangible assets consist of customer relationships, noncompete agreements, trademarks, internal-use software licenses and patents. These assets are amortized on a straight-line basis over their useful lives ranging from 1 to 20 years and are subject to impairment assessments when there is an indication of a triggering event or abandonment. The Company’s indefinite-lived other intangible assets consist of licenses which are not amortized but rather assessed for impairment by comparing the fair values to carrying amounts 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 amount 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

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value. Management's impairment assessment for indefinite-lived other intangible assets may involve calculating the fair value by using a discounted cash flow analysis or through a market approach valuation. If the fair value 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.

In connection with the Company's decision in the third quarter of 2020 to sell the property and casualty insurance business, it recognized impairment losses on its finite-lived intangible assets – customer relationships of \$3.2 million for the year ended December 31, 2020.

Reserve for known and incurred but not reported claims

The Company provides for title insurance losses through 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 an 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 conditions in the real estate and mortgage markets, 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 generally 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 by 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 concerning claims to determine what it considers to be the best estimate of the total amount required for the IBNR reserve.

The volume and timing of title insurance claims are subject to cyclical influences from both the 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 a 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.

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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 the sensitivity of claims to external conditions in the real estate and mortgage markets is an inherent feature of title insurance's business economics that applies broadly to the title insurance industry.

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. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss rates 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 reserve for property and casualty insurance losses reflects management's best estimate of the amount necessary to settle all reported and unreported claims for the ultimate cost of insured losses, based upon the facts of each case and the Company's experience with similar cases. The Company also utilizes the services of an independent actuary as part of its reserve analysis. Because the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process, the ultimate cost of insured losses may be more or less than the reserve amount. Reserve estimates are regularly analyzed and updated to reflect the most current information available.

The Company provides for claims losses relating to its home warranty business based on the average cost per claim and historical loss experience 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 expenses in the period incurred.

Revenues

Premiums on title 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 agents are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company.

Premiums on property and casualty insurance policies and home warranty contracts are generally recognized ratably over the 12-month duration of the policy or contract.

Information and other revenues are recognized when control of the promised goods or services is transferred to the customer and in an amount that reflects the consideration the Company expects to be entitled to in exchange for these goods or services.

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For those products and services where the Company's performance obligation is satisfied at a point in time and for which there is no ongoing obligation, revenue is recognized upon delivery. For those products and services where the Company satisfies its performance obligation over time as the product or service is being transferred to the customer, revenue is generally recognized using the output method as the products or services are delivered.

The Company applies the optional exemptions allowed under accounting guidance whereby the Company is not required to disclose either the transaction price allocated to performance obligations that are unsatisfied as of the end of the period or an explanation as to when the Company expects to recognize the related revenue. Such contracts generally include performance obligations that are contingent upon the closing of a real estate transaction or include variable consideration based on order volumes and have remaining contract terms of generally less than three years. The Company is allowed to apply the optional exemptions to its remaining performance obligations due to (1) the performance obligation is part of a contract that has an original duration of one year or less, (2) the associated revenue is based on the Company's right to invoice for the value of the product or service delivered, (3) the associated variable consideration is allocated entirely to wholly unsatisfied performance obligations or (4) immateriality.

The Company also applies the practical expedient allowed under accounting guidance whereby it can disregard the impact to the transaction price of the effects of a significant financing component for arrangements where the Company expects the period between delivery of the product or service and customer payment to be one year or less. In addition, the Company applies the practical expedient whereby it recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period for the asset that the Company otherwise would have recognized is one year or less.

The Company records a contract asset, and recognizes revenue, upon delivery of certain products related to the closing of a real estate transaction where the Company's right to payment is subject to the closing of the transaction. The Company records a contract liability for payments received in advance of revenue recognition for certain products or services. Contract assets and liabilities were not material at December 31, 2020 and 2019. Revenues recognized during the years ended December 31, 2020, 2019 and 2018 that were included in contract liabilities at the beginning of the respective period were not material.

For information about the Company's revenues disaggregated by reportable segment see Note 23 Segment Financial Information.

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

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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 income 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. For awards with retirement eligibility provisions, the cost is recognized through the date the employee becomes eligible to retire and is no longer required to provide service to earn the award. The Company accounts for forfeitures as they occur.

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 features 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.

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

Earnings per share

Basic earnings per share is computed by dividing net income available to the Company's stockholders by the weighted-average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the weighted-average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if dilutive stock options had been exercised and RSUs were vested.

Employee benefit plans

The Company recognizes the underfunded status of its unfunded supplemental benefit plans as a liability on its consolidated balance sheets. Actuarial gains and losses and prior service costs and credits that have not been previously recognized as a component of net periodic benefit cost are recorded as a component of accumulated other comprehensive income/loss. Plan obligations are measured annually as of December 31.

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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 other countries, including Canada, the United Kingdom, South Korea and Australia. The functional currencies of the Company's foreign subsidiaries are generally their respective local currencies. The financial statements of foreign subsidiaries with local currencies that were determined to be the functional currency 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 during the period. Translation adjustments resulting from the translation of the subsidiaries' accounts are included in accumulated other comprehensive income/loss as a separate component of stockholders' equity. For those foreign subsidiaries where the U.S. dollar has been determined to be the functional currency, non-monetary assets and liabilities are translated using historical rates, while monetary assets and liabilities are translated at current rates, with remeasurement gains and losses included in other operating expenses. Gains and losses resulting from foreign currency transactions are included within other operating expenses.

Reinsurance

The Company's title insurance business assumes and cedes large title insurance risks through reinsurance and its property and casualty insurance business purchases reinsurance to limit risk associated with large losses from single events. Additionally, the Company has limited reinsurance arrangements related to certain products offered through its international operations. 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, 2020. Payments and recoveries on reinsured losses for the Company's title insurance business were immaterial during the years ended December 31, 2020, 2019 and 2018. For information related to payments and recoveries on reinsured losses for the Company's property and casualty insurance business see Note 11 Reserve for Known and Incurred But Not Reported Claims.

Escrow deposits and trust assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled \$7.1 billion and \$7.3 billion at December 31, 2020 and 2019, respectively, of which \$3.1 billion and \$3.2 billion, respectively, were held at First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

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Trust assets held or managed by First American Trust, FSB totaled \$4.4 billion and \$4.2 billion at December 31, 2020 and 2019, respectively. 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. 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 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 with various financial institutions. The results from these programs are included as income or a reduction in expense, as appropriate, in the consolidated statements of income based on the nature of the arrangement and benefit received.

The Company regularly reviews the financial strength of third-party financial institutions where escrow deposits are held and, based on this review and the fact that all amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation, does not expect any credit losses; therefore the Company has not recorded a liability for credit losses.

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 \$2.9 billion and \$3.0 billion at December 31, 2020 and 2019, 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 returns on such proceeds.

The Company regularly reviews the financial strength of third-party financial institutions where like-kind exchange deposits are held and, based on this review and the fact that all amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation, does not expect any credit losses; therefore the Company has not recorded a liability for credit losses.

Recently Adopted Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance intended to reduce potential diversity in practice in accounting for the costs of implementing cloud computing arrangements (i.e., hosting arrangements) that are service contracts. The updated guidance aligns the requirements for capitalizing implementation costs for these arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance on a prospective basis, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

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In August 2018, the FASB issued updated guidance as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements. The updated guidance eliminates, adds and modifies certain disclosure requirements related to fair value measurements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. Except for the disclosure requirements, the adoption of this guidance, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and will recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance, effective January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of this guidance on a modified-retrospective basis, effective January 1, 2020, did not have a material impact, except for the disclosure requirements, on the Company's consolidated financial statements. See Note 1 Basis of Presentation and Significant Accounting Policies, Note 4 Debt and Equity Securities and Note 5 Allowance for Credit Losses – Accounts Receivable for further information on the Company's credit losses.

Pending Accounting Pronouncements:

In December 2019, the FASB issued updated guidance intended to simplify and improve the accounting for income taxes. The updated guidance eliminates certain exceptions and clarifies and amends certain areas of the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTE 2. Disposition of the Property and Casualty Insurance Business:

In the third quarter of 2020, the Company initiated a plan to sell its property and casualty insurance business. As a result of this decision, the Company remeasured the assets and liabilities of its property and casualty insurance business at estimated fair value, less costs to sell, and recorded impairment losses to goodwill, other intangible assets, property and equipment and other assets totaling \$54.9 million for the year ended December 31, 2020. The impairment losses are included in impairments on disposition of business on the consolidated statements of income and in the operating results of the specialty insurance segment. In the fourth quarter of 2020, the Company, as a result of the sale process, determined to pursue a book transfer rather than a sale. As a result, the assets and liabilities of the property and casualty insurance business, which were previously classified as held for sale, have been reclassified as held and used on the Company's consolidated balance sheet at December 31, 2020.

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In January 2021, the Company entered into book transfer agreements with two third party insurers, which will provide qualifying agents and customers of the Company an opportunity to transfer their policies. The Company expects the transfers to be completed by the end of the third quarter of 2022. The Company will seek to non-renew policies that are not transferred.

NOTE 3. Statutory Restrictions on Investments and Stockholders' Equity:

Investments totaling \$114.8 million and \$111.5 million were on deposit with state treasurers in accordance with statutory requirements for the protection of policyholders at December 31, 2020 and 2019, 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, 2020, under such regulations, the maximum amount available to the Company from its insurance subsidiaries in 2021, without prior approval from applicable regulators, was dividends of \$555.4 million and loans and advances of \$115.6 million.

The Company's principal title insurance subsidiary, First American Title Insurance Company ("FATICO"), maintained total statutory capital and surplus of \$1.5 billion as of December 31, 2020 and 2019. Statutory net income for the years ended December 31, 2020, 2019 and 2018 was \$501.6 million, \$473.6 million and \$258.4 million, respectively. FATICO was in compliance with the minimum statutory capital and surplus requirements as of December 31, 2020.

FATICO is domiciled in Nebraska and its statutory-based financial statements are prepared in accordance with accounting practices prescribed or permitted by the Nebraska Department of Insurance. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the state of Nebraska. The state of Nebraska has 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 Nebraska's required practice differs from NAIC SAP resulting in total statutory capital and surplus that was lower than if reported in accordance with NAIC SAP by \$267.5 million and \$235.5 million at December 31, 2020 and 2019, respectively.

Statutory accounting principles differ in some respects from GAAP, and these differences include, but are not limited to, non-admission of certain assets (principally limitations on deferred tax assets, goodwill, capitalized furniture and equipment, investment in subsidiaries and affiliates, real estate, capitalized software, and premiums and other receivables 90 days past due), reporting of bonds at amortized cost, recognition of credit losses, the lack of recognition of right-of-use assets and lease liabilities on the balance sheet for lease commitments in which the Company is a lessee, changes in the fair values of equity securities, 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.

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NOTE 4. Debt and Equity Securities:

Investments in debt securities, classified as available-for-sale, are as follows:

<u>(in thousands)</u>	<u>Amortized cost</u>	<u>Allowance for credit losses (1)</u>	<u>Gross unrealized</u>		<u>Estimated fair value</u>
			<u>gains</u>	<u>losses</u>	
December 31, 2020					
U.S. Treasury bonds	\$ 80,172	\$ —	\$ 778	\$ (104)	\$ 80,846
Municipal bonds	1,168,425	—	80,953	(570)	1,248,808
Foreign government bonds	194,042	—	6,004	(516)	199,530
Governmental agency bonds	254,248	—	9,869	(195)	263,922
Governmental agency mortgage-backed securities	3,401,737	—	74,549	(1,668)	3,474,618
U.S. corporate debt securities	637,808	(119)	43,505	(497)	680,697
Foreign corporate debt securities	384,572	(13)	22,078	(236)	406,401
	<u>\$6,121,004</u>	<u>\$(132)</u>	<u>\$237,736</u>	<u>\$ (3,786)</u>	<u>\$6,354,822</u>
December 31, 2019					
U.S. Treasury bonds	\$ 143,825	\$ —	\$ 469	\$ (353)	\$ 143,941
Municipal bonds	1,043,252	—	47,804	(217)	1,090,839
Foreign government bonds	179,554	—	1,497	(961)	180,090
Governmental agency bonds	316,318	—	5,820	(219)	321,919
Governmental agency mortgage-backed securities	3,241,966	—	43,599	(7,307)	3,278,258
U.S. corporate debt securities	535,878	—	18,466	(972)	553,372
Foreign corporate debt securities	335,962	—	9,468	(213)	345,217
	<u>\$5,796,755</u>	<u>\$ —</u>	<u>\$127,123</u>	<u>\$(10,242)</u>	<u>\$5,913,636</u>

(1) Reflects impairment losses resulting from credit-related factors, which are also included in net realized investment gains/losses in the consolidated statements of income for the year ended December 31, 2020.

Sales of debt securities resulted in realized gains of \$18.2 million, \$12.1 million and \$3.3 million, realized losses of \$3.5 million, \$6.1 million and \$20.3 million, and proceeds of \$758.9 million, \$1.1 billion and \$1.3 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investments in debt securities, based on length of time in an unrealized loss position, are as follows:

<u>(in thousands)</u>	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>
December 31, 2020						
U.S. Treasury bonds	\$ 7,744	\$ (104)	\$ —	\$ —	\$ 7,744	\$ (104)
Municipal bonds	74,045	(570)	—	—	74,045	(570)
Foreign government bonds	67,094	(516)	—	—	67,094	(516)
Governmental agency bonds	15,353	(195)	—	—	15,353	(195)
Governmental agency mortgage-backed securities	287,947	(1,089)	100,473	(579)	388,420	(1,668)
U.S. corporate debt securities	42,508	(484)	1,357	(13)	43,865	(497)
Foreign corporate debt securities	19,042	(232)	276	(4)	19,318	(236)
	<u>\$513,733</u>	<u>\$(3,190)</u>	<u>\$102,106</u>	<u>\$ (596)</u>	<u>\$ 615,839</u>	<u>\$ (3,786)</u>
December 31, 2019						
U.S. Treasury bonds	\$ 12,507	\$ (350)	\$ 3,193	\$ (3)	\$ 15,700	\$ (353)
Municipal bonds	29,333	(207)	2,827	(10)	32,160	(217)
Foreign government bonds	112,167	(934)	11,001	(27)	123,168	(961)
Governmental agency bonds	24,493	(142)	14,923	(77)	39,416	(219)
Governmental agency mortgage-backed securities	719,602	(2,785)	637,009	(4,522)	1,356,611	(7,307)
U.S. corporate debt securities	42,607	(451)	10,216	(521)	52,823	(972)
Foreign corporate debt securities	30,895	(108)	12,373	(105)	43,268	(213)
	<u>\$971,604</u>	<u>\$(4,977)</u>	<u>\$691,542</u>	<u>\$(5,265)</u>	<u>\$1,663,146</u>	<u>\$(10,242)</u>

Based on the Company's review of its debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded, it determined that the losses were due to non-credit factors. As such, the Company does not consider these securities to be credit impaired at December 31, 2020.

Activity in the allowance for credit losses on debt securities for the year ended December 31, 2020 is summarized as follows:

<u>(in thousands)</u>	<u>Year Ended December 31, 2020</u>
Balance at beginning of period	\$ —
Credit losses recognized during the period	(7,493)
Net decreases to credit losses previously recognized	4,300
Reductions for securities sold/matured	<u>3,061</u>
Balance at end of period	<u>\$ (132)</u>

In determining credit losses on its debt securities in an unrealized loss position, the Company considers certain factors that may include, among others, severity of the unrealized loss, security type, industry sector, credit rating, profitability and stock performance.

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Investments in debt securities at December 31, 2020, by contractual maturities, are as follows:

<u>(in thousands)</u>	<u>Due in one year or less</u>	<u>Due after one through five years</u>	<u>Due after five through ten years</u>	<u>Due after ten years</u>	<u>Total</u>
U.S. Treasury bonds					
Amortized cost	\$ 62,485	\$ 13,092	\$ 1,423	\$ 3,172	\$ 80,172
Estimated fair value	\$ 63,022	\$ 13,189	\$ 1,534	\$ 3,101	\$ 80,846
Municipal bonds					
Amortized cost	\$ 42,368	\$105,426	\$452,334	\$568,297	\$1,168,425
Estimated fair value	\$ 42,673	\$109,698	\$486,158	\$610,279	\$1,248,808
Foreign government bonds					
Amortized cost	\$ 52,719	\$ 60,252	\$ 66,852	\$ 14,219	\$ 194,042
Estimated fair value	\$ 52,768	\$ 62,151	\$ 68,614	\$ 15,997	\$ 199,530
Governmental agency bonds					
Amortized cost	\$ 19,541	\$132,378	\$ 47,928	\$ 54,401	\$ 254,248
Estimated fair value	\$ 19,666	\$136,370	\$ 49,274	\$ 58,612	\$ 263,922
U.S. corporate debt securities					
Amortized cost	\$ 13,452	\$318,682	\$233,414	\$ 72,260	\$ 637,808
Estimated fair value	\$ 13,502	\$340,056	\$245,796	\$ 81,343	\$ 680,697
Foreign corporate debt securities					
Amortized cost	\$ 9,845	\$199,272	\$131,944	\$ 43,511	\$ 384,572
Estimated fair value	\$ 9,903	\$209,557	\$139,734	\$ 47,207	\$ 406,401
Total debt securities, excluding mortgage-backed securities					
Amortized cost	\$200,410	\$829,102	\$933,895	\$755,860	\$2,719,267
Estimated fair value	\$201,534	\$871,021	\$991,110	\$816,539	\$2,880,204
Total mortgage-backed securities					
Amortized cost					\$3,401,737
Estimated fair value					\$3,474,618
Total debt securities					
Amortized cost					\$6,121,004
Estimated fair value					\$6,354,822

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

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Investments in equity securities are as follows:

<u>(in thousands)</u>	<u>Cost</u>	<u>Estimated fair value</u>
December 31, 2020		
Preferred stocks	\$ 22,163	\$ 19,479
Common stocks	<u>354,157</u>	<u>444,647</u>
	<u>\$376,320</u>	<u>\$464,126</u>
December 31, 2019		
Preferred stocks	\$ 21,849	\$ 18,094
Common stocks	<u>328,110</u>	<u>374,224</u>
	<u>\$349,959</u>	<u>\$392,318</u>

Net gains (realized and unrealized) of \$48.7 million and \$66.7 million and net losses (realized and unrealized) of \$38.6 million were recognized for the years ended December 31, 2020, 2019 and 2018, respectively, as a result of changes in the fair values of equity securities. Included in net gains during the years ended December 31, 2020 and 2019 were net unrealized gains of \$48.8 million and \$52.3 million, respectively, related to equity securities still held at December 31, 2020 and 2019, respectively.

The composition of the investment portfolio at December 31, 2020, by credit rating, is as follows:

<u>(in thousands, except percentages)</u>	<u>A- or higher</u>		<u>BBB+ to BBB-</u>		<u>Non-Investment Grade</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>
Debt securities:								
U.S. Treasury bonds	\$ 80,846	100.0	\$ —	—	\$ —	—	\$ 80,846	100.0
Municipal bonds	1,205,891	96.5	42,142	3.4	775	0.1	1,248,808	100.0
Foreign government bonds	183,350	91.9	13,221	6.6	2,959	1.5	199,530	100.0
Governmental agency bonds	263,922	100.0	—	—	—	—	263,922	100.0
Governmental agency mortgage-backed securities	3,474,618	100.0	—	—	—	—	3,474,618	100.0
U.S. corporate debt securities	280,026	41.1	324,208	47.7	76,463	11.2	680,697	100.0
Foreign corporate debt securities	148,088	36.4	227,964	56.1	30,349	7.5	406,401	100.0
Total debt securities	<u>5,636,741</u>	<u>88.7</u>	<u>607,535</u>	<u>9.6</u>	<u>110,546</u>	<u>1.7</u>	<u>6,354,822</u>	<u>100.0</u>
Preferred stocks	50	0.2	18,107	93.0	1,322	6.8	19,479	100.0
Total	<u>\$5,636,791</u>	<u>88.4</u>	<u>\$625,642</u>	<u>9.8</u>	<u>\$111,868</u>	<u>1.8</u>	<u>\$6,374,301</u>	<u>100.0</u>

Included in debt securities at December 31, 2020, were bank loans totaling \$54.2 million, of which \$50.7 million were non-investment grade; high yield corporate debt securities totaling \$52.4 million, all of which were non-investment grade; and emerging market debt securities totaling \$73.0 million, of which \$6.7 million were non-investment grade.

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The composition of the debt securities portfolio in an unrealized loss position at December 31, 2020, by credit rating, is as follows:

<u>(in thousands, except percentages)</u>	<u>A- or higher</u>		<u>BBB+ to BBB-</u>		<u>Non-Investment Grade</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>	<u>Estimated fair value</u>	<u>Percentage</u>
U.S. Treasury bonds	\$ 7,744	100.0	\$ —	—	\$ —	—	\$ 7,744	100.0
Municipal bonds	70,648	95.4	3,397	4.6	—	—	74,045	100.0
Foreign government bonds	67,094	100.0	—	—	—	—	67,094	100.0
Governmental agency bonds	15,353	100.0	—	—	—	—	15,353	100.0
Governmental agency mortgage- backed securities	388,420	100.0	—	—	—	—	388,420	100.0
U.S. corporate debt securities	3,470	7.9	8,496	19.4	31,899	72.7	43,865	100.0
Foreign corporate debt securities	6,419	33.2	4,803	24.9	8,096	41.9	19,318	100.0
Total	<u>\$559,148</u>	<u>90.8</u>	<u>\$16,696</u>	<u>2.7</u>	<u>\$39,995</u>	<u>6.5</u>	<u>\$615,839</u>	<u>100.0</u>

Debt securities in an unrealized loss position at December 31, 2020, included bank loans totaling \$37.3 million, of which \$34.4 million were non-investment grade; high yield corporate debt securities totaling \$5.3 million, all of which were non-investment grade; and emerging market debt securities totaling \$0.3 million, all of which were non-investment grade.

The credit ratings in the above tables reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. Governmental agency mortgage-backed securities are not rated by any of the ratings agencies; however, these securities have been included in the above table in the “A- or higher” rating category because the payments of principal and interest are guaranteed by the governmental agency that issued the security.

NOTE 5. Allowance for Credit Losses—Accounts Receivable:

Activity in the allowance for credit losses on accounts receivable for the year ended December 31, 2020 is summarized as follows:

<u>(in thousands)</u>	<u>Year Ended December 31, 2020</u>
Balance at beginning of period (1)	\$12,676
Provision for expected credit losses	6,640
Write-offs, net of recoveries	<u>(5,322)</u>
Balance at end of period	<u>\$13,994</u>

(1) The balance at beginning of period was determined under previous accounting guidance. Transition to the updated guidance did not result in an adjustment to the allowance. See Note 1 Basis of Presentation and Significant Accounting Policies for further information on the recently adopted accounting policy.

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NOTE 6. Property and Equipment:

Property and equipment is summarized as follows:

	December 31,	
	2020	2019
	(in thousands)	
Land	\$ 23,840	\$ 25,302
Buildings	181,401	191,068
Leasehold improvements	68,452	66,471
Furniture and equipment	215,777	222,543
Capitalized software	792,377	718,847
	1,281,847	1,224,231
Accumulated depreciation and amortization	(836,715)	(782,217)
	\$ 445,132	\$ 442,014

In connection with the Company’s decision in the third quarter of 2020 to sell the property and casualty insurance business, it recognized impairment losses on its capitalized software of \$17.6 million for the year ended December 31, 2020. See Note 2 Disposition of the Property and Casualty Insurance Business for further information on the disposition of the business.

NOTE 7. Leases:

Lease assets and liabilities are summarized as follows:

(in thousands)	December 31.		Classification
	2020	2019	
Assets			
Operating lease assets	\$265,963	\$291,385	Operating lease assets
Finance lease assets	3,929	4,560	Other assets
Total lease assets	\$269,892	\$295,945	
Liabilities			
Operating lease liabilities	\$295,762	\$322,776	Operating lease liabilities
Finance lease liabilities	4,152	4,814	Notes and contracts payable
Total lease liabilities	\$299,914	\$327,590	

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The components of lease expense are summarized as follows:

<u>(in thousands)</u>	<u>Year ended December 31,</u>		<u>Classification</u>
	<u>2020</u>	<u>2019</u>	
Operating lease cost	\$ 89,200	\$ 87,847	Other operating expenses
Finance lease cost:			
Amortization of lease assets	1,632	1,919	Depreciation and amortization
Interest on lease liabilities	176	191	Interest
Variable lease cost	32,099	31,258	Other operating expenses
Short-term lease cost	777	958	Other operating expenses
Sublease income	(2,929)	(1,637)	Information and other
Net lease cost	<u>\$120,955</u>	<u>\$120,536</u>	

Total rental expense for all operating leases was \$89.4 million for the year ended December 31, 2018.

Future minimum lease payments under operating and finance leases with noncancelable lease terms, as of December 31, 2020, are summarized as follows:

<u>(in thousands)</u>	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2021	\$ 86,695	\$1,726	\$ 88,421
2022	72,728	1,628	74,356
2023	55,052	767	55,819
2024	40,282	236	40,518
2025	29,690	—	29,690
Thereafter	39,622	—	39,622
Total lease payments	324,069	4,357	328,426
Interest	(28,307)	(205)	(28,512)
Present value of lease liabilities	<u>\$295,762</u>	<u>\$4,152</u>	<u>\$299,914</u>

Information related to lease terms and discount rates is summarized as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Weighted-average remaining lease terms (years):		
Operating leases	4.8	5.4
Finance leases	2.7	3.5
Weighted-average discount rates:		
Operating leases	3.80%	4.16%
Finance leases	4.03%	3.92%

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Cash flow information related to lease liabilities is summarized as follows:

<u>(in thousands)</u>	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$92,762	\$88,242
Operating cash flows from finance leases	\$ 176	\$ 191
Financing cash flows from finance leases	\$ 1,658	\$ 1,817
Operating lease assets obtained in exchange for new operating lease liabilities	\$53,614	\$54,809
Finance lease assets obtained in exchange for new finance lease liabilities	\$ 918	\$ 939

NOTE 8. Goodwill:

A summary of the changes in the carrying amount of goodwill, by reportable segment, for the years ended December 31, 2020 and 2019, is as follows:

	<u>Title Insurance and Services</u>	<u>Specialty Insurance</u>	<u>Total</u>
	(in thousands)		
Balance as of December 31, 2018			
Goodwill	\$1,097,401	\$ 46,765	\$1,144,166
Accumulated impairment losses	—	—	—
	<u>\$1,097,401</u>	<u>\$ 46,765</u>	<u>\$1,144,166</u>
Acquisitions	4,014	—	4,014
Foreign currency translation	2,728	—	2,728
Balance as of December 31, 2019			
Goodwill	1,104,143	46,765	1,150,908
Accumulated impairment losses	—	—	—
	<u>1,104,143</u>	<u>46,765</u>	<u>1,150,908</u>
Acquisitions	260,712	—	260,712
Dispositions	(358)	—	(358)
Impairment losses	—	(34,178)	(34,178)
Foreign currency translation	1,544	—	1,544
Balance as of December 31, 2020			
Goodwill	\$1,366,041	\$ 46,765	\$1,412,806
Accumulated impairment losses	—	(34,178)	(34,178)
	<u>\$1,366,041</u>	<u>\$ 12,587</u>	<u>\$1,378,628</u>

In the third quarter of 2020, the Company initiated a plan to sell its property and casualty insurance business, which triggered a goodwill impairment test for the property and casualty insurance reporting unit. Based on the results of the goodwill impairment test, the Company determined that the fair value of the property

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and casualty insurance reporting unit was less than its carrying amount. As a result, the Company recorded an impairment loss to goodwill of \$34.2 million for the year ended December 31, 2020. See Note 2 Disposition of the Property and Casualty Insurance Business for further information on the disposition of the business.

For discussion about the Company’s acquisitions in 2020, see Note 22 Business Combinations.

NOTE 9. Other Intangible Assets:

Other intangible assets are summarized as follows:

	December 31,	
	2020	2019
	(in thousands)	
Finite-lived intangible assets:		
Customer relationships	\$172,851	\$ 99,905
Noncompete agreements	38,310	13,150
Trademarks	24,370	10,520
Internal-use software licenses	21,605	21,982
Patents	2,840	2,840
	259,976	148,397
Accumulated amortization	(82,380)	(73,449)
	177,596	74,948
Indefinite-lived intangible assets:		
Licenses	16,878	16,885
	\$194,474	\$ 91,833

Amortization expense for finite-lived intangible assets was \$43.3 million, \$28.4 million and \$30.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. The current year increase in finite-lived intangible assets primarily reflects the impact of acquisitions during 2020. For further discussion about the Company’s acquisitions in 2020, see Note 22 Business Combinations.

In connection with the Company’s decision in the third quarter of 2020 to sell the property and casualty insurance business, it recognized impairment losses on its finite-lived intangible assets – customer relationships of \$3.2 million for the year ended December 31, 2020. See Note 2 Disposition of the Property and Casualty Insurance Business for further information on the disposition of the business.

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

Year	(in thousands)
2021	\$41,011
2022	\$34,455
2023	\$31,680
2024	\$24,436
2025	\$18,317

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NOTE 10. Deposits:

Deposit accounts are summarized as follows:

	December 31,	
	2020	2019
	(in thousands, except percentages)	
Escrow accounts:		
Interest bearing	\$1,650,025	\$1,831,083
Non-interest bearing	1,438,559	1,337,774
	3,088,584	3,168,857
Business checking and other deposits (1)	188,365	168,574
	\$3,276,949	\$3,337,431
Weighted-average interest rate:		
Interest bearing escrow accounts	0.13%	0.17%

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

NOTE 11. Reserve for Known and Incurred But Not Reported Claims:

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

	December 31,		
	2020	2019	2018
	(in thousands)		
Balance at beginning of year	\$1,063,044	\$1,042,679	\$1,028,933
Provision related to:			
Current year	531,586	436,362	444,969
Prior years	47,921	9,678	7,664
	579,507	446,040	452,633
Payments, net of recoveries, related to:			
Current year	267,621	227,663	242,617
Prior years	203,713	187,658	208,139
	471,334	415,321	450,756
Other	6,787	(10,354)	11,869
Balance at end of year	\$1,178,004	\$1,063,044	\$1,042,679

Current year payments, net of recoveries, include \$250.0 million, \$211.4 million and \$228.3 million for the years ended December 31, 2020, 2019 and 2018, respectively, that relate to the Company's specialty insurance segment. Prior year payments, net of recoveries, include \$57.2 million, \$41.7 million and \$56.7 million for the years ended December 31, 2020, 2019 and 2018, respectively, that relate to the Company's specialty insurance segment.

"Other" activity primarily includes foreign currency translation gains and losses and ceded reinsurance claims. Payments and recoveries on reinsured losses for the Company's title insurance business were immaterial

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during the years ended December 31, 2020, 2019 and 2018. Payments on reinsured losses for the Company's property and casualty insurance business totaled \$4.3 million, \$21.1 million, and \$15.3 million, and recoveries totaled \$3.5 million, \$10.3 million, and \$20.3 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 5.0% for the year ended December 31, 2020 and 4.0% for the years ended December 31, 2019 and 2018, respectively.

The current year rate of 5.0% reflects an ultimate loss rate of 4.5% for the current policy year and a net increase in the loss reserve estimates for prior policy years of 0.5%, or \$26.2 million.

The 2019 rate of 4.0% reflected the ultimate loss rate for policy year 2019 and no change in the loss reserve estimates for prior policy years.

The 2018 rate of 4.0% reflected the ultimate loss rate for policy year 2018 and no change in the loss reserve estimates for prior policy years.

To date, the Company has not experienced an increase in title claims as a result of the coronavirus pandemic. Incurred title claims for the year ended December 31, 2020 were lower by 12.4% when compared with the same period of the prior year, and significantly below the Company's actuarial expectation. However, title claims generally increase when economic conditions deteriorate. Due to the economic uncertainty in connection with the coronavirus pandemic and responses to it, the Company increased its calendar year loss rate from 4.0% in 2019 to 5.0% in 2020.

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

<u>(in thousands, except percentages)</u>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
Known title claims	\$ 64,601	5.5%	\$ 83,382	7.8%
IBNR title claims	1,025,761	87.1%	903,994	85.1%
Total title claims	1,090,362	92.6%	987,376	92.9%
Non-title claims	87,642	7.4%	75,668	7.1%
Total loss reserves	<u>\$1,178,004</u>	<u>100.0%</u>	<u>\$1,063,044</u>	<u>100.0%</u>

Short-Duration Insurance Contracts

Specialty Insurance Segment

The following reflects information as of December 31, 2020 about incurred and paid claims development, net of reinsurance, as well as cumulative claims frequency by claims event, and the total of incurred but not reported claims plus expected development on reported claims included with the net incurred claims amounts.

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The information below about incurred and paid claims development for the years ended December 31, 2011 to 2019, is presented as supplementary information.

Accident Year	Incurred claims and allocated claim adjustment expenses, net of reinsurance										December 31, 2020	
	Years ended December 31,										Total of IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020		
	(in thousands)											
2011	\$148,395	149,076	149,768	149,486	149,763	149,552	149,488	149,487	149,486	\$ 149,486	\$ —	641
2012		157,287	158,981	159,918	160,579	160,517	160,911	161,650	161,634	161,683	—	692
2013			182,858	184,419	185,244	184,826	184,668	184,777	184,606	184,698	28	762
2014				190,985	190,738	191,120	191,025	190,944	191,218	191,288	126	789
2015					221,617	225,754	225,977	226,555	226,882	226,876	347	867
2016						245,859	249,358	251,506	253,258	253,840	960	972
2017							267,392	275,480	278,005	278,979	2,817	1,014
2018								264,088	268,931	270,441	5,663	1,063
2019									251,259	268,064	7,697	1,078
2020										292,725	8,576	1,177
Total										\$2,278,080		

* Amounts unaudited.

Accident Year	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance									
	Years ended December 31,									
	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020
	(in thousands)									
2011	\$123,116	144,367	146,952	148,984	149,358	149,495	149,485	149,486	149,486	\$ 149,486
2012		130,623	153,753	157,364	159,181	159,740	160,268	161,304	161,617	161,683
2013			151,377	180,277	182,565	183,957	184,473	184,711	184,552	184,590
2014				156,536	185,686	188,117	189,525	190,398	190,772	191,016
2015					181,445	217,618	223,045	225,041	226,201	226,335
2016						205,857	243,111	248,211	250,867	252,212
2017							220,218	266,653	270,705	272,309
2018								222,966	255,557	262,008
2019									207,342	252,280
2020										242,655
Total										\$2,194,574
All outstanding liabilities before 2011, net of reinsurance										44
Liabilities for claims and claims adjustment expenses, net of reinsurance										\$ 83,550

* Amounts unaudited.

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A reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expense at December 31, 2020, is as follows:

	December 31, 2020
	(in thousands)
Liability for unpaid claims and claim adjustment expenses, net of reinsurance:	
Specialty insurance	\$ 83,550
Reinsurance recoverable on unpaid claims:	
Specialty insurance	2,417
Unallocated claims adjustment expenses:	
Specialty insurance	1,675
Insurance lines other than short-duration:	
Title insurance	1,090,362
Liability for unpaid claims and claims adjustment expenses	\$1,178,004

Supplementary information about average historical claims duration for the Company's specialty insurance segment as of December 31, 2020, is as follows:

Average annual percentage payout of incurred claims by age, net of reinsurance (unaudited)										
Years	1	2	3	4	5	6	7	8	9	10
Annual payout	82.9%	13.6%	1.3%	0.8%	0.3%	0.1%	0.1%	0.1%	0.0%	0.0%

NOTE 12. Notes and Contracts Payable:

	December 31,	
	2020	2019
	(in thousands, except percentages)	
4.00% senior unsecured notes due May 15, 2030, effective interest rate of 4.05%	\$ 450,000	\$ —
4.60% senior unsecured notes due November 15, 2024, effective interest rate of 4.60%	300,000	300,000
4.30% senior unsecured notes due February 1, 2023, effective interest rate of 4.35% ...	250,000	250,000
Line of credit borrowings due April 30, 2024, interest rate of 3.30% at December 31, 2019	—	160,000
Trust deed note due November 1, 2023, collateralized by land and buildings with net book values of \$37,522 and \$38,402 at December 31, 2020 and 2019, respectively, fixed interest rate of 5.26%	12,011	15,724
Other notes and contracts payable with maturities through 2024, weighted-average interest rate of 4.28% and 4.02% at December 31, 2020 and 2019, respectively	6,228	4,918
	1,018,239	730,642
Unamortized discount – senior unsecured notes	(1,972)	(358)
Debt issuance costs – senior unsecured notes	(5,511)	(2,052)
	\$1,010,756	\$728,232

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The weighted-average interest rate for the Company's notes and contracts payable was 4.27% and 4.22% at December 31, 2020 and 2019, respectively.

In May 2020, the Company issued \$450.0 million of 4.00% senior unsecured notes due in 2030. Interest is due semi-annually on May 15 and November 15, beginning November 15, 2020. The Company used a portion of the net proceeds from the sale to repay all borrowings outstanding under its credit facility, increasing the unused capacity thereunder to the full \$700.0 million size of the facility.

In April 2019, the Company entered into a senior unsecured credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement, which is comprised of a \$700.0 million revolving credit facility, 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 in an aggregate amount not to exceed \$350.0 million. Unless terminated earlier, the credit agreement will terminate on April 30, 2024. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Upon entry into the credit agreement, the Company borrowed \$160.0 million and repaid the \$160.0 million obligation outstanding under the previous \$700.0 million senior unsecured credit agreement, which was terminated at that time. Other proceeds under the credit agreement may be used for general corporate purposes. At December 31, 2020, the Company had no outstanding borrowings under the facility.

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 credit 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, Inc., Standard & Poor's Rating Services and/or Fitch Ratings Inc. The minimum applicable spread for Alternate Base Rate borrowings is 0.25% and the maximum is 1.00%. The minimum applicable spread for Adjusted LIBOR rate borrowings is 1.25% and the maximum is 2.00%. The rate of interest on any term loans incurred in connection with the expansion option 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, 2020, the Company was in compliance with the financial covenants under the credit agreement.

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The aggregate annual maturities for notes and contracts payable for the next five years and thereafter, are summarized as follows:

<u>Year</u>	<u>Annual maturities</u> (in thousands)
2021	\$ 6,367
2022	6,562
2023	255,078
2024	300,232
2025	—
Thereafter	<u>450,000</u>
	<u>\$1,018,239</u>

NOTE 13. Net Investment Income:

The components of net investment income are summarized as follows:

	<u>Year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in thousands)		
Interest on:			
Cash, cash equivalents and deposits with banks	\$ 6,311	\$ 26,187	\$ 21,910
Debt securities	125,877	163,339	138,409
Other investments	63,434	96,812	64,328
Dividends on equity securities	10,819	12,092	12,718
Deferred compensation plan assets	12,732	17,274	(6,399)
Equity in earnings of affiliates, net	5,718	2,836	2,717
Other	210	612	106
Total investment income	<u>225,101</u>	<u>319,152</u>	<u>233,789</u>
Investment expenses	<u>(3,811)</u>	<u>(3,739)</u>	<u>(3,500)</u>
Net investment income	<u>\$221,290</u>	<u>\$315,413</u>	<u>\$230,289</u>

NOTE 14. Income Taxes:

For the years ended December 31, 2020, 2019 and 2018, domestic and foreign pretax income, before noncontrolling interests, were \$850.0 million and \$73.3 million, \$857.2 million and \$47.8 million, and 571.9 million and \$37.6 million, respectively.

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Income taxes are summarized as follows:

	Year ended December 31,		
	2020	2019	2018
	(in thousands)		
Current:			
Federal	\$190,539	\$167,016	\$101,427
State	27,304	3,514	12,285
Foreign	11,613	8,486	8,990
	229,456	179,016	122,702
Deferred:			
Federal	(17,678)	11,275	4,381
State	954	1,481	299
Foreign	10,042	3,398	6,258
	(6,682)	16,154	10,938
	\$222,774	\$195,170	\$133,640

The Company's actual income taxes differ from the amounts computed by applying the federal income tax rate of 21% for the years ended December 31, 2020, 2019 and 2018. A reconciliation of these differences is as follows:

	Year ended December 31,					
	2020		2019		2018	
	(in thousands, except percentages)					
Taxes calculated at federal rate	\$193,887	21.0%	\$190,054	21.0%	\$128,003	21.0%
State taxes, net of federal benefit	22,317	2.4	18,028	2.0	9,941	1.6
Change in liability for tax positions	252	—	(13,563)	(1.5)	875	0.1
Foreign income taxed at different rates	5,162	0.6	782	0.1	7,287	1.2
Tax reform impact	—	—	—	—	(6,804)	(1.1)
Unremitted foreign earnings	(2,183)	(0.2)	2,588	0.3	(146)	—
Other items, net	3,339	0.3	(2,719)	(0.3)	(5,516)	(0.9)
	\$222,774	24.1%	\$195,170	21.6%	\$133,640	21.9%

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 24.1%, 21.6%, and 21.9% for the years ended December 31, 2020, 2019, and 2018, respectively. The effective tax rates differ from the federal statutory rate as a result of state and foreign income taxes for which the Company is liable, as well as permanent differences between amounts reported for financial statement purposes and taxable income. In addition, the effective tax rate for the year ended December 31, 2020 reflected the impairment of nondeductible goodwill relating to the Company's specialty insurance segment and a benefit from foreign tax law changes. The effective tax rate for the year ended December 31, 2019 also reflected the resolution of state tax matters from prior years. The effective tax rate for 2018 also reflected an adjustment made to the Company's initial 2017 estimates for the comprehensive tax reform legislation known as the Tax Cuts and Jobs Act.

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

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Deferred tax assets:		
Deferred revenue	\$ 9,671	\$ 7,982
Employee benefits	95,147	89,986
Bad debt reserves	7,694	5,990
Pension	34,067	26,383
Net operating loss carryforward	10,904	14,067
Foreign tax credit	6,798	6,724
Operating lease liabilities	66,244	72,119
Payroll taxes	11,464	—
Other	4,802	3,050
	<u>246,791</u>	<u>226,301</u>
Valuation allowance	(9,411)	(9,846)
	<u>237,380</u>	<u>216,455</u>
Deferred tax liabilities:		
Depreciable and amortizable assets	271,250	241,799
Claims and related salvage	89,774	104,004
Investments in affiliates	6,604	612
Securities	75,274	39,035
Operating lease assets	59,418	65,121
Unremitted foreign earnings	11,796	13,709
	<u>514,116</u>	<u>464,280</u>
Net deferred tax liability	<u>\$276,736</u>	<u>\$247,825</u>

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020. The CARES Act allows employers to defer payment of a portion of payroll taxes otherwise due on wages paid between the enactment date and December 31, 2020 and remit the deferred payroll taxes in equal amounts on December 31, 2021 and December 31, 2022. Under this provision of the CARES Act, the Company deferred \$49.4 million in payroll taxes for 2020 and has recorded the tax impact of \$11.5 million as a deferred tax asset.

The exercise of stock options and vesting of RSUs represent a tax benefit that has been reflected as a reduction of income taxes payable and a reduction of income tax expense for the years ended December 31, 2020, 2019 and 2018. The benefits recorded were \$3.8 million, \$3.2 million and \$5.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

At December 31, 2020, the Company had available a \$6.5 million foreign tax credit carryover, net of a valuation allowance. The Company expects to utilize this credit within the carryover period.

At December 31, 2020, the Company had available net operating loss carryforwards for income tax purposes totaling \$68.1 million, consisting of federal, state and foreign losses of \$1.5 million, \$34.7 million and

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\$31.9 million, respectively. Of the aggregate net operating losses, \$30.8 million has an indefinite expiration and the remaining \$37.3 million expires at various times beginning in 2021.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and makes adjustments to the allowance as necessary. The factors used by the Company to assess the likelihood of realization include its forecast of future taxable income and available tax planning strategies that could be implemented to realize its deferred tax assets. The Company's ability or failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of its deferred tax assets. At December 31, 2020 and 2019, the Company carried a valuation allowance of \$9.4 million and \$9.8 million, respectively, against its deferred tax assets. Of this amount, \$8.1 million and \$8.8 million, respectively, related to net operating losses; the remaining \$1.3 million and \$1.0 million, respectively, related to other deferred tax assets. The decrease in the overall valuation allowance during 2020 was primarily due to the release of valuation allowance previously provided against certain foreign net operating losses and other deferred tax assets. Based on future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted during the next 12 months.

As of December 31, 2020, 2019 and 2018, the liability for income taxes associated with uncertain tax positions was \$7.2 million, \$1.5 million and \$13.3 million, respectively. The increase in the liability during 2020 was primarily attributable to positions taken on the Company's tax returns for prior years, the net decrease in the liability during 2019 was primarily the result of the resolution of state tax matters from prior years, and the net increase in the liability during 2018 was attributable to new uncertain tax positions. The liabilities could be reduced by \$2.1 million, \$0.4 million, and \$3.7 million as of December 31, 2020, 2019 and 2018, respectively, due to offsetting tax benefits associated with the correlative effects of potential adjustments, including timing adjustments and state income taxes. The net liability, if recognized, would favorably affect the Company's effective income tax rate.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2020, 2019 and 2018 is as follows:

	Year ended December 31,		
	2020	2019	2018
	(in thousands)		
Unrecognized tax benefits—beginning balance	\$1,500	\$13,300	\$12,800
Gross increases (decreases)—prior period tax positions	5,000	(8,600)	—
Gross increases—current period tax positions	700	800	500
Settlements with taxing authorities	—	(4,000)	—
Unrecognized tax benefits—ending balance	<u>\$7,200</u>	<u>\$ 1,500</u>	<u>\$13,300</u>

The Company's continuing practice is to recognize interest and penalties, if any, related to uncertain tax positions in income tax expense. Accrued interest and penalties, net of tax benefits, related to uncertain tax positions were not material as of December 31, 2020 and 2019. As of December 31, 2018, the Company had accrued interest and penalties, net of tax benefits, of \$5.8 million related to uncertain tax positions.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various state jurisdictions and various non-U.S. jurisdictions. The primary non-federal jurisdictions are California, Canada, India and the United Kingdom. As of December 31, 2020, the Company is generally no longer subject to U.S. Federal income tax examinations for years prior to 2017, and, for state and non-U.S. jurisdictions, income tax examinations for years prior to 2014.

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

The Company records a liability for potential tax assessments based on its estimate of the potential exposure. New tax laws and new interpretations of laws and rulings by tax authorities may affect the liability for potential tax assessments. Due to the subjectivity and complex nature of the underlying issues, actual payments or assessments may differ from estimates. To the extent that the Company's estimates differ from actual payments or assessments, income tax expense is adjusted. The Company's income tax returns in several jurisdictions are being examined by various taxing authorities. The Company believes that adequate amounts of tax and related interest, if any, from any adjustments that may result from these examinations have been provided for.

NOTE 15. Earnings Per Share:

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

	Year ended December 31,		
	2020	2019	2018
	(in thousands, except per share data)		
Numerator			
Net income attributable to the Company	\$696,429	\$707,410	\$474,496
Denominator			
Basic weighted-average common shares	112,746	113,080	112,613
Effect of dilutive employee stock options and RSUs	274	575	666
Diluted weighted-average common shares	113,020	113,655	113,279
Net income per share attributable to the Company's stockholders			
Basic	\$ 6.18	\$ 6.26	\$ 4.21
Diluted	\$ 6.16	\$ 6.22	\$ 4.19

For the year ended December 31, 2020, 203 thousand RSUs were excluded from the weighted-average diluted common shares outstanding due to their antidilutive effect. For the years ended December 31, 2019 and 2018, RSUs excluded from diluted weighted-average common shares outstanding due to their antidilutive effect were not material. No stock options had a dilutive effect on weighted-average common shares outstanding during the year ended December 31, 2020, as all remaining stock options outstanding were exercised during the fourth quarter of 2019.

NOTE 16. Employee Benefit Plans:

The First American Financial Corporation 401(k) Savings Plan (the "Savings Plan") allows for employee-elective contributions up to the maximum amount as determined by the Internal Revenue Code. The Company makes discretionary contributions to the Savings Plan based on profitability, as well as the contributions of participants. The Savings Plan held 1.8 million shares and 2.0 million shares of the Company's common stock,

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representing 1.7% and 1.8% of the Company’s total common shares outstanding at December 31, 2020 and 2019, respectively. Effective July 1, 2015, participants in the Savings Plan can no longer make additional investments in common stock of the Company.

The Company maintains a deferred compensation plan for certain employees that allows participants to defer up to 100% of their salary, commissions and certain bonuses. Participants can allocate their deferrals among a variety of investment crediting options (known as “deemed investments”). The term deemed investments means that the participant has no ownership interest in the funds they select; the funds are only used to measure the gains or losses that will be attributed to each participant’s deferral account over time. Participants can elect to have their deferral balance paid out while they are still employed or after their employment ends. The deferred compensation plan is exempt from most provisions of the Employee Retirement Income Security Act (“ERISA”) because it is only available to a select group of management and highly compensated employees and is not a qualified employee benefit plan. To preserve the tax-deferred savings advantages of a nonqualified deferred compensation plan, federal law requires that it be unfunded or informally funded. Participant deferrals, and any earnings on those deferrals, are general unsecured obligations of the Company. The Company informally funds the deferred compensation plan through a tax-advantaged investment known as variable universal life insurance. Deferred compensation plan assets are held as an asset of the Company within a special trust, known as a “Rabbi Trust.” At December 31, 2020 and 2019, the value of the assets held in the Rabbi Trust of \$116.0 million and \$103.5 million, respectively, and the unfunded liabilities of \$131.3 million and \$115.1 million, respectively, were included in the consolidated balance sheets in other assets and pension costs and other retirement plans, respectively.

The Company also has nonqualified, unfunded supplemental benefit plans covering certain management personnel. The Executive and Management Supplemental Benefit Plans, subject to certain limitations, provide participants with maximum benefits of 30% and 15%, respectively, of average annual compensation over a fixed five-year period. Effective January 1, 2011, the plans were closed to new participants.

Certain of the Company’s subsidiaries have separate savings and employee benefit plans. Expenses related to these plans and the Company’s deferred compensation plan are included below under “other plans, net”.

The principal components of employee benefit costs are summarized as follows:

	<u>Year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in thousands)		
Expense:			
Savings plan	\$31,885	\$60,416	\$46,208
Unfunded supplemental benefit plans	9,475	8,989	9,248
Other plans, net	19,291	23,917	2,794
	<u>\$60,651</u>	<u>\$93,322</u>	<u>\$58,250</u>

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The following table summarizes the benefit obligations and funded status associated with the Company's unfunded supplemental benefit plans:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$258,793	\$236,773
Service costs	179	282
Interest costs	7,124	9,116
Actuarial losses	31,137	27,034
Benefits paid	<u>(14,448)</u>	<u>(14,412)</u>
Projected benefit obligation at end of year	<u>282,785</u>	<u>258,793</u>
Change in plan assets:		
Contributions	14,448	14,412
Benefits paid	<u>(14,448)</u>	<u>(14,412)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Reconciliation of funded status:		
Unfunded status of the plans	<u>\$282,785</u>	<u>\$258,793</u>
Amounts recognized in the consolidated balance sheet:		
Accrued benefit liability	<u>\$282,785</u>	<u>\$258,793</u>
Amounts recognized in accumulated other comprehensive income/loss:		
Unrecognized net actuarial loss	\$129,480	\$103,624
Unrecognized prior service credit	<u>(1,071)</u>	<u>(4,180)</u>
	<u>\$128,409</u>	<u>\$ 99,444</u>
Accumulated benefit obligation at end of year	<u>\$282,785</u>	<u>\$258,793</u>

Net periodic benefit costs related to the Company's unfunded supplemental benefit pension plans included the following components:

	<u>Year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(in thousands)		
Expense:			
Service costs	\$ 179	\$ 282	\$ 519
Interest costs	7,124	9,116	8,079
Amortization of net actuarial loss	5,281	3,661	4,828
Amortization of prior service credit	<u>(3,109)</u>	<u>(4,070)</u>	<u>(4,178)</u>
	<u>\$ 9,475</u>	<u>\$ 8,989</u>	<u>\$ 9,248</u>

Net actuarial loss and prior service credit for the unfunded supplemental benefit plans expected to be amortized from accumulated other comprehensive income/loss into net periodic cost over the next fiscal year include an expense of \$6.8 million and a credit of \$1.3 million, respectively.

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The weighted-average discount rate assumptions used to determine net periodic benefit costs for the Company's unfunded supplemental benefits plans for the years ended December 31, 2020, 2019 and 2018, were as follows:

	<u>Year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rates:			
Projected benefit obligation	3.27%	4.32%	3.61%
Service cost	3.71%	4.55%	3.78%
Interest cost	2.86%	4.00%	3.23%

The weighted-average discount rate assumption used to determine the projected benefit obligation for the Company's unfunded supplemental benefits plans at December 31, 2020 and 2019, was as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Discount rate	2.49%	3.27%

The discount rate assumptions used for the Company's benefit plans reflect the yield available on high-quality, fixed-income debt securities that match the expected timing of the benefit obligation payments.

The Company expects to make cash contributions of \$15.4 million to its unfunded supplemental benefit plans during 2021.

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

<u>Year</u>	<u>(in thousands)</u>
2021	\$15,417
2022	\$16,675
2023	\$16,941
2024	\$17,047
2025	\$17,095
Five years thereafter	\$80,839

NOTE 17. Fair Value Measurements:

Certain of the Company's assets are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company categorizes its assets and liabilities carried at fair value 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 Company (observable inputs) and the Company'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 the assets and liabilities is based on management's assessment of the

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transparency and reliability of the inputs used to estimate the fair values at the measurement date. The three hierarchy levels are defined as follows:

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

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

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

If the inputs used to measure fair value fall into different levels of the fair value hierarchy, the hierarchy level assigned is based upon the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis

The valuation techniques and inputs used by the Company to estimate the fair value of assets measured on a recurring basis are summarized as follows:

Debt securities

The fair values of debt securities were 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 values 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 values. 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 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.

Equity securities

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables present the fair values of the Company's assets, measured on a recurring basis, as of December 31, 2020 and 2019:

<u>(in thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2020				
Assets:				
Debt securities:				
U.S. Treasury bonds	\$ 80,846	\$ —	\$ 80,846	\$—
Municipal bonds	1,248,808	—	1,248,808	—
Foreign government bonds	199,530	—	199,530	—
Governmental agency bonds	263,922	—	263,922	—
Governmental agency mortgage-backed securities ...	3,474,618	—	3,474,618	—
U.S. corporate debt securities	680,697	—	680,697	—
Foreign corporate debt securities	406,401	—	406,401	—
	<u>6,354,822</u>	<u>—</u>	<u>6,354,822</u>	<u>—</u>
Equity securities:				
Preferred stocks	19,479	19,479	—	—
Common stocks	444,647	444,647	—	—
	<u>464,126</u>	<u>464,126</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$6,818,948</u>	<u>\$464,126</u>	<u>\$6,354,822</u>	<u>\$—</u>

<u>(in thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2019				
Assets:				
Debt securities:				
U.S. Treasury bonds	\$ 143,941	\$ —	\$ 143,941	\$—
Municipal bonds	1,090,839	—	1,090,839	—
Foreign government bonds	180,090	—	180,090	—
Governmental agency bonds	321,919	—	321,919	—
Governmental agency mortgage-backed securities ...	3,278,258	—	3,278,258	—
U.S. corporate debt securities	553,372	—	553,372	—
Foreign corporate debt securities	345,217	—	345,217	—
	<u>5,913,636</u>	<u>—</u>	<u>5,913,636</u>	<u>—</u>
Equity securities:				
Preferred stocks	18,094	18,094	—	—
Common stocks	374,224	374,224	—	—
	<u>392,318</u>	<u>392,318</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$6,305,954</u>	<u>\$392,318</u>	<u>\$5,913,636</u>	<u>\$—</u>

There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2020 and 2019. Transfers into or out of the Level 3 category occur when unobservable inputs become either more, or less, significant to the fair value measurement. The Company's policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

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Financial instruments not measured at fair value

In estimating the fair values of its financial instruments not measured at fair value, the Company used the following methods and assumptions:

Cash and cash equivalents

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

Deposits with banks

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

Notes receivable, net

The fair value of notes receivable, net is estimated based on current market rates offered for notes with similar maturities and credit quality.

Secured financings receivable

The carrying amount of secured financings receivable approximates fair value due to the short-term nature of these assets.

Secured financings payable

The carrying amount of secured financings payable approximates fair value due to the short-term nature of these liabilities.

Notes and contracts payable

The fair value of notes and contracts payable is estimated based on current rates offered for debt of similar remaining maturities.

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The following table presents the carrying amounts and estimated fair values of the Company's financial instruments not measured at fair value as of December 31, 2020 and 2019:

(in thousands)	Carrying Amount	Estimated fair value			
		Total	Level 1	Level 2	Level 3
December 31, 2020					
Assets:					
Cash and cash equivalents	\$1,275,466	\$1,275,466	\$1,275,466	\$ —	\$ —
Deposits with banks	\$ 45,856	\$ 45,947	\$ 6,092	\$ 39,855	\$ —
Notes receivable, net	\$ 29,912	\$ 30,279	\$ —	\$ —	\$30,279
Secured financings receivable	\$ 748,312	\$ 748,312	\$ —	\$ 748,312	\$ —
Liabilities:					
Secured financings payable	\$ 516,155	\$ 516,155	\$ —	\$ 516,155	\$ —
Notes and contracts payable	\$1,010,756	\$1,131,356	\$ —	\$1,125,128	\$ 6,228
(in thousands)	Carrying Amount	Estimated fair value			
		Total	Level 1	Level 2	Level 3
December 31, 2019					
Assets:					
Cash and cash equivalents	\$1,485,959	\$1,485,959	\$1,485,959	\$ —	\$ —
Deposits with banks	\$ 44,422	\$ 44,339	\$ 4,074	\$ 40,265	\$ —
Notes receivable, net	\$ 18,970	\$ 19,422	\$ —	\$ —	\$19,422
Secured financings receivable	\$ 287,459	\$ 287,459	\$ —	\$ 287,459	\$ —
Liabilities:					
Secured financings payable	\$ 278,412	\$ 278,412	\$ —	\$ 278,412	\$ —
Notes and contracts payable	\$ 728,232	\$ 761,224	\$ —	\$ 756,306	\$ 4,918

Assets measured at fair value on a non-recurring basis

The Company measures the fair value of certain assets on a non-recurring basis when events or changes in circumstances indicate that the carrying amount may not be recoverable. These assets generally include goodwill, title plants and other indexes, other intangible assets, property and equipment and cost and equity-method investments.

In connection with the Company's decision in the third quarter of 2020 to sell the property and casualty insurance business, the Company recognized impairment losses of \$34.2 million, \$17.6 million and \$3.2 million to goodwill, property and equipment and other intangible assets, respectively, for the year ended December 31, 2020. The impairment charges were determined based on fair values utilizing Level 3 unobservable inputs. See Note 2 Disposition of the Property and Casualty Insurance Business for further information on the disposition of the business.

NOTE 18. Share-Based Compensation Plans:

The First American Financial Corporation 2020 Incentive Compensation Plan (the "Incentive Compensation Plan"), effective January 22, 2020, permits the granting of stock options, stock appreciation rights, restricted stock, RSUs, performance units, performance shares and other stock-based awards. Eligible participants, which include the Company's directors and officers, as well as other employees, may elect to defer the distribution of their RSUs to a future date beyond the scheduled vesting date. At December 31, 2020, 3.5 million shares of common stock remain available to be issued from either authorized and unissued shares or previously issued

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shares acquired by the Company, subject to certain annual limits based on the type of award granted. The Incentive Compensation Plan terminates 10 years from its effective date unless previously canceled by the Company’s board of directors.

The First American Financial Corporation 2010 Employee Stock Purchase Plan (the “ESPP”) allows eligible employees the option to purchase common stock of the Company at 85% of the lower of the closing price on either the first or last day of each quarterly offering period. There were 523,000, 391,000 and 363,000 shares issued in connection with this plan for the years ended December 31, 2020, 2019 and 2018, respectively. At December 31, 2020, there were 1.1 million shares reserved for future issuances.

The following table summarizes the costs associated with the Company’s share-based compensation plans:

	Year ended December 31,		
	2020	2019	2018
	(in thousands)		
Expense:			
RSUs	\$45,387	\$38,445	\$37,597
Employee stock purchase plan	5,322	4,029	3,548
	\$50,709	\$42,474	\$41,145

The following table summarizes RSU activity for the year ended December 31, 2020:

(in thousands, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
Unvested at December 31, 2019	1,152	\$49.25
Granted during 2020	817	63.14
Vested during 2020	(1,024)	52.93
Forfeited during 2020	(40)	57.97
Unvested at December 31, 2020	905	\$57.24

As of December 31, 2020, there was \$27.4 million of total unrecognized compensation cost related to unvested RSUs that is expected to be recognized over a weighted-average period of 2.2 years. The fair value of RSUs is generally based on the market value of the Company’s shares on the date of grant. The weighted-average grant-date fair value of RSUs was \$63.14, \$51.46 and \$54.80 for the years ended December 31, 2020, 2019 and 2018, respectively. The total fair value of shares distributed for the years ended December 31, 2020, 2019 and 2018 was \$56.0 million, \$50.5 million and \$54.5 million, respectively. At December 31, 2020, 1.1 million shares were vested but not distributed.

During the year ended December 31, 2019, all remaining stock options outstanding were exercised at a weighted-average exercise price of \$27.66 with cash proceeds of \$0.8 million.

NOTE 19. Stockholders’ Equity:

In November 2020, the Company announced that its board of directors had approved a new share repurchase plan, which authorizes the repurchase of up to \$300.0 million of the Company’s common stock and of which \$242.0 million remained as of December 31, 2020. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. Also, in November 2020, the Company terminated its prior share repurchase plan which authorized the repurchase of up to \$250.0 million of

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the Company's common stock. Cumulatively, during the year ended December 31, 2020, the Company repurchased and retired, under both the current and prior authorizations, 3.2 million shares of its common stock for a total purchase price of \$138.6 million.

NOTE 20. Accumulated Other Comprehensive Income (Loss) ("AOCI"):

The following table presents a summary of the changes in each component of AOCI for the years ended December 31, 2020, 2019 and 2018:

(in thousands)	First American Financial Corporation				NCI	
	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)	Accumulated other comprehensive income (loss)	Balance
Balance at December 31, 2017	\$ 36,783	\$(38,832)	\$(65,460)	\$ (67,509)	\$ 20	\$ (67,489)
Cumulative-effect adjustment, net of taxes	(40,550)	—	—	(40,550)	—	(40,550)
Change in unrealized gains (losses) on debt securities	(49,643)	—	—	(49,643)	(18)	(49,661)
Change in foreign currency translation adjustment	—	(28,145)	—	(28,145)	—	(28,145)
Net actuarial gain	—	—	16,517	16,517	—	16,517
Amortization of net actuarial loss	—	—	4,828	4,828	—	4,828
Amortization of prior service credit	—	—	(4,178)	(4,178)	—	(4,178)
Tax effect	11,243	1,349	(4,487)	8,105	—	8,105
Balance at December 31, 2018	(42,167)	(65,628)	(52,780)	(160,575)	2	(160,573)
Change in unrealized gains (losses) on debt securities	164,221	—	—	164,221	(1)	164,220
Change in foreign currency translation adjustment	—	14,575	—	14,575	—	14,575
Net actuarial loss	—	—	(27,034)	(27,034)	—	(27,034)
Amortization of net actuarial loss	—	—	3,661	3,661	—	3,661
Amortization of prior service credit	—	—	(4,070)	(4,070)	—	(4,070)
Tax effect	(38,937)	(615)	7,282	(32,270)	—	(32,270)
Balance at December 31, 2019	83,117	(51,668)	(72,941)	(41,492)	1	(41,491)
Change in unrealized gains (losses) on debt securities	116,558	—	—	116,558	—	116,558
Change in unrealized gains (losses) on debt securities for which credit-related portion was recognized in earnings	511	—	—	511	—	511
Change in foreign currency translation adjustment	—	13,945	—	13,945	—	13,945
Net actuarial loss	—	—	(31,137)	(31,137)	—	(31,137)
Amortization of net actuarial loss	—	—	5,281	5,281	—	5,281
Amortization of prior service credit	—	—	(3,109)	(3,109)	—	(3,109)
Tax effect	(28,434)	(267)	7,685	(21,016)	—	(21,016)
Balance at December 31, 2020	<u>\$171,752</u>	<u>\$(37,990)</u>	<u>\$(94,221)</u>	<u>\$ 39,541</u>	<u>\$ 1</u>	<u>\$ 39,542</u>

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The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2020, 2019 and 2018:

	<u>Unrealized gains (losses) on securities</u>	<u>Foreign currency translation adjustment</u>	<u>Pension benefit adjustment</u>	<u>Total other comprehensive income (loss)</u>
	(in thousands)			
Year ended December 31, 2020				
Pretax change before reclassifications	\$123,930	\$ 13,945	\$(31,137)	\$106,738
Reclassifications out of AOCI	(6,861)	—	2,172	(4,689)
Tax effect	(28,434)	(267)	7,685	(21,016)
Total other comprehensive income (loss), net of tax	<u>\$ 88,635</u>	<u>\$ 13,678</u>	<u>\$(21,280)</u>	<u>\$ 81,033</u>
Year ended December 31, 2019				
Pretax change before reclassifications	\$167,992	\$ 14,575	\$(27,034)	\$155,533
Reclassifications out of AOCI	(3,772)	—	(409)	(4,181)
Tax effect	(38,937)	(615)	7,282	(32,270)
Total other comprehensive income (loss), net of tax	<u>\$125,283</u>	<u>\$ 13,960</u>	<u>\$(20,161)</u>	<u>\$119,082</u>
Year ended December 31, 2018				
Pretax change before reclassifications	\$(63,910)	\$(28,145)	\$ 16,517	\$(75,538)
Reclassifications out of AOCI	14,249	—	650	14,899
Tax effect	11,243	1,349	(4,487)	8,105
Total other comprehensive income (loss), net of tax	<u>\$(38,418)</u>	<u>\$(26,796)</u>	<u>\$ 12,680</u>	<u>\$(52,534)</u>

The following table presents the effects of the reclassifications out of AOCI on the respective line items in the consolidated statements of income:

<u>(in thousands)</u>	<u>Amounts reclassified from AOCI</u>			<u>Affected line items</u>
	<u>Year ended December 31,</u>			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	
Unrealized gains (losses) on debt securities:				
Net realized gains (losses) on sales of debt securities	\$14,435	\$ 3,772	\$(14,249)	Net realized investment gains (losses)
Credit losses recognized on debt securities	(7,574)	—	—	Net realized investment gains (losses)
Pretax total	<u>\$ 6,861</u>	<u>\$ 3,772</u>	<u>\$(14,249)</u>	
Tax effect	<u>\$(1,666)</u>	<u>\$ (894)</u>	<u>\$ 3,226</u>	
Pension benefit adjustment (1):				
Amortization of net actuarial loss	\$(5,281)	\$(3,661)	\$ (4,828)	Other operating expenses
Amortization of prior service credit	3,109	4,070	4,178	Other operating expenses
Pretax total	<u>\$(2,172)</u>	<u>\$ 409</u>	<u>\$ (650)</u>	
Tax effect	<u>\$ 576</u>	<u>\$ (109)</u>	<u>\$ 170</u>	

(1) Amounts are components of net periodic cost. See Note 16 Employee Benefit Plans for additional details.

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NOTE 21. Litigation and Regulatory Contingencies:

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.

It is, however, often not possible to assess the probability of loss. Lawsuits that are putative class actions 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 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, for 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 or one of its subsidiaries improperly charged fees for products and services, improperly performed debt collection practices, improperly handled property and casualty claims and gave items of value to builders 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:

- Antao Properties LLC vs. First American Title Insurance Company, filed on November 6, 2019 and pending in the United States District Court for the Middle District of Florida,
- Seymour vs. First American Title Insurance Company, et al., filed on January 12, 2021 and pending in the Superior Court of the State of California, County of Santa Barbara,

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- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017 and pending in the Superior Court of the State of California, County of Sacramento, and
- Wilmot vs. 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.

These lawsuits are putative class actions for which a class has not been certified; however, the appellate court has remanded the Wilmot action back for certification of a subclass. 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.

The Company and/or its subsidiaries are also parties to consumer class actions and a securities class action in connection with the information security incident that occurred during the second quarter of 2019. All of these lawsuits are putative class actions for which a class has not been certified. 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.

While some of the lawsuits described above may be material to the Company's financial 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, results of operations or cash flows.

In addition, the Company and its Board of Directors and certain executives are parties to a shareholder derivative action, Hollett vs. Gilmore, et al., filed on November 25, 2020 and pending in the United States District Court for the Central District of California. The allegations arise out of the information security incident that occurred during the second quarter of 2019 and the resulting legal proceedings and disclosures made at the time of the incident. While the ultimate disposition is not yet determinable, the Company does not believe it will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and wealth management 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 and investigations include an inquiry by the New York Attorney General and the Massachusetts Attorney General into competitive practices in the title insurance industry. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company records 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. Some of 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.

Furthermore, these exams and investigations include two investigations initiated in connection with the information security incident that occurred during the second quarter of 2019, one being conducted by the Securities and Exchange Commission ("SEC") enforcement staff and the other by the New York Department of

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Financial Services. The SEC enforcement staff is questioning the adequacy of disclosures the Company made at the time of the incident and the adequacy of its disclosure controls. In September 2020, the Company received a Wells Notice informing the Company that the enforcement staff has made a preliminary determination to recommend a filing of an enforcement action by the SEC against the Company. The Company believes that its disclosures and disclosure controls complied with the securities laws and has availed itself of the opportunity to provide a response to convince the SEC that an enforcement action is inappropriate under the circumstances. The New York Department of Financial Services has alleged violations of its cyber security requirements for financial services companies and has filed a statement of charges and scheduled an administrative hearing in connection therewith. While the ultimate dispositions of the SEC and New York Department of Financial Services matters are 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.

The Company's Canadian operations provide certain services to lenders which it believes to be exempt from excise tax under applicable Canadian tax laws. However, in October 2014, the Canadian taxing authority provided internal guidance that the services in question should be subject to the excise tax. During July 2019, the Company received an assessment from the Canadian taxing authority. The amount of the assessment is \$15.7 million, which is based on the exchange rate as of, and includes interest charges through, December 31, 2020. As the Company does not believe that the services in question are subject to excise tax, it intends to avail itself of avenues of appeal, and it believes it is reasonably likely that the Company will prevail on the merits. Accordingly, the Company filed a notice of appeal with the Canadian taxing authority in March 2020. Based on the current facts and circumstances, the Company does not believe a loss is probable, therefore no liability has been recorded.

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

NOTE 22. Business Combinations:

During the year ended December 31, 2020, the Company completed acquisitions for an aggregate purchase price of \$397.6 million, which were funded through cash on hand and additional borrowings of \$120.0 million under the Company's credit facility. For acquisitions in which the Company has not completed its purchase price allocation, preliminary fair value estimates for the assets acquired and liabilities assumed have been recorded. These acquisitions have been included in the Company's title insurance and services segment.

Current year acquisitions included the purchase of a company that provides document, eClose and fulfillment technology for the mortgage industry on March 2, 2020 for a purchase price of \$350.0 million. In connection with the purchase, the Company recorded goodwill, property and equipment and other intangible assets of \$216.4 million, \$19.0 million and \$129.0 million, respectively. The Company recognized revenues of \$69.6 million and pre-tax income of \$4.5 million since the acquisition date, related to the acquiree, during the year ended December 31, 2020. The Company expects \$121.9 million of the goodwill recorded upon acquisition to be deductible for tax purposes.

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NOTE 23. Segment Financial Information:

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

- The Company's title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant data and records; provides appraisals and other valuation-related products and services; provides lien release, document custodial and default-related products and services; and provides warehouse lending services and banking, trust and wealth management 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, the District of Columbia and certain United States territories. The Company also offers title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea 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. The majority of policy liability is in the western United States, including approximately 59% in California. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 35 states and the District of Columbia.

In the third quarter of 2020, the Company initiated a plan to sell the property and casualty insurance business. In the fourth quarter of 2020, the Company, as a result of the sale process, determined to pursue a book transfer rather than a sale. In January 2021, the Company entered into book transfer agreements with two third-party insurers, which will provide qualifying agents and customers of the Company an opportunity to transfer their policies. The Company expects the transfers to be completed by the end of the third quarter of 2022. The Company will seek to non-renew policies that are not transferred.

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

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Selected financial information about the Company's operations, by segment, for the years ended December 31, 2020, 2019 and 2018, is as follows:

	<u>Revenues</u>	<u>Depreciation and amortization</u>	<u>Equity in earnings of affiliates, net</u>	<u>Income (loss) before income taxes</u> (in thousands)	<u>Assets</u>	<u>Investments in equity method affiliates</u>	<u>Capital expenditures</u>
2020							
Title Insurance and							
Services	\$6,535,674	\$141,292	\$5,718	\$1,025,506	\$11,922,133	\$63,757	\$116,559
Specialty Insurance . . .	532,423	7,535	—	(25,284)	645,339	—	4,014
Corporate	20,760	152	—	(76,952)	737,127	—	—
Eliminations	(2,190)	—	—	—	(508,611)	—	—
	<u>\$7,086,667</u>	<u>\$148,979</u>	<u>\$5,718</u>	<u>\$ 923,270</u>	<u>\$12,795,988</u>	<u>\$63,757</u>	<u>\$120,573</u>
2019							
Title Insurance and							
Services	\$5,675,952	\$121,643	\$2,836	\$ 912,213	\$10,349,145	\$51,928	\$100,826
Specialty Insurance . . .	505,890	7,225	—	66,576	639,763	—	9,676
Corporate	21,896	153	—	(73,771)	575,051	—	—
Eliminations	(1,677)	—	—	—	(44,792)	—	—
	<u>\$6,202,061</u>	<u>\$129,021</u>	<u>\$2,836</u>	<u>\$ 905,018</u>	<u>\$11,519,167</u>	<u>\$51,928</u>	<u>\$110,502</u>
2018							
Title Insurance and							
Services	\$5,282,781	\$119,053	\$2,717	\$ 655,003	\$ 9,613,658	\$54,674	\$112,726
Specialty Insurance . . .	469,342	6,721	—	26,999	600,268	—	12,791
Corporate	(3,115)	153	—	(72,464)	431,222	—	—
Eliminations	(1,164)	—	—	—	(14,513)	—	—
	<u>\$5,747,844</u>	<u>\$125,927</u>	<u>\$2,717</u>	<u>\$ 609,538</u>	<u>\$10,630,635</u>	<u>\$54,674</u>	<u>\$125,517</u>

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	<u>Direct premiums and escrow fees</u>	<u>Agent premiums</u>	<u>Information and other</u>	<u>Net investment income</u>	<u>Net realized investment gains (losses)</u>	<u>Total Revenues</u>
	(in thousands)					
2020						
Title Insurance and Services	\$2,489,992	\$2,759,455	\$1,000,805	\$199,228	\$ 86,194	\$6,535,674
Specialty Insurance	497,533	—	13,439	9,123	12,328	532,423
	<u>\$2,987,525</u>	<u>\$2,759,455</u>	<u>\$1,014,244</u>	<u>\$208,351</u>	<u>\$ 98,522</u>	<u>\$7,068,097</u>
2019						
Title Insurance and Services	\$2,188,056	\$2,373,140	\$ 776,124	\$282,910	\$ 55,722	\$5,675,952
Specialty Insurance	471,217	—	12,742	11,249	10,682	505,890
	<u>\$2,659,273</u>	<u>\$2,373,140</u>	<u>\$ 788,866</u>	<u>\$294,159</u>	<u>\$ 66,404</u>	<u>\$6,181,842</u>
2018						
Title Insurance and Services	\$2,052,951	\$2,284,906	\$ 770,725	\$223,318	\$(49,119)	\$5,282,781
Specialty Insurance	454,718	—	11,802	10,190	(7,368)	469,342
	<u>\$2,507,669</u>	<u>\$2,284,906</u>	<u>\$ 782,527</u>	<u>\$233,508</u>	<u>\$(56,487)</u>	<u>\$5,752,123</u>

Domestic and foreign revenues from external customers, by segment, for the years ended December 31, 2020, 2019 and 2018, are as follows:

	Year Ended December 31,					
	2020		2019		2018	
	<u>Domestic</u>	<u>Foreign</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Domestic</u>	<u>Foreign</u>
	(in thousands)					
Title Insurance and Services	\$6,192,659	\$341,710	\$5,374,624	\$300,685	\$4,984,617	\$298,059
Specialty Insurance	532,423	—	505,890	—	469,342	—
	<u>\$6,725,082</u>	<u>\$341,710</u>	<u>\$5,880,514</u>	<u>\$300,685</u>	<u>\$5,453,959</u>	<u>\$298,059</u>

Domestic and foreign long-lived assets, by segment, as of December 31, 2020, 2019 and 2018, are as follows:

	December 31,					
	2020		2019		2018	
	<u>Domestic</u>	<u>Foreign</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Domestic</u>	<u>Foreign</u>
	(in thousands)					
Title Insurance and Services	\$956,569	\$59,504	\$982,397	\$65,625	\$ 994,023	\$61,615
Specialty Insurance	5,718	—	7,479	—	65,644	—
	<u>\$962,287</u>	<u>\$59,504</u>	<u>\$989,876</u>	<u>\$65,625</u>	<u>\$1,059,667</u>	<u>\$61,615</u>

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**QUARTERLY FINANCIAL DATA
(Unaudited)**

	Quarter Ended			
	March 31	June 30	September 30	December 31
(in thousands, except per share amounts)				
2020				
Revenues	\$1,412,943	\$1,608,729	\$1,913,721	\$2,151,274
Income before income taxes	\$ 72,324	\$ 225,295	\$ 243,371	\$ 382,280
Net income	\$ 63,846	\$ 171,694	\$ 183,591	\$ 281,365
Net income attributable to noncontrolling interests	\$ 642	\$ 1,039	\$ 1,312	\$ 1,074
Net income attributable to the Company	\$ 63,204	\$ 170,655	\$ 182,279	\$ 280,291
Net income per share attributable to the Company's stockholders (1):				
Basic	\$ 0.56	\$ 1.52	\$ 1.62	\$ 2.50
Diluted	\$ 0.55	\$ 1.52	\$ 1.62	\$ 2.49

	Quarter Ended			
	March 31	June 30	September 30	December 31
(in thousands, except per share amounts)				
2019				
Revenues	\$1,303,581	\$1,498,620	\$1,671,196	\$1,728,664
Income before income taxes	\$ 141,670	\$ 229,497	\$ 245,338	\$ 288,513
Net income	\$ 109,804	\$ 187,271	\$ 188,167	\$ 224,606
Net income attributable to noncontrolling interests	\$ 229	\$ 616	\$ 985	\$ 608
Net income attributable to the Company	\$ 109,575	\$ 186,655	\$ 187,182	\$ 223,998
Net income per share attributable to the Company's stockholders (1):				
Basic	\$ 0.97	\$ 1.65	\$ 1.65	\$ 1.98
Diluted	\$ 0.97	\$ 1.64	\$ 1.65	\$ 1.97

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

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**SUMMARY OF INVESTMENTS—OTHER THAN INVESTMENTS IN RELATED PARTIES
(in thousands)**

December 31, 2020

<u>Type of investment</u>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
		<u>Cost</u>	<u>Market value</u>	<u>Amount at which shown in the balance sheet</u>
Deposits with banks:				
Consolidated		\$ 45,856	\$ 45,947	\$ 45,856
Debt securities:				
U.S. Treasury bonds				
Consolidated		\$ 80,172	\$ 80,846	\$ 80,846
Municipal bonds				
Consolidated		\$1,168,425	\$1,248,808	\$1,248,808
Foreign government bonds				
Consolidated		\$ 194,042	\$ 199,530	\$ 199,530
Governmental agency bonds				
Consolidated		\$ 254,248	\$ 263,922	\$ 263,922
Governmental agency mortgage-backed securities				
Consolidated		\$3,401,737	\$3,474,618	\$3,474,618
U.S. corporate debt securities				
Consolidated		\$ 637,808	\$ 680,697	\$ 680,697
Foreign corporate debt securities				
Consolidated		\$ 384,572	\$ 406,401	\$ 406,401
Total debt securities:				
Consolidated		\$6,121,004	\$6,354,822	\$6,354,822
Equity securities:				
Consolidated		\$ 376,320	\$ 464,126	\$ 464,126
Notes receivable, net:				
Consolidated		\$ 29,912	\$ 30,279	\$ 29,912
Other investments:				
Consolidated		\$ 320,104	\$ 320,104(1)	\$ 320,104
Total investments:				
Consolidated		\$6,893,196	\$7,215,278	\$7,214,820

(1) As other investments are not publicly traded, estimates of fair value could not be made without incurring excessive costs.

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)

CONDENSED BALANCE SHEETS
(in thousands, except par values)

	December 31,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 206,933	\$ 341,691
Dividends receivable	30,000	—
Due from subsidiaries, net	284,929	47,798
Income taxes receivable	951	10,967
Investment in subsidiaries	5,945,820	5,215,056
Other investments	94,001	77,000
Deferred income taxes	14,484	18,283
Other assets	120,718	109,228
	\$6,697,836	\$5,820,023
Liabilities and Equity		
Accounts payable and other accrued liabilities	\$ 22,871	\$ 19,455
Pension costs and other retirement plans	415,796	376,393
Income taxes payable	53,784	25,475
Deferred income taxes	291,220	266,108
Notes and contracts payable	992,517	707,590
	1,776,188	1,395,021
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, \$0.00001 par value; Authorized—300,000 shares; Outstanding—110,353 shares and 112,476 shares	1	1
Additional paid-in capital	2,214,935	2,300,926
Retained earnings	2,655,495	2,161,049
Accumulated other comprehensive income (loss)	39,541	(41,492)
Total stockholders' equity	4,909,972	4,420,484
Noncontrolling interests	11,676	4,518
Total equity	4,921,648	4,425,002
	\$6,697,836	\$5,820,023

See Notes to Condensed Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)
CONDENSED STATEMENTS OF INCOME
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Revenues:			
Dividends from subsidiaries	\$603,900	\$384,799	\$394,742
Other income (losses)	14,017	21,660	(2,986)
Net realized investment gains	6,515	—	—
	624,432	406,459	391,756
Expenses:			
Other expenses	68,830	66,984	40,415
Income before income taxes and equity in undistributed earnings of subsidiaries	555,602	339,475	351,341
Income taxes	134,060	73,209	77,031
Equity in undistributed earnings of subsidiaries	278,954	443,582	201,588
Net income	700,496	709,848	475,898
Less: Net income attributable to noncontrolling interests	4,067	2,438	1,402
Net income attributable to the Company	\$696,429	\$707,410	\$474,496

See Notes to Condensed Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Net income	\$700,496	\$709,848	\$475,898
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities	88,248	125,283	(38,418)
Unrealized gains on debt securities for which credit-related portion was recognized in earnings	387	—	—
Foreign currency translation adjustment	13,678	13,960	(26,796)
Pension benefit adjustment	(21,280)	(20,161)	12,680
Total other comprehensive income (loss), net of tax	81,033	119,082	(52,534)
Comprehensive income	781,529	828,930	423,364
Less: Comprehensive income attributable to noncontrolling interests	4,067	2,437	1,384
Comprehensive income attributable to the Company	\$777,462	\$826,493	\$421,980

See Notes to Condensed Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Cash provided by operating activities	\$ 600,217	\$ 356,116	\$ 381,516
Cash flows from investing activities:			
Net cash effect of acquisitions	—	(14,845)	(67,061)
Net payments to subsidiaries	(668,068)	(58,193)	(19,676)
Investments in unconsolidated entities	(19,000)	(77,000)	—
Net change in other investments	63	—	—
Proceeds from sales of property and equipment	6,849	—	—
Cash used for investing activities	(680,156)	(150,038)	(86,737)
Cash flows from financing activities:			
Net proceeds from issuance of unsecured senior notes	443,936	—	—
Borrowings under unsecured credit facility	120,000	160,000	—
Repayments of borrowings under unsecured credit facility	(280,000)	(160,000)	—
Net payments in connection with share-based compensation	(1,489)	(1,187)	(4,105)
Repurchases of Company shares	(138,603)	(2,066)	(18,801)
Payments of cash dividends	(198,663)	(188,440)	(178,487)
Cash used for financing activities	(54,819)	(191,693)	(201,393)
Net (decrease) increase in cash and cash equivalents	(134,758)	14,385	93,386
Cash and cash equivalents—Beginning of period	341,691	327,306	233,920
Cash and cash equivalents—End of period	\$ 206,933	\$ 341,691	\$ 327,306

See Notes to Condensed Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. Description of the Company:

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

NOTE 2. Dividends Received:

The holding company received cash dividends from subsidiaries of \$573.9 million, \$384.8 million and \$394.4 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)**

BALANCE SHEET CAPTIONS

<u>Segment</u>	<u>Column A</u>	<u>Column B</u> Deferred policy acquisition costs	<u>Column C</u> Claims reserves	<u>Column D</u> Deferred revenues
2020				
Title Insurance and Services		\$ 206	\$1,090,362	\$ 5,400
Specialty Insurance		35,075	87,642	266,577
Total		<u>\$35,281</u>	<u>\$1,178,004</u>	<u>\$271,977</u>
2019				
Title Insurance and Services		\$ 187	\$ 987,376	\$ 7,058
Specialty Insurance		32,927	75,668	245,273
Total		<u>\$33,114</u>	<u>\$1,063,044</u>	<u>\$252,331</u>

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)**

INCOME STATEMENT CAPTIONS

<u>Column A</u>	<u>Column F</u>	<u>Column G</u>	<u>Column H</u>	<u>Column I</u>	<u>Column J</u>	<u>Column K</u>
<u>Segment</u>	<u>Premiums and escrow fees</u>	<u>Net investment income (1)</u>	<u>Loss provision</u>	<u>Amortization of deferred policy acquisition costs (credits)</u>	<u>Other operating expenses</u>	<u>Premiums written</u>
2020						
Title Insurance and Services	\$5,249,447	\$285,422	\$262,456	\$ —	\$ 999,701	\$ —
Specialty Insurance	497,533	21,451	317,051	(2,148)	83,104	519,946
Corporate	—	20,760	—	—	37,187	—
Eliminations	—	(1,306)	—	—	(884)	—
Total	<u>\$5,746,980</u>	<u>\$326,327</u>	<u>\$579,507</u>	<u>\$(2,148)</u>	<u>\$1,119,108</u>	<u>\$519,946</u>
2019						
Title Insurance and Services	\$4,561,196	\$338,632	\$182,450	\$ —	\$ 805,480	\$ —
Specialty Insurance	471,217	21,931	263,590	(537)	80,705	482,056
Corporate	—	21,896	—	—	38,148	—
Eliminations	—	(642)	—	—	(1,035)	—
Total	<u>\$5,032,413</u>	<u>\$381,817</u>	<u>\$446,040</u>	<u>\$(537)</u>	<u>\$ 923,298</u>	<u>\$482,056</u>
2018						
Title Insurance and Services	\$4,337,857	\$174,199	\$173,520	\$ (125)	\$ 793,364	\$ —
Specialty Insurance	454,718	2,822	279,113	(1,138)	74,025	459,098
Corporate	—	(3,115)	—	—	33,879	—
Eliminations	—	(104)	—	—	(1,060)	—
Total	<u>\$4,792,575</u>	<u>\$173,802</u>	<u>\$452,633</u>	<u>\$(1,263)</u>	<u>\$ 900,208</u>	<u>\$459,098</u>

(1) Includes net investment income and net realized investment gains (losses).

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

REINSURANCE
(in thousands, except percentages)

<u>Segment</u>	<u>Premiums and escrow fees before reinsurance</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Premiums and escrow fees</u>	<u>Percentage of amount assumed to premiums and escrow fees</u>
Title Insurance and Services					
2020	\$5,264,868	\$15,839	\$ 418	\$5,249,447	0.0%
2019	\$4,573,715	\$13,103	\$ 584	\$4,561,196	0.0%
2018	\$4,353,130	\$16,398	\$1,125	\$4,337,857	0.0%
Specialty Insurance					
2020	\$ 507,414	\$ 9,881	\$ —	\$ 497,533	0.0%
2019	\$ 482,820	\$11,603	\$ —	\$ 471,217	0.0%
2018	\$ 466,245	\$11,527	\$ —	\$ 454,718	0.0%

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Year Ended December 31, 2020

<u>Description</u>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u> <u>Additions</u>		<u>Column D</u>	<u>Column E</u>
		<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Charged to other accounts</u>	<u>Deductions from reserve</u>	<u>Balance at end of period</u>
Reserve deducted from accounts receivable:						
Consolidated		\$ 12,676	\$ 6,640	\$ —	\$ 5,322(1)	\$ 13,994
Reserve for known and incurred but not reported claims:						
Consolidated		\$1,063,044	\$579,507	\$6,787	\$471,334(2)	\$1,178,004
Reserve deducted from notes receivable:						
Consolidated		\$ 343	\$ —	\$ —	\$ —	\$ 343
Reserve deducted from deferred income taxes:						
Consolidated		\$ 9,846	\$ —	\$ —	\$ 435	\$ 9,411

(1) Amount represents accounts written off, net of recoveries.

(2) Amount represents claim payments, net of recoveries.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Year Ended December 31, 2019

<u>Description</u>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
		<u>Balance at beginning of period</u>	<u>Additions</u>		<u>Deductions from reserve</u>	<u>Balance at end of period</u>
			<u>Charged to costs and expenses</u>	<u>Charged to other accounts</u>		
Reserve deducted from accounts receivable:						
Consolidated		\$ 14,470	\$ 4,125	\$ —	\$ 5,919(1)	\$ 12,676
Reserve for known and incurred but not reported claims:						
Consolidated		\$1,042,679	\$446,040	\$(10,354)	\$415,321(2)	\$1,063,044
Reserve deducted from notes receivable:						
Consolidated		\$ 343	\$ —	\$ —	\$ —	\$ 343
Reserve deducted from deferred income taxes:						
Consolidated		\$ 10,621	\$ —	\$ —	\$ 775	\$ 9,846

(1) Amount represents accounts written off, net of recoveries.

(2) Amount represents claim payments, net of recoveries.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Year Ended December 31, 2018

<u>Description</u>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
		<u>Balance at beginning of period</u>	<u>Additions</u>		<u>Deductions from reserve</u>	<u>Balance at end of period</u>
			<u>Charged to costs and expenses</u>	<u>Charged to other accounts</u>		
Reserve deducted from accounts receivable:						
Consolidated		\$ 14,771	\$ 5,039	\$ —	\$ 5,340(1)	\$ 14,470
Reserve for known and incurred but not reported claims:						
Consolidated		\$1,028,933	\$452,633	\$11,869	\$450,756(2)	\$1,042,679
Reserve deducted from notes receivable:						
Consolidated		\$ 510	\$ 167	\$ —	\$ 334	\$ 343
Reserve deducted from deferred income taxes:						
Consolidated		\$ 10,333	\$ 288	\$ —	\$ —	\$ 10,621

(1) Amount represents accounts written off, net of recoveries.

(2) Amount represents claim payments, net of recoveries.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have concluded that, as of December 31, 2020, the end of the fiscal year covered by this Annual Report on Form 10-K, the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) thereunder.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework (2013)*. Based on that assessment under the framework in *Internal Control—Integrated Framework (2013)*, management determined that, as of December 31, 2020, the Company's internal control over financial reporting was effective.

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

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2020, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

On February 11, 2021, the Company entered into amended and restated employment agreements with Dennis J. Gilmore, Kenneth D. DeGiorgio, Christopher M. Leavell and Mark E. Seaton. Pursuant to the

amendments, the term of each of the revised agreements was extended by one year and now expires on December 31, 2023. Each of the revised agreements incorporates the executive's base salary at the time of the approval of the extension. The description of the amended and restated employment agreements provided herein is qualified in its entirety by reference to the employment agreements, which are attached hereto as Exhibits 10.7 to 10.10.

On February 11, 2021, the Company entered into a change-in-control agreement, on substantially the same terms as the Company's named executive officers, with Steven A. Adams, the Company's principal accounting officer, to provide for certain benefits in the event Mr. Adams' employment is terminated following a change-in-control of the Company. Pursuant to the agreement, if the termination of Mr. Adams' employment occurs without cause or if Mr. Adams terminates his employment for good reason within 36 months following a change-in-control or within six months preceding a change-in-control at the request of a third party who had the intention of effectuating the change-in-control, the Company is required to pay the following benefits in one lump sum within ten business days:

- base salary through and including the date of termination and any accrued but unpaid annual incentive bonus;
- an annual incentive bonus for the year in which the termination occurs in an amount equal to the target bonus for the year of termination (or if there is no target annual incentive bonus or under certain other specified circumstances, the average of the annual incentive bonuses paid for the three prior years), prorated through the date of termination;
- accrued and unpaid vacation pay;
- unreimbursed business expenses;
- two times Mr. Adams' annual base salary in effect immediately prior to the termination; and
- two times Mr. Adams' target bonus (or if there is no target annual incentive bonus or under certain other specified circumstances, two times the average of the annual incentive bonuses paid for the three prior years).

In addition, for a period of 24 months following the date on which Mr. Adams' employment terminates, the Company will provide the same level of benefits and perquisites that he received at the time of termination or, if more favorable to Mr. Adams, at the time at which the change-in-control occurred. These benefits include tax-qualified and nonqualified savings plan benefits (excluding, however, any supplemental benefit plans), medical insurance, disability income protection, life insurance coverage and death benefits. To the extent that Mr. Adams cannot participate in the plans previously available, the Company will provide such benefits (or a cash equivalent) on the same after-tax basis as if they had been available. These obligations are reduced by any welfare benefits made available to Mr. Adams from subsequent employers.

If the amount payable under the agreement, together with other payments and benefits, would constitute an "excess parachute payment" under the Internal Revenue Code and, consequently, be subject to excise tax, the agreement provides for a reduction in the amount payable to that amount that would result in the elimination of the excise tax, provided that the reduced amount exceeds the amount Mr. Adams would receive if the excise tax had been applied.

The initial term of the agreement will expire on December 31, 2021; however, it will automatically extend for additional one-year periods unless either party notifies the other not later than the preceding January 1 that it does not wish to extend the term.

The foregoing summary of the agreement is not complete and is qualified in its entirety by reference to the form of the agreement, attached hereto as Exhibit 10.11.

PART III

The information required by Items 10 through 14 of this report is expected to be set forth in the definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2020 for the Company's upcoming 2021 meeting of stockholders (the "2021 Proxy Statement"). If the 2021 Proxy Statement is not filed within 120 days after the fiscal year ended December 31, 2020, the Company will file an amendment to this Annual Report on Form 10-K to include the information required by Items 10 through 14.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be set forth under the captions "Information Regarding the Nominees for Election," "Information Regarding the Other Incumbent Directors," "Executive Officers," "Delinquent Section 16(a) Reports," if any, "Code of Ethics" and "Board and Committee Meetings" in the 2021 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be set forth under the captions "Executive Compensation," "Compensation Discussion and Analysis," "Executive Compensation Tables," "Director Compensation," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the 2021 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth under the captions "Securities Authorized for Issuance under Equity Compensation Plans," "Who are the largest principal stockholders outside of management?" and "Security Ownership of Management" in the 2021 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be set forth under the captions "Independence of Directors" and "Transactions with Management and Others" in the 2021 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be set forth under the captions "Principal Accountant Fees and Services" and "Policy on Audit Committee Pre-approval of Audit and Permissible Nonaudit Services of Independent Auditor" in the 2021 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

The Financial Statements and Financial Statement Schedules filed as part of this report are listed in the accompanying index at page 56 in Item 8 of Part II of this report.

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

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed June 1, 2010.
3.2	Bylaws of First American Financial Corporation, amended and restated effective as of August 16, 2017.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed August 22, 2017.
4.1	Description of the Registrant's Securities.	Attached.
4.2	Indenture, dated as of January 24, 2013, between First American Financial Corporation and U.S. Bank National Association, as Trustee.	Incorporated by reference herein to Exhibit 4.1 to the Form S-3ASR filed January 24, 2013.
4.3	First Supplemental Indenture, dated as of January 29, 2013, between First American Financial Corporation and U.S. Bank National Association, as Trustee.	Incorporated by reference herein to Exhibit 4.2 to the Current Report on Form 8-K filed January 29, 2013.
4.4	Second Supplemental Indenture, dated as of November 10, 2014, between First American Financial Corporation and U.S. Bank National Association, as Trustee.	Incorporated by reference herein to Exhibit 4.2 to the Current Report on Form 8-K filed November 10, 2014.
4.4	Third Supplemental Indenture, dated as of May 15, 2020, between First American Financial Corporation and U.S. Bank National Association, as Trustee.	Incorporated by reference herein to Exhibit 4.2 to the Current Report on Form 8-K filed May 15, 2020.
4.5	Form of 4.30% Senior Notes due 2023.	Incorporated by reference herein to Exhibit A of Exhibit 4.2 to the Current Report on Form 8-K filed January 29, 2013.
4.6	Form of 4.60% Senior Notes due 2024.	Incorporated by reference herein to Exhibit A of Exhibit 4.2 to the Current Report on Form 8-K filed November 10, 2014.
4.6	Form of 4.00% Senior Notes due 2030.	Incorporated by reference herein to Exhibit A to Exhibit 4.2 to the Current Report on Form 8-K filed May 15, 2020.
10.1	Separation and Distribution Agreement by and between The First American Corporation (n/k/a CoreLogic, Inc.) and First American Financial Corporation dated as of June 1, 2010.	Incorporated by reference herein to Exhibit 10.1 to the Current Report on Form 8-K filed June 1, 2010.
10.2	Credit Agreement dated as of April 30, 2019, among First American Financial Corporation, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	Incorporated by reference herein to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.
*10.3	First American Financial Corporation Executive Supplemental Benefit Plan, amended and restated effective as of January 1, 2011.	Incorporated by reference herein to Exhibit 10.12 to the Annual Report on Form 10-K for the year ended December 31, 2010.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
*10.3.1	Amendment No. 1, dated January 21, 2015, to First American Financial Corporation Executive Supplemental Benefit Plan.	Incorporated by reference herein to Exhibit 10.5.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.
*10.4	First American Financial Corporation Deferred Compensation Plan, amended and restated effective as of January 1, 2012.	Incorporated by reference herein to Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2011.
*10.4.1	First Amendment, effective July 1, 2015, to the First American Financial Corporation Deferred Compensation Plan.	Incorporated by reference herein to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
*10.4.2	Second Amendment, effective July 1, 2017, to the First American Financial Corporation Deferred Compensation Plan.	Incorporated by reference herein to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.
*10.5	First American Financial Corporation 2010 Incentive Compensation Plan, amended and restated effective as of February 4, 2019.	Incorporated by reference herein to Exhibit 10.6 to the 10-K for the fiscal year ended December 31, 2018.
*10.5.1.	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 21, 2020.	Incorporated by reference herein to Exhibit 10.6.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019.
*10.5.2	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 17, 2017.	Incorporated by reference herein to Exhibit 10.6.9 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2016.
*10.5.3	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 23, 2018.	Incorporated by reference herein to Exhibit 10.6.9 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
*10.5.4	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved February 4, 2019.	Incorporated by reference herein to Exhibit 10.6.9 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.
*10.5.5	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 21, 2020.	Incorporated by reference herein to Exhibit 10.6.7 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019.
*10.5.6	Form of Notice of Performance Unit Grant and Performance Unit Award Agreement, approved January 21, 2020.	Incorporated by reference to Exhibit 10.6.9 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019.
*10.6	First American Financial Corporation 2020 Incentive Compensation Plan, approved May 5, 2020.	Incorporated by reference herein to Appendix B to the Proxy Statement on Schedule 14A filed March 31, 2020.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
*10.6.1	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 19, 2021.	Attached.
*10.6.2	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 19, 2021.	Attached.
*10.7	Employment Agreement, dated February 11, 2021, between First American Financial Corporation and Dennis J. Gilmore.	Attached.
*10.8	Employment Agreement, dated February 11, 2021, between First American Financial Corporation and Kenneth D. DeGiorgio.	Attached.
*10.9	Employment Agreement, dated February 11, 2021, between First American Financial Corporation and Christopher M. Leavell.	Attached.
*10.10	Employment Agreement, dated February 11, 2021, between First American Financial Corporation and Mark E. Seaton.	Attached.
*10.11	First American Financial Corporation Form of Amended and Restated Change in Control Agreement as of December 31, 2010.	Incorporated by reference herein to Exhibit 10(c) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.
21	Subsidiaries of the registrant.	Attached.
23	Consent of Independent Registered Public Accounting Firm.	Attached.
31(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
31(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
32(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
32(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	N/A.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	N/A.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

FIRST AMERICAN FINANCIAL CORPORATION
(Registrant)

By /s/ DENNIS J. GILMORE

Dennis J. Gilmore
Chief Executive Officer
(Principal Executive Officer)

Date: February 16, 2021

By /s/ MARK E. SEATON

Mark E. Seaton
Executive Vice President,
Chief Financial Officer
(Principal Financial Officer)

Date: February 16, 2021

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ DENNIS J. GILMORE </u> Dennis J. Gilmore	Chief Executive Officer and Director (Principal Executive Officer)	February 16, 2021
<u> /s/ MARK E. SEATON </u> Mark E. Seaton	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	February 16, 2021
<u> /s/ STEVEN A. ADAMS </u> Steven A. Adams	Chief Accounting Officer (Principal Accounting Officer)	February 16, 2021
<u> /s/ PARKER S. KENNEDY </u> Parker S. Kennedy	Chairman of the Board of Directors	February 16, 2021
<u> /s/ JAMES L. DOTI </u> James L. Doti	Director	February 16, 2021
<u> /s/ REGINALD H. GILYARD </u> Reginald H. Gilyard	Director	February 16, 2021
<u> /s/ MARGARET M. MCCARTHY </u> Margaret M. McCarthy	Director	February 16, 2021

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL D. MCKEE</u> Michael D. McKee	Director	February 16, 2021
<u>/s/ THOMAS V. MCKERNAN</u> Thomas V. McKernan	Director	February 16, 2021
<u>/s/ MARK C. OMAN</u> Mark C. Oman	Director	February 16, 2021
<u>/s/ MARTHA B. WYRSCH</u> Martha B. Wyrsh	Director	February 16, 2021



*First American
Financial Corporation*

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