



*First American
Financial Corporation*

2022 ANNUAL REPORT

**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, 2022

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
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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, 2022 was \$5,358,609,470. On February 8, 2023, there were 103,133,334 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement with respect to the 2023 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 CONDITIONS OF THE REAL ESTATE MARKETS;*
- VOLATILITY IN THE CAPITAL MARKETS;*
- UNFAVORABLE ECONOMIC CONDITIONS;*
- IMPAIRMENTS IN THE COMPANY’S GOODWILL OR OTHER INTANGIBLE ASSETS;*
- FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;*
- 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 OR VENTURE 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 OR USE OF MODELS;*
- 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;*
- FAILURES TO RECRUIT AND RETAIN QUALIFIED PERSONNEL;*

- *THE COMPANY'S USE OF A GLOBAL WORKFORCE;*
- *INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;*
- *INABILITY TO REALIZE ANTICIPATED SYNERGIES OR PRODUCE RETURNS THAT JUSTIFY INVESTMENT IN ACQUIRED BUSINESSES;*
- *CHANGES IN THE COMPOSITION OF DEPOSITS AT THE COMPANY'S FEDERAL SAVINGS BANK SUBSIDIARY; 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 traces its heritage back to 1889. On June 1, 2010, its common stock was listed on the New York Stock Exchange under the ticker symbol “FAF.” First American’s executive offices are located at 1 First American Way, Santa Ana, California 92707-5913 and its telephone number is (714) 250-3000.

Unless otherwise indicated or otherwise required by the context, the terms “we,” “our,” “it,” “its,” “Company” and “First American” refer to First American Financial Corporation and its subsidiaries.

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 the Company’s proprietary databases. In addition, the segment provides banking, trust, warehouse lending, mortgage subservicing and wealth management services. The specialty insurance segment sells home warranty products and contains the remaining operations of our property and casualty insurance business, which is in the final stages of its wind-down. In addition, our corporate segment consists of certain financing facilities, our venture investment portfolio and 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.

Our strategy is to profitably grow our core title insurance and settlement services business, expand our data advantage to strengthen our core business and pursue growth opportunities, and manage and actively invest in complementary businesses where the Company has a strategic advantage. We are focused on continued improvement of our customers’ experiences with our products, services and solutions, including through digital transformations, and on enhancing our services offered to our customers. 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 production and delivery of our products and services. These efforts include streamlining the title and closing processes by converting certain manual processes into automated ones. Part of our growth strategy involves acquiring companies that expand our market share, enhance our data capabilities, provide us with technological capabilities or complement our businesses. Our growth strategy also involves making venture investments in companies within the real-estate industry and related industries, many of which offer technology-enabled products and services. In addition to potential financial benefits, these venture investments are typically made to give us insight into potentially high-growth, innovative companies and to facilitate strategic partnerships. We remain committed to efficiently managing our business to market conditions throughout business cycles and to deploying our capital to maximize stockholder returns.

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; provides warehouse lending services; subservices mortgage loans; and provides banking, trust and wealth management services. In 2022, 2021 and 2020, the Company derived 99.2%, 90.2% and 92.2%, 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, and the policies typically include the duty to defend against claimed title defects. 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 owners 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 owner 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 an owner 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. Increasingly, title insurance policies are being underwritten utilizing automated decisioning tools based, in whole or in part, on alternative information sources. 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 sales, underwriting (including the costs associated with searching and examining title and with the curative process), information technology and administrative costs. 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 and a title insurance company or an agent has determined the current status of the title to the property to its satisfaction, 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, in certain circumstances, 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 owner in the amount of the purchase price. 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 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 owner and the owner’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. Generally, 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, New Zealand, 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 particular 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 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 generally 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 principals, developers, and investors; real estate investment trusts; law firms; commercial lenders; life insurance companies; commercial brokers and mortgage brokers. Our marketing efforts emphasize our product offerings, the quality and timeliness of our services, our financial strength, process and product 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 and service offerings, including product innovations. 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 5.5% of our title insurance and services segment revenues in 2022. Today we have direct operations and a physical presence in several countries, including Canada, the United Kingdom, South Korea, Australia and New Zealand. 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. These title plants support not only our title insurance operations, but we also license this data to third parties, including competing title companies and agents.

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., Old Republic International Corporation, Stewart Title Guaranty Company, and their affiliates. In addition to these national competitors, other nationwide, regional and local competitors aggressively compete. Numerous agency operations throughout the country also provide aggressive competition. 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, 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, identity verification, compliance and valuation that are powered by our extensive collection of property information, 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, 2022, the bank administered fiduciary and custody assets having a market value of \$4.1 billion, which includes managed assets of \$2.0 billion. The bank's balance sheet had assets of \$6.7 billion, with deposits of \$6.6 billion and stockholder's equity of \$28 million. The bank's deposits consist almost entirely of funds deposited by its affiliates, the majority of which are from third parties to be held in trust pending the closing of real estate transactions, but an increasing proportion of which are custodial funds held on behalf of clients of our mortgage loan subservicer subsidiary. 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 provided automobile, homeowners and renters coverage for liability losses and typical hazards such as fire, theft, vandalism and other types of property damage. This business was substantially wound down in the third quarter of 2022. Four renters policies remained in force as of December 31, 2022.

Corporate Segment

Our corporate segment consists primarily of certain financing facilities, our venture investment portfolio and the corporate services that support our business operations. Our venture investment portfolio consists primarily of investments in the equity of private venture-stage companies that operate in the real-estate industry and related industries (many of which offer technology-enabled products and services), investments in funds that typically invest in these same types of companies, and a similar investment that is trading publicly. While we hope to realize financial benefits from these venture investments, we make and hold these investments primarily for strategic reasons.

Innovation and Intellectual Property

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 production and delivery of our products and services. These efforts include streamlining and enhancing the closing process, 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. We increasingly are employing advanced technologies to automate various internal processes, including processes related to the building and maintaining 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.

We strive to align our intellectual property strategy with our business strategy and our technology development efforts. We rely 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 issued patents 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. In addition, we have developed a number of proprietary trade secrets that we believe provide us with a competitive advantage.

Human Capital Resources

As of December 31, 2022, the Company employed 21,153 employees, with 13,821 of them located in the United States and 7,332 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 attract and 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 seven years, the Best Workplaces[™] in Canada list for the last eight years, as well as a number of similar lists in local or specialized areas. In addition, we have been recognized on the Fortune[®] Best Workplaces for Women[™] and Great Place to Work[®] list for Best Workplaces for Women for the seventh year in a row and we earned a top score of 100 on the Human Rights Campaign Foundation's 2023 Corporate Equality Index for the fifth consecutive year. We have implemented many professional development programs to build and strengthen the skill sets of our employees. Reflecting our perspective on the benefits of a diverse workforce, we have a Diversity, Equity and Inclusion (DEI) Council, which is focused on the development of employee-centered actions to enhance the recruitment, engagement, development, and retention of diverse employees. The DEI Council has also formed and continues to form employee resource groups that are organized around particular interests, affiliations or affinities.

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 an insurance holding company, a savings and loan holding company, a publicly-traded company, a Delaware corporation and a corporation that has its principal executive offices in California.

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. Each of our insurers is also 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 and branches of First American Title Insurance Company that operate in Canada, Australia, New Zealand, the United Kingdom, Malta, South Korea and Hong Kong 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 require the Company to maintain certain information security standards and practices. Other laws and regulations regulate the manner in which the Company collects, uses, retains, protects, discloses, transfers, and processes personal data.

In addition to state-level regulation, our domestic subsidiaries that operate in the insurance business, as well as our home warranty, mortgage servicing and subservicing, 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 and the Truth in Lending 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 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 vast majority of our investments are held within a debt securities and marketable equity securities portfolio overseen by our investment department and an investment committee made up of certain senior executives. Members of that investment committee sometimes function in a dual capacity to also provide oversight for certain of our regulated subsidiaries that have their own designated investment committees for their investments within this investment portfolio. The investment committee oversees investment portfolio activities, such as policy setting, compliance reporting, portfolio reviews, and strategy. The Company's investment portfolio 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 portfolio policies further provide that these investments are to be managed to maximize long-term returns consistent with liquidity, regulatory and risk objectives, and that these investments should not expose the Company to excessive levels of credit, liquidity, and interest rate risks.

As of December 31, 2022, 97% of our investment portfolio consisted of debt securities. As of that date, 67% 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.

Independent of this investment portfolio and its management, we maintain our venture capital portfolio, certain money-market and other short-term investments, and other 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. This is especially the case with respect to the Company's operations outside of the United States and recently acquired businesses, which may not be fully integrated into the Company's risk management framework. 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 underwriting and other 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 utilizing innovative technologies, processes and techniques in the production and delivery of its products and services. These efforts include converting certain manual processes into automated ones to streamline searches, examinations and other underwriting functions in connection with the issuance of title insurance policies, building and maintaining title plants and other data assets, and digitizing and automating components of the settlement process. The Company believes these innovations will improve the customer experience by simplifying and reducing the time it takes to close a transaction, reducing risk and improving communication, and expects to continue expanding its use of these 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, rules or assumptions that may prove inadequate; information security vulnerabilities; 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, investments 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 Company's products and services. The Company's investments in some of these participants 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.

OPERATIONAL RISK FACTORS

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

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 typically 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;
- when real estate affordability is declining;
- when real estate inventory levels are insufficient or declining; and
- when economic conditions are unfavorable, including during periods of high unemployment.

Certain of 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. National inventory levels for residential have been declining over the past several years and remain below historical average levels. Combined with the rapidly rising mortgage interest rates in 2022 that have decreased demand, the number of residential purchase transactions have declined. Residential refinance activity is also strongly correlated with changes in mortgage interest rates and rising mortgage rates during 2022 have, expectedly, had an adverse impact on the Company's refinance business that is expected to continue for so long as mortgage rates continue to rise or if they subsequently remain high relative to the interest rates of outstanding mortgages. Higher interest rates also negatively impacted commercial transactions in the latter half of 2022 and will likely continue to impact our volumes in 2023.

5. 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. These conditions also tend to negatively impact the amount of funds the Company receives from third parties 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. In addition, the Company holds investments in entities, such as title agencies, settlement service providers and venture-stage companies, 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.

The Company may not be able to accurately predict the effects of periods or expectations of high or rapidly rising inflation rates, and governmental responses thereto, and may not respond in a timely or adequate manner to mitigate the negative effects of such inflation, such as decreases in the demand for the Company's products and services, higher labor and other expenses, and, as experienced during 2021 and 2022 due to inflation and supply shortages, higher home warranty claims severity.

Depending upon the ultimate severity and duration of any economic downturn and other negative economic conditions, the resulting effects on the Company could be materially adverse, including a significant reduction in revenues, earnings and cash flows, higher claims, challenges to the Company's ability to satisfy covenants or otherwise meet its obligations under debt facilities and other contracts, 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.

6. The Company's use of models involves risks and uncertainties that could adversely affect the Company

The Company utilizes models to support decisions related to risk management, capital and liquidity planning, financial accounting, data extraction and other business purposes. Models are, by their nature, inherently limited due to their reliance on statistical, economic, financial or mathematical theories, techniques, data and assumptions that may be erroneous or inappropriate for the intended or actual use. Flawed models or uses of models may result in, among other consequences, erroneous or misleading outputs, inappropriate business decisions, inadequate risk management or enhanced regulatory supervision, which could have a material adverse effect on the Company's results of operations, financial condition and reputation.

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 and responses to these events could adversely affect the Company. The extent to which these catastrophe events and responses to them impact 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 catastrophe event and restrictions and responses to it; the impact of the catastrophe event on economic activity and actions taken in response, including the efficacy of governmental and other relief efforts or countermeasures; the effect on participants in real estate transactions and the demand for the Company's products and services.

The Company's home warranty business has been and may be impacted by increases in the frequency of severe weather events. 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. In response to the coronavirus pandemic, the Company made changes to the way it conducted business, including by altering certain underwriting practices, production processes, employee working arrangements and employee engagement efforts. Some of these changes have altered employee, client and other expectations and are expected to alter the way the Company conducts business and engages with its employees over an extended period of time, and, in some cases, permanently. Certain of these changes could result in increased claims and expose the Company to other risks. In addition, the Company manages its financial exposure for losses in its title insurance business with third-party reinsurance. Catastrophe 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 investments may also decrease due to these factors.

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, catastrophe events and responses to them will have on its businesses. The impacts of catastrophe events and responses to them may also exacerbate the risks discussed elsewhere in Part I, Item 1A of this Annual Report.

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' requirements for title insurance or mortgage servicing 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. 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. 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. In addition, a downgrade in the ratings or rankings for the Company's federal savings bank subsidiary or its mortgage servicing business could have an adverse effect on that particular business.

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 usually operate 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 software applications, 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 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, escrow account balances and custodial 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, ransomware attacks, phishing attacks and other malicious activity. These attacks continue to increase in frequency and sophistication. Moreover, 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 following the onset of the coronavirus pandemic. These systems 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 or otherwise adequate, 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. The Company had an information security incident that occurred during the second quarter of 2019 involving unauthorized access to non-public personal information as a result of a vulnerability in one of the Company's applications. The risk associated with any subsequent incidents, particularly the risk of damage to the Company's reputation, is heightened as a result of the 2019 incident.

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.

Certain laws and contracts the Company has entered into require it to comply with certain information security requirements and 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. 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 of the Company or its service providers to prevent or adequately respond to the issues described above could disrupt the Company's business, delay the delivery of its products and services, inhibit its ability to retain existing customers or attract new customers, divert management's time and energy, otherwise harm its reputation and/or result in financial losses, litigation, regulatory inquiries, 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 continue to increase 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 failure to recruit and retain qualified personnel may adversely affect the business

The Company's continued success depends, in large part, on its ability to hire and retain qualified people. Competition for highly qualified people is intense, and there is no assurance that the Company will be successful in attracting, training or retaining people. Policies adopted during the coronavirus pandemic may allow Company employees to work remotely or in hybrid situations. Over the long-term, the Company may not successfully adapt to this new work environment in a manner that maintains a healthy and vibrant Company culture or that results in the Company being viewed as an employer of choice. If the Company is unable to attract and retain qualified people, its business and operations may be impaired or disrupted.

15. 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. Weakness of the United States dollar in relation to the currencies used in these countries may also reduce the savings achievable through this strategy. Laws, regulations, business requirements or social or political pressures may require the Company to use labor based in the United States or may otherwise effectively increase the Company's labor costs abroad. The Company may not be able to pass on these increased costs to its customers.

16. Acquisitions may have an adverse effect on our business

The Company has in the past acquired, and is expected to acquire in the future, other businesses. When businesses are acquired, the Company may not be able to integrate or manage these businesses in such a manner as to realize the anticipated synergies or otherwise produce returns that justify the investment. Acquired businesses may subject the Company to increased regulatory or compliance requirements. The Company's acquisitions have involved, and are likely to continue to involve, the entry into businesses in which the Company's management has limited prior experience, making the Company reliant on the management team of the acquired business. The Company may not be able to successfully retain employees of acquired businesses or integrate them, and could lose customers, suppliers or other partners as a result of the acquisitions. For these and other reasons, including changes in market conditions, the projections used to value the acquired businesses may prove inaccurate. In addition, the Company might incur unanticipated liabilities from acquisitions. These and other factors related to acquisitions could have a material adverse effect on the Company's results of operations, financial condition and liquidity. The Company's management also will continue to be required to dedicate substantial time and effort to the integration of its acquisitions. These efforts could divert management's focus and resources from other strategic opportunities and operational matters.

LEGAL AND COMPLIANCE RISK FACTORS

17. Regulatory oversight and changes in government regulation could require the Company to raise capital, make it more difficult to deploy capital, including dividends to stockholders and repurchases of the Company's shares, prohibit or limit the Company's operations, make it more costly or burdensome to conduct such operations, result in decreased demand for the Company's products and services or otherwise adversely affect the Company

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, mortgage servicing and subservicing, 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, which can include requirements to maintain certain licenses at the federal, state and/or local levels. 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.

Regulatory oversight could require the Company to raise capital, and/or make it more difficult to deploy capital, including dividends to stockholders and repurchases of the Company's shares. It is possible that the group capital calculations, 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 stockholders and repurchases of the Company's shares.

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. 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.

In addition, changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes; reform of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac); 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, New York, 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.

18. 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, and the mortgage servicing and subservicing industry are subject to continuous scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at these industries 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 and the mortgage servicing and subservicing 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, the Real Estate Settlement Procedures Act, the Truth in Lending 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, other settlement services providers and mortgage servicers in their respective jurisdictions. Currently, the Company is the subject 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 class action lawsuits.

19. 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.

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, like-kind exchange deposits and investor, mortgagor and servicer 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. 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. 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, such as during the current environment precipitated by rapidly rising interest rates. Debt and equity securities are carried at fair value on the Company's balance sheet. Changes in the fair values of debt securities are 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 values of marketable equity securities are recognized in earnings. Changes in the fair values 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.

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

The Company's venture investment portfolio is primarily comprised of investments in the equity of private venture-stage companies that operate in the real-estate industry and related industries (many of which offer technology-enabled products and services), investments in funds that typically invest in these same types of companies, and a similar investment that is trading publicly. The venture investment portfolio is managed independent of the Company's portfolio of debt securities and marketable equity securities, which is overseen by the Company's investment department and an investment committee. The Company may continue to make similar venture investments. These positions are concentrated in a limited number of holdings and are high-risk, illiquid investments. In certain circumstances, such as when one of these companies raises capital, merges with another company or sells itself at a valuation that is less than the valuation at which the Company made its investment or when one of these companies fails and/or liquidates itself, the Company has been and could be required to impair all or part of its investment in that company or write down the value of an investment if future growth prospects deteriorate. The prospects of these companies depend on a number of factors, including the condition of the general economy, the general availability of capital, the performance of and volatility in the public markets, the regulatory and political environments, the condition of the real estate industry, the competitive environment for such companies and the operational and financial performance of such companies. Even if one of these companies is successful, the Company's ability to realize the value of its investment may take a significant amount of time and may be dependent on the occurrence of a liquidity event, such as an initial public offering or the sale of the company. Even when a liquidity event occurs, the Company may be subject to restrictions on resale or may choose to continue to hold the investment for strategic or other reasons and, as a result, the Company may not monetize the value of its investment during periods in which it could be financially advantageous to sell the investment. These investments have caused, and are expected from time to time to cause, material fluctuations in the Company's quarterly results of operations due to the recognition of gains or losses in connection with observable price changes, such as from liquidity events, subsequent equity sales, or price changes in investments that begin trading publicly, which changes can be volatile. These impairments and fluctuations may have a material adverse effect on the Company's results of operations.

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. In uncertain economic times, an even larger change is more likely. 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. See Note 2 Statutory Restrictions on Investments and Stockholders' Equity to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" of Part II of this report and Item 7 – MD&A – Liquidity and Capital Resources for details on dividend restrictions.

26. Changes in the composition of deposits at the Company's federal savings bank subsidiary could require the Company to borrow funds to maintain liquidity

The deposits of the Company's federal savings bank subsidiary consist almost entirely of funds deposited by its affiliates, the majority of which are from third parties to be held in trust pending the closing of real estate transactions. Following the Company's acquisition of ServiceMac, LLC, a residential mortgage servicer, an increasing proportion of the bank's deposits are custodial funds held on behalf of clients of ServiceMac that are owners of loans or mortgage servicing rights (MSRs), and a substantial portion of such deposits are currently associated with a single client of ServiceMac. This client and others may cause their custodial funds to be moved out of the Company's bank subsidiary in connection with the transfer of ownership of MSRs or loans, termination of subservicing contracts or otherwise. The likelihood of clients causing funds to be moved increases as interest rates rise, which could result in a marked decline in the bank's deposits. When the bank's deposits decline, the Company may be required to borrow funds to maintain the bank's liquidity.

GENERAL RISK FACTORS

27. Certain provisions of the Company's bylaws and certificate of incorporation, as well as regulatory hurdles, 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 may only be amended by the affirmative vote of the holders of approximately 67% of the Company's issued voting shares. In addition, federal banking laws and regulations and state insurance laws and regulations require third parties to obtain prior approval to acquire control of the Company due to its status as a savings and loan holding company and an insurance holding company. These provisions and regulatory requirements 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 \$4 million as of December 31, 2022.

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

Item 3. Legal Proceedings

See Note 21 Litigation and Regulatory Contingencies to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of Part II of this report, which is incorporated by reference into this Item 3 of Part I.

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 8, 2023, was 1,946.

In January 2023, the Company’s board of directors declared a cash dividend of \$0.52 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 2 Statutory Restrictions on Investments and Stockholders’ Equity to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of Part II of this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Pursuant to the share repurchase program approved by the Company’s board of directors in June 2022, which program has no expiration date, the Company may repurchase up to \$400 million of the Company’s issued and outstanding common stock. The following table describes purchases by the Company under the share repurchase program that settled during each period set forth in the table. Prices in column (b) include commissions. Cumulatively, as of December 31, 2022, the Company had repurchased \$113 million (including commissions) of its shares authorized under the share repurchase program and had the authority to repurchase an additional \$287 million (including commissions) under that program.

<u>Period</u>	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2022 to October 31, 2022	380,308	\$ 46.75	380,308	\$ 302,829,367
November 1, 2022 to November 30, 2022	71,888	53.55	71,888	298,979,806
December 1, 2022 to December 31, 2022	235,654	52.62	235,654	286,578,830
Total	687,850	\$ 49.47	687,850	\$ 286,578,830

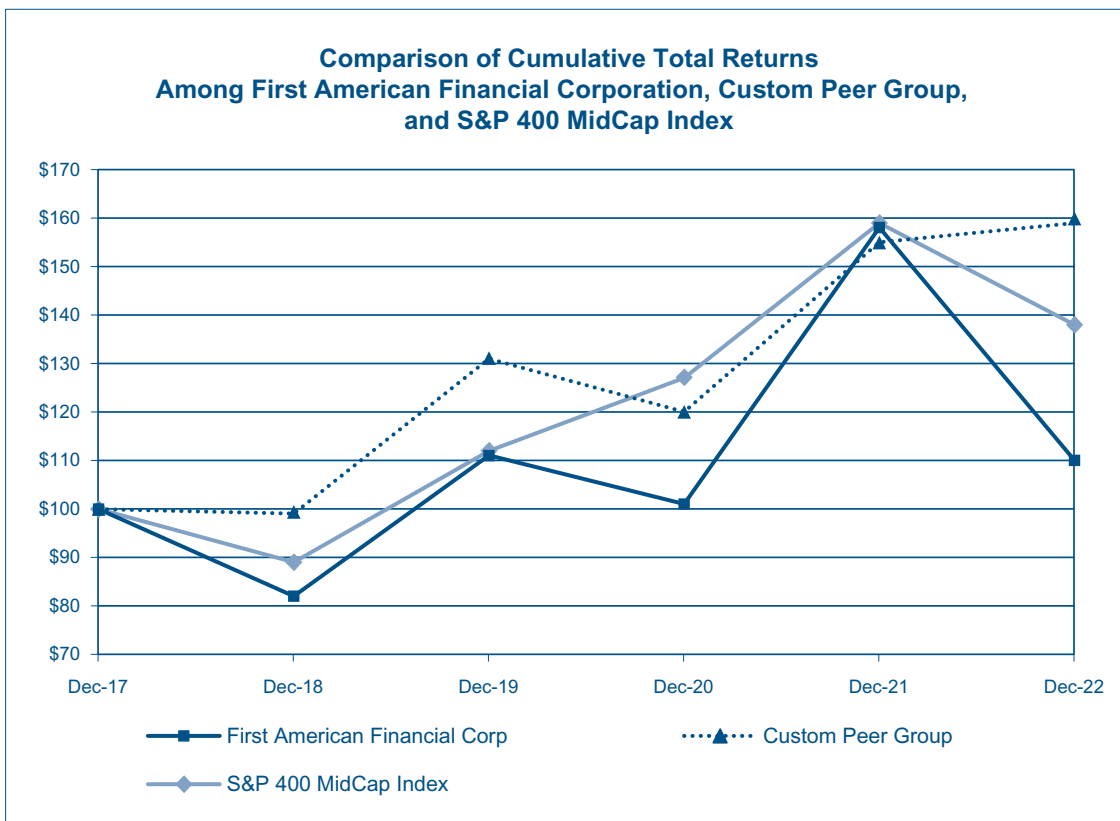
Unregistered Sales of Equity Securities

During the year ended December 31, 2022, 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 S&P 400 Mid Cap Index and an industry peer group for the period from December 31, 2017 through December 31, 2022. The comparison assumes an investment of \$100 on December 31, 2017 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)(3)	S&P 400 Mid Cap Index (1)
December 31, 2017	\$ 100	\$ 100	\$ 100
December 31, 2018	\$ 82	\$ 99	\$ 89
December 31, 2019	\$ 111	\$ 131	\$ 112
December 31, 2020	\$ 101	\$ 120	\$ 127
December 31, 2021	\$ 158	\$ 155	\$ 159
December 31, 2022	\$ 110	\$ 159	\$ 138

(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 are in the insurance industry. The compensation committee of the Company utilizes the compensation practices of these companies as benchmarks in setting the compensation of its executive officers.
- (3) The graph and table above have been revised to correct clerical errors in Cumulative Total Returns for the Custom Peer Group as of December 31, 2022 and 2021 that were included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed on February 15, 2023.

Item 6. Selected Financial Data

Not applicable.

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 4-5 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 certain financial measures that are not presented in accordance with generally accepted accounting principles (“GAAP”), including adjusted information and other revenues, adjusted personnel costs, and adjusted other operating expenses, in each case excluding the effects of recent acquisitions, and adjusted debt to capitalization ratio as it excludes the effect of secured financings payable. The Company is presenting these non-GAAP financial measures because they provide the Company’s management and readers of this Annual Report on Form 10-K with additional insight into the operational performance of the Company relative to earlier periods and additional insight into the financial leverage of the Company. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In this Annual Report on Form 10-K, these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Readers of this Annual Report on Form 10-K should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures. Because not all companies use identical calculations, the presentation of adjusted debt to capitalization ratio may not be comparable to other similarly titled measures of other companies.

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, or non-marketable equity securities, 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:

- 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; provides warehouse lending services; subservices mortgage loans; and provides 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, New Zealand, South Korea and various other established and emerging markets.
- The Company's specialty insurance segment sells home warranty products including 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.

The Company's property and casualty insurance business, which is in the final stages of its wind-down.

- The Company's corporate segment includes its investments in venture-stage companies, certain financing facilities and 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 contemplated as part of 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 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 \$158 million, and if expected ultimate losses for those same years were to fluctuate by 100 basis points, the resulting impact would be \$316 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

The Company provides for 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:

	December 31,			
	2022		2021	
	(dollars in millions)			
Known title claims	\$ 62	4.7%	\$ 67	5.2%
IBNR title claims	1,207	91.1%	1,143	89.0%
Total title claims	1,269	95.8%	1,210	94.2%
Non-title claims	56	4.2%	74	5.8%
Total loss reserves	<u>\$ 1,325</u>	<u>100.0%</u>	<u>\$ 1,284</u>	<u>100.0%</u>

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

	December 31,		
	2022	2021 (in millions)	2020
Balance at beginning of year	\$ 67	\$ 64	\$ 83
Provision transferred from IBNR title claims related to:			
Current year	29	31	20
Prior years	144	126	125
	<u>173</u>	<u>157</u>	<u>145</u>
Payments, net of recoveries, related to:			
Current year	26	28	18
Prior years	151	126	146
	<u>177</u>	<u>154</u>	<u>164</u>
Other	(1)	—	—
Balance at end of year	<u>\$ 62</u>	<u>\$ 67</u>	<u>\$ 64</u>

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

	December 31,		
	2022	2021 (in millions)	2020
Balance at beginning of year	\$ 1,143	\$ 1,026	\$ 904
Provision related to:			
Current year	248	275	237
Prior years	—	—	26
	<u>248</u>	<u>275</u>	<u>263</u>
Provision transferred to known title claims related to:			
Current year	29	31	20
Prior years	144	126	125
	<u>173</u>	<u>157</u>	<u>145</u>
Other	(11)	(1)	4
Balance at end of year	<u>\$ 1,207</u>	<u>\$ 1,143</u>	<u>\$ 1,026</u>

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for 2022 and 2021, and 5.0% for 2020. The current year loss rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years.

The provision in 2022 related to current year decreased by \$27 million, or 9.8%, from 2021 as a result of decreases in title premiums and escrow fees in 2022 from 2021. The provision in 2021 related to current year increased by \$38 million, or 16.0%, from 2020 as a result of increases in title premiums and escrow fees in 2021 from 2020.

For further discussion of title provision recorded in 2022, 2021 and 2020, see Results of Operations, pages 35-36.

Fair value of debt securities

The Company categorizes the fair values of its debt 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 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 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

When the fair value of an available-for-sale debt security falls below its amortized cost, the Company 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 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, 2022, 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.

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. The reporting units that have been allocated goodwill include title insurance and home warranty. 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.

The Company chose to perform qualitative assessments for its title insurance and home warranty reporting units for 2022 and 2021, and performed quantitative impairment tests for 2020. The results of the Company's qualitative assessments in 2022 and 2021 supported the conclusion that the reporting unit fair values were not more likely than not less than their carrying amounts and, therefore, a quantitative impairment test was not considered necessary. Based on the results of the quantitative tests in 2020, the Company determined that the fair values for both reporting units exceeded their carrying amounts and no additional analysis was required. 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 related to either reporting unit for 2022, 2021 or 2020.

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 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, related to uncertain tax positions in income tax expense.

Pending Accounting Pronouncements

See Note 1 Basis of Presentation and Significant Accounting Policies to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of Part II of this report.

Results of Operations

Overview

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022 vs. 2021</u>		<u>2021 vs. 2020</u>	
				<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
				(dollars in millions)			
Revenues by Segment							
Title insurance and services	\$ 7,547	\$ 8,320	\$ 6,535	\$ (773)	(9.3)	\$ 1,785	27.3
Specialty insurance	437	541	532	(104)	(19.2)	9	1.7
Corporate and eliminations	(379)	360	19	(739)	(205.3)	341	NM ¹
	<u>\$ 7,605</u>	<u>\$ 9,221</u>	<u>\$ 7,086</u>	<u>\$ (1,616)</u>	<u>(17.5)</u>	<u>\$ 2,135</u>	<u>30.1</u>

(1) Not meaningful

A substantial portion of the revenues for the Company’s title insurance and services segment result from sales of, and refinancings of loans on, residential and commercial real estate. In the Company’s specialty insurance segment, revenues associated with the initial year of coverage in the home warranty 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 2022 were \$7.6 billion, which reflected a decrease of \$1.6 billion, or 17.5%, when compared with \$9.2 billion for 2021. This decrease was primarily attributable to decreases in direct premiums and escrow fees of \$513 million, or 14.3%, agent premiums of \$209 million, or 5.6%, and information and other revenue of \$67 million, or 5.5%. The Company’s total revenues for 2022 also included \$516 million of net investment losses compared to \$436 million of net investment gains for the prior year. The decrease in direct premiums and escrow fees attributable to the title insurance and services segment was \$437 million, or 14.1%. Direct premiums and escrow fees in the title insurance and services segment from domestic residential refinance transactions and residential purchase transactions decreased \$340 million, or 63.6% and \$115 million, or 9.0%, respectively, in 2022 when compared to 2021. Direct premiums and escrow fees from domestic commercial transactions in the title insurance and services segment increased \$16 million, or 1.6%, in 2022 when compared to 2021. Direct premiums and escrow fees in the title insurance and services segment from domestic commercial and residential purchase transactions increased \$388 million, or 60.8%, and \$235 million, or 22.5%, respectively, in 2021 when compared to 2020. Direct premiums and escrow fees in the title insurance and services segment from residential refinance transactions decreased \$107 million, or 16.7%, in 2021 when compared to 2020.

According to the Mortgage Bankers Association’s January 19, 2023 Mortgage Finance Forecast (the “MBA Forecast”), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 49.4% in 2022 when compared with 2021. According to the MBA Forecast, the dollar amount of purchase originations decreased 15.3% and refinance originations decreased 74.1%. This volume of domestic residential mortgage origination activity contributed to decreases in direct premiums and escrow fees for the Company’s direct title operations of 9.0% from domestic residential purchase transactions and 63.6% from domestic refinance transactions in 2022 when compared to 2021.

During 2022, the level of domestic title orders opened per day by the Company’s direct title operations decreased by 30.0% when compared to 2021. Also, during 2022, residential refinance opened orders per day, residential purchase opened orders per day and commercial opened orders per day decreased by 65.3%, 18.9%, and 8.8% when compared to 2021.

The Company recorded net investment losses of \$516 million in 2022, which included unrealized losses of \$329 million related to the Company’s venture investment portfolio. Investments within the Company’s venture portfolio are expected from time to time to cause material fluctuations in the Company’s results of operations due to the recognition of gains or losses in connection with observable price changes, such as from liquidity events, equity sales, price changes in investments that trade publicly, or from impairment charges, which changes can be volatile.

Title Insurance and Services

	2022	2021	2020	2022 vs. 2021		2021 vs. 2020	
				\$ Change	% Change	\$ Change	% Change
	(dollars in millions)						
Revenues							
Direct premiums and escrow fees	\$ 2,663	\$ 3,100	\$ 2,490	\$ (437)	(14.1)	\$ 610	24.5
Agent premiums	3,548	3,757	2,759	(209)	(5.6)	998	36.2
Information and other	1,127	1,203	1,001	(76)	(6.3)	202	20.2
Net investment income	359	188	199	171	91.0	(11)	(5.5)
Net investment (losses) gains	(150)	72	86	(222)	(308.3)	(14)	(16.3)
	<u>7,547</u>	<u>8,320</u>	<u>6,535</u>	<u>(773)</u>	<u>(9.3)</u>	<u>1,785</u>	<u>27.3</u>
Expenses							
Personnel costs	2,273	2,235	1,834	38	1.7	401	21.9
Premiums retained by agents	2,830	2,987	2,184	(157)	(5.3)	803	36.8
Other operating expenses	1,155	1,198	1,000	(43)	(3.6)	198	19.8
Provision for policy losses and other claims	248	275	263	(27)	(9.8)	12	4.6
Depreciation and amortization	162	152	141	10	6.6	11	7.8
Premium taxes	87	94	70	(7)	(7.4)	24	34.3
Interest	34	21	17	13	61.9	4	23.5
	<u>6,789</u>	<u>6,962</u>	<u>5,509</u>	<u>(173)</u>	<u>(2.5)</u>	<u>1,453</u>	<u>26.4</u>
Income before income taxes	<u>\$ 758</u>	<u>\$ 1,358</u>	<u>\$ 1,026</u>	<u>\$ (600)</u>	<u>(44.2)</u>	<u>\$ 332</u>	<u>32.4</u>
Pretax margin	<u>10.0%</u>	<u>16.3%</u>	<u>15.7%</u>	<u>(6.3)%</u>	<u>(38.7)</u>	<u>0.6%</u>	<u>3.8</u>

Direct premiums and escrow fees decreased \$437 million, or 14.1%, in 2022 from 2021 and increased \$610 million, or 24.5%, in 2021 from 2020. The decrease in direct premiums and escrow fees in 2022 from 2021 was primarily due to reductions in the number of domestic title orders closed by the Company's direct title operations, partially offset increases in domestic average revenues per order. The increase in direct premiums and escrow fees in 2021 from 2020 was primarily due to an increase in the average domestic revenues per order closed. The domestic average revenues per order closed were \$3,498, \$2,718 and \$2,232 for 2022, 2021 and 2020, respectively. The 28.7% increase in average revenues per order closed in 2022 from 2021 was primarily due to a shift in mix from lower premium residential refinance transactions to higher premium commercial transactions, home price appreciation and, to a lesser extent, higher average revenues per order from residential purchase transactions due primarily to recent acquisitions of escrow companies, which have contributed escrow revenue to the numerator when determining average revenues per order without a corresponding title order included in the denominator. The 21.8% increase in average revenues per order closed in 2021 from 2020 was primarily due to higher average revenues per order from commercial transactions, higher average revenues per order from residential purchase products due to higher residential real estate values and, to a lesser extent, a shift in the mix of direct revenues generated from higher premium commercial products from lower premium residential refinance products. The Company's direct title operations closed 695,900, 1,050,700 and 1,043,800 domestic title orders during 2022, 2021 and 2020, respectively. The 33.8% decrease in orders closed in 2022 from 2021 and the 0.7% increase in orders closed in 2021 from 2020 were generally consistent with the changes in residential mortgage origination activity in the United States as reported in the MBA Forecast.

Agent premiums decreased \$209 million, or 5.6%, in 2022 from 2021 and increased \$998 million, or 36.2%, in 2021 from 2020. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, full year agent premiums typically reflect mortgage origination activity from the fourth quarter of the prior year through the third quarter of the current year. The decrease in agent premiums in 2022 from 2021 was generally consistent with the 1.3% decrease in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2022 as compared with the twelve months ended September 30, 2021. The increase in agent premiums in 2021 from 2020 was generally consistent with the 28.9% increase in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2021 as compared with the twelve months ended September 30, 2020.

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

Information and other revenues decreased \$76 million, or 6.3%, in 2022 from 2021 and increased \$202 million, or 20.2%, in 2021 from 2020. Excluding the \$142 million impact from recent acquisitions for the year ended December 31, 2022, information and other revenues decreased \$218 million, or 18.2% in 2022 compared to 2021. The decrease in information and other revenues in 2022 from 2021, adjusted for the impact of recent acquisitions, was primarily due to decreased demand for the Company's information products, post-close services and document generation services. The increase in information and other revenues in 2021 from 2020 was primarily attributable to strength in the purchase and commercial markets that led to higher demand for the Company's information products, the impact of acquisitions totaling \$35 million for 2021, an increase in demand for the Company's post-close services and an increase in demand for the Company's default information products as a result of an increase in loss mitigation activities.

Net investment income increased \$171 million, or 91.0%, in 2022 from 2021 and decreased \$11 million, or 5.5%, in 2021 from 2020. The increase in 2022 from 2021 was primarily attributable to higher short-term interest rates in the Company's investment portfolio and escrow, like-kind exchange and subservicing deposits. The decrease in 2021 from 2020 was primarily attributable to lower short-term interest rates which drove lower income from the Company's cash balances, escrow balances, and tax-deferred property exchange business, partially offset by increases in interest income from the Company's warehouse lending business and investment portfolio due to higher balances.

Net investment losses of \$150 million for 2022 were primarily attributable to losses recognized on sales of debt securities and changes in the fair values of marketable equity securities, partially offset by a \$52 million gain realized on the sale of an investment in a title insurance business. Net investment gains were \$72 million for 2021 and were primarily from increases in the fair values of marketable equity securities totaling \$57 million and from sales of debt securities totaling \$15 million. Net investment gains totaled \$86 million for 2020 and were primarily from increases in the fair values of marketable equity securities of \$39 million and gains from the sales of debt securities. Net investment gains for 2020 also included gains recognized on certain non-marketable equity securities.

Direct operations in the title insurance and services segment are labor intensive; accordingly, a major expense component is personnel costs. Labor costs are driven by two primary considerations: the need to optimize staffing levels to match the level of corresponding or anticipated new orders and the need to provide quality service. The Company continues to closely monitor order volumes and related staffing levels and adjusts staffing levels as considered necessary. The Company's direct title operations opened 895,500, 1,275,000 and 1,470,900 domestic title orders in 2022, 2021 and 2020, respectively, representing a decrease of 29.8% in 2022 from 2021 and 13.3% in 2021 from 2020.

Personnel costs increased \$38 million, or 1.7%, in 2022 from 2021 and \$401 million, or 21.9%, in 2021 from 2020. Excluding the \$205 million impact from recent acquisitions for year ended December 31, 2022, personnel expenses decreased \$167 million, or 7.5% in 2022 compared to 2021. The decrease in 2022, adjusted for the impact of recent acquisitions, was due to lower incentive compensation resulting from lower revenue and profitability, lower expense related to the Company's 401(k) savings plan match and lower overtime expense, partially offset by higher severance expense. The increase in personnel costs in 2021 from 2020 was primarily attributable to higher incentive compensation, salaries, employee benefits including 401(k) savings plan match, and payroll taxes resulting from the higher headcount and costs associated with the increase in revenues and profitability. Personnel costs included severance expenses of \$35 million, \$5 million, and \$6 million for 2022, 2021, and 2020, respectively.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	(dollars in millions)		
Premiums retained by agents . . .	\$ 2,830	\$ 2,987	\$ 2,184
Agent premiums	<u>\$ 3,548</u>	<u>\$ 3,757</u>	<u>\$ 2,759</u>
% retained by agents	79.8%	79.5%	79.2%

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 2022 from 2021 and in 2021 from 2020 were primarily due to changes in the geographic mix of agency revenues.

Other operating expenses decreased \$43 million, or 3.6%, in 2022 from 2021 and increased \$198 million, or 19.8%, in 2021 from 2020. Excluding the \$80 million impact from recent acquisitions for the year ended December 31, 2022, other operating expenses decreased \$123 million, or 10.3% in 2022 compared to 2021. The decrease in 2022, adjusted for the impact of recent acquisitions, was due to lower production expense due to lower transaction volumes, partially offset by higher software expense. The increase in 2021 from 2020 was primarily attributable to higher production related costs due to higher transaction volumes in the Company's commercial, default and international businesses, higher software expense and higher professional services.

The provision for policy losses and other claims, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for 2022 and 2021, and 5.0% for 2020.

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

As of December 31, 2022, the IBNR claims reserve for the title insurance and services segment was \$1.2 billion, which reflected management's best estimate. The Company's internal actuary determined a range of reasonable estimates of \$995 million to \$1.2 billion. The range limits are \$212 million below and \$36 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 2021 rate of 4.0% reflected the ultimate loss rate for policy year 2021 and no change in loss reserve estimates for prior policy years.

The 2020 rate of 5.0% reflected the ultimate loss rate of 4.5% for policy year 2020 and a net increase in loss reserve estimates for prior policy years of 0.5%, or \$26 million.

Depreciation and amortization expense increased \$10 million, or 6.6%, in 2022 from 2021 and \$11 million, or 7.8%, in 2021 from 2020. The increase in depreciation and amortization expense in 2022 from 2021 was primarily attributable to higher amortization of software and intangible assets related to recent acquisitions. The increase in depreciation and amortization expense in 2021 from 2020 was primarily attributable to higher amortization of software and other intangible assets related to acquisitions.

Insurers generally are not subject to state income or franchise taxes. However, in lieu thereof, a premium tax is imposed on certain operating revenues, as defined by statute. Tax rates and bases vary from state to state; accordingly, the total premium tax burden is dependent upon the geographical mix of operating revenues. The Company's noninsurance subsidiaries are subject to state income tax and do not pay premium tax. Accordingly, the Company's total tax burden at the state level for the title insurance and services segment is composed of a combination of premium taxes and state income taxes. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4%, 1.4% and 1.3% for 2022, 2021 and 2020, respectively.

Interest expense increased \$13 million, or 61.9%, in 2022 from 2021 and \$4 million, or 23.5%, in 2021 from 2020. The increase in 2022 from 2021 was primarily attributable to higher deposit balances at the Company's banking operations. The increase in 2021 from 2020 was primarily attributable to an increase in interest paid on secured financings payable due to higher average balances outstanding.

Pretax 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 in the title insurance business, pretax margins generally improve as closed order volumes increase. Pretax margins are also impacted by (1) net investment income and net investment gains and losses, which may not move in the same direction as closed order volumes, (2) the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity and (3) the percentage of title insurance premiums generated by agency operations as 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 title insurance and services segment recorded pretax margins of 10.0%, 16.3% and 15.7% for 2022, 2021 and 2020, respectively.

Specialty Insurance

	2022		2021		2020		2022 vs. 2021		2021 vs. 2020		
							\$ Change	% Change	\$ Change	% Change	
(dollars in millions)											
Revenues											
Direct premiums	\$	422	\$	498	\$	498	\$	(76)	(15.3)	\$	—
Information and other		22		13		13		9	69.2		—
Net investment income		6		7		9		(1)	(14.3)		(2)
Net investment (losses) gains		(13)		23		12		(36)	(156.5)		11
		<u>437</u>		<u>541</u>		<u>532</u>		<u>(104)</u>	<u>(19.2)</u>		<u>9</u>
											<u>1.7</u>
Expenses											
Personnel costs		81		90		86		(9)	(10.0)		4
Other operating expenses		82		89		83		(7)	(7.9)		6
Provision for policy losses and other claims		238		314		317		(76)	(24.2)		(3)
Depreciation and amortization		5		6		8		(1)	(16.7)		(2)
Impairment losses on exit of business		—		—		55		—	—		(55)
Premium taxes		4		6		8		(2)	(33.3)		(2)
		<u>410</u>		<u>505</u>		<u>557</u>		<u>(95)</u>	<u>(18.8)</u>		<u>(52)</u>
											<u>(9.3)</u>
Income (loss) before income taxes	\$	<u>27</u>	\$	<u>36</u>	\$	<u>(25)</u>	\$	<u>(9)</u>	<u>(25.0)</u>	\$	<u>61</u>
											<u>244.0</u>
Pretax margin		<u>6.2%</u>		<u>6.7%</u>		<u>(4.7)%</u>		<u>(0.5)%</u>	<u>(7.5)</u>		<u>11.4%</u>
											<u>242.6</u>

Direct premiums decreased \$76 million, or 15.3% in 2022 compared to 2021 and were flat in 2021 compared to 2020. The decrease in 2022 from 2021 was primarily due to a reduction in direct premiums in the property and casualty insurance business of \$89 million, reflecting the Company's wind-down of the business. Direct premiums in the home warranty business increased \$13 million in 2022 from 2021 and was primarily driven by an increase in the average price charged per contract, increases in renewals within the direct-to-consumer channel and from a shift in expected claims experience resulting from a return to pre-pandemic levels. Direct premiums in the home warranty business increased by \$29 million, or 7.7%, in 2021 from 2020 driven by an increase in the number of home warranty residential service contracts issued and an increase in the average price charged per contract, which was offset by a \$29 million decline in direct premiums in the property and casualty insurance business.

Net investment losses were \$13 million for 2022 primarily due to losses recognized on sales of debt securities and from decreases in the fair values of marketable equity securities. Net investment gains were \$23 million for 2021 and were primarily from the sale of the Company's property and casualty insurance agency operations and from sales of debt and equity securities. Net investment gains were \$12 million for 2020 and were primarily from increases in the fair values of marketable equity securities of \$7 million and also from the sale of real estate.

Personnel costs and other operating expenses decreased \$16 million, or 8.9%, in 2022 from 2021 and increased \$10 million, or 5.9%, in 2021 from 2020. The decrease in 2022 from 2021 was primarily attributable to decreases in deferred policy costs and lower agent commission expense in the property and casualty insurance business, incentive compensation, software expense, lower expense related to the Company's 401(k) savings plan match and salary expense, partially offset by higher advertising expense in the home warranty business. The increase in 2021 from 2020 was primarily attributable to an increase in deferred policy acquisition costs in the property and casualty insurance business, higher offshore vendor expense due to higher volumes in the home warranty business, higher incentive compensation, higher employee benefits expense due to an increase in the Company's 401(k) saving plan match and higher advertising expense, offset by lower agent commissions.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 51.3% in 2022, 54.5% in 2021 and 53.0% in 2020. The decrease in the claims rate in 2022 from 2021 was primarily attributable to lower claims frequency, partially offset by higher claims severity. The increase in the claims rate in 2021 from 2020 was primarily attributable to higher claims severity driven by increases in the costs of equipment, parts and the use of out of network contractors.

The Company's property and casualty business was in the final stages of its wind-down in 2022.

The property and casualty insurance business recorded revenues of \$18 million, \$119 million and \$138 million for 2022, 2021, and 2020, respectively. Losses before income taxes for 2022 and 2020 were \$18 million and \$86 million, respectively. Loss before income taxes for 2021, which was partially offset by a gain of \$12 million from the sale of the agency operations during 2021, was \$17 million.

Premium taxes, expressed as a percentage of specialty insurance direct premiums, were 0.9% in 2022, 1.2% in 2021 and 1.6% in 2020.

A large part of the revenues for the specialty insurance segment are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of policy losses, the majority of the expenses for this segment are variable in nature and, therefore, generally fluctuate with revenue. Accordingly, pretax margins (before policy losses) are relatively constant, although as a result of some fixed expenses, profit margins (before policy losses) should nominally improve as premium revenues increase. Pretax margins are also impacted by net investment income and net investment gains and losses, which may not move in the same direction as premium revenues. The specialty insurance segment recorded pretax margins for 2022 and 2021 of 6.2% and 6.7%, respectively, and, for 2020, recorded a pretax margin loss of (4.7)%.

Corporate

	2022	2021	2020	2022 vs. 2021		2021 vs. 2020	
				\$ Change	% Change	\$ Change	% Change
(dollars in millions)							
Revenues							
Net investment (losses) income	\$ (23)	\$ 21	\$ 14	\$ (44)	(209.5)	\$ 7	50.0
Net investment (losses) gains	(353)	341	7	(694)	(203.5)	334	NM ¹
	<u>(376)</u>	<u>362</u>	<u>21</u>	<u>(738)</u>	<u>(203.9)</u>	<u>341</u>	<u>NM¹</u>
Expenses							
Personnel costs	(14)	25	21	(39)	(156.0)	4	19.0
Other operating expenses	36	37	37	(1)	(2.7)	—	—
Interest	61	52	41	9	17.3	11	26.8
	<u>83</u>	<u>114</u>	<u>99</u>	<u>(31)</u>	<u>(27.2)</u>	<u>15</u>	<u>15.2</u>
(Loss) income before income taxes . . .	<u>\$ (459)</u>	<u>\$ 248</u>	<u>\$ (78)</u>	<u>\$ (707)</u>	<u>(285.1)</u>	<u>\$ 326</u>	<u>417.9</u>

(1) Not meaningful

Net investment losses totaled \$23 million in 2022, and net investment income totaled \$21 million and \$14 million in 2021 and 2020, respectively. The changes in net investment income for all three years were primarily attributable to fluctuations in earnings and losses on investments associated with the Company's deferred compensation plan.

Net investment losses of \$353 million for 2022 were primarily attributable to impairment charges of \$140 million related to venture portfolio investments and \$191 million in unrealized losses related to the Company's investment in Offerpad Solutions Inc. ("Offerpad"). Net investment gains of \$341 million for 2021 included unrealized gains of \$210 million related to venture portfolio investments and unrealized gains of \$121 million resulting from an increase in fair value of the company's investment in Offerpad. Net investment gains totaled \$7 million for 2020 and were primarily from the sale of real estate.

Personnel costs and other operating expenses were \$22 million, \$62 million and \$58 million in 2022, 2021 and 2020, respectively. The decrease in 2022 when compared to 2021 was primarily attributable to lower expenses, which reflects lower returns on participant investments within the Company's deferred compensation plan. The increase in 2021 when compared to 2020 was primarily attributable to higher expenses reflecting higher returns on participant investments within the Company's deferred compensation plans.

Interest expense increased \$9 million, or 17.3%, in 2022 from 2021 and \$11 million, or 26.8%, in 2021 from 2020. The increases in 2022 and 2021 were due to the additional interest accrued on the \$650 million of 2.4% senior unsecured notes issued by the Company in August 2021 and the increase in 2021 was also due to the \$450 million of 4.00% senior unsecured notes issued by the Company in May 2020.

Eliminations

The Company's inter-segment eliminations were not material for 2022, 2021 and 2020.

Income Taxes

The Company's actual income tax expense differs from the expense computed by applying the federal income tax rate of 21% for 2022, 2021 and 2020. A reconciliation of these differences is as follows:

	Year ended December 31,					
	2022		2021		2020	
	(dollars in millions)					
Taxes calculated at federal rate	\$ 68	21.0%	\$ 345	21.0%	\$ 194	21.0%
State taxes, net of federal benefit	(5)	(1.5)	48	2.9	22	2.4
Change in liability for tax positions	(1)	(0.3)	—	—	—	—
Foreign income taxed at different rates	2	0.6	1	0.1	5	0.6
Unremitted foreign earnings	—	—	1	0.1	(2)	(0.2)
Other items, net	(3)	(1.1)	(2)	(0.2)	4	0.3
	<u>\$ 61</u>	<u>18.7%</u>	<u>\$ 393</u>	<u>23.9%</u>	<u>\$ 223</u>	<u>24.1%</u>

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 18.7% for 2022, 23.9% for 2021 and 24.1% for 2020. 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. The effective tax rate for 2022 also reflects the recognition of losses and impairments on equity securities and benefits from the resolution of state tax matters from prior years. The effective tax rates for 2021 and 2020 also reflect benefits related to foreign tax law changes and, for 2020, also reflects the impairment of nondeductible goodwill related to the Company's wind-down of its property and casualty insurance business.

Net Income and Net Income Attributable to the Company

Net income and per share information are summarized as follows:

	Year ended December 31,		
	2022	2021	2020
	(in millions, except per share amounts)		
Net income attributable to the Company	\$ 263	\$ 1,241	\$ 696
Net income per share attributable to the Company's stockholders (1):			
Basic	\$ 2.46	\$ 11.18	\$ 6.18
Diluted	\$ 2.45	\$ 11.14	\$ 6.16
Weighted-average common shares outstanding:			
Basic	107.0	111.0	112.7
Diluted	107.3	111.4	113.0

(1) Net income per share may not recalculate due to rounding.

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 sales of its products and services and from 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 private companies (primarily those in the venture-stage) 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.

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 \$780 million, \$1.2 billion and \$1.1 billion for 2022, 2021 and 2020, respectively, after claim payments, net of recoveries, of \$434 million, \$482 million and \$471 million, respectively. The principal nonoperating uses of cash and cash equivalents for 2022, 2021 and 2020 were advances and repayments under secured financing agreements, purchases of debt and equity securities, repurchases of company shares, acquisitions, capital expenditures and dividends to common stockholders. The most significant nonoperating sources of cash and cash equivalents for 2022, 2021 and 2020 were borrowings and collections under secured financing agreements, proceeds from the sales and maturities of debt and equity securities, and for 2021 and 2020, proceeds from issuance of unsecured senior notes. In addition, the increase in deposits at the Company's banking operations for 2022 and 2021 also reflected a nonoperating source of cash and cash equivalents. The net effect of all activities on total cash and cash equivalents were decreases of \$4 million, \$47 million and \$211 million for 2022, 2021 and 2020, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In August 2022, the quarterly cash dividend was increased to 52 cents per common share, representing an 2% increase. The dividend increase was effective beginning with the September 2022 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 June 2022, the Company's board of directors approved a new share repurchase plan and terminated its prior share repurchase plan. The Company's new share repurchase plan authorizes the repurchase of up to \$400 million of the Company's common stock, of which \$287 million remained as of December 31, 2022. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. During the year ended December 31, 2022, the Company repurchased and retired, under both the Company's prior authorization and the current authorization, 7.5 million shares of its common stock for a total purchase price of \$441 million and, as of December 31, 2022, had cumulatively repurchased and retired 10.4 million shares of its common stock for a total purchase price of \$598 million.

During the year ended December 31, 2022, the Company completed acquisitions for an aggregate purchase price of \$311 million in cash.

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 amounts of dividends, loans and advances available to the holding company are limited, principally for the protection of policyholders. As of December 31, 2022, under such regulations, the maximum amounts available to the holding company from its insurance subsidiaries in 2023, without prior approval from applicable regulators, were dividends of \$689 million and loans and advances of \$113 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, 2022, the holding company's sources of liquidity included \$597 million of cash and cash equivalents and \$700 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.

On February 1, 2023, the Company repaid its \$250 million 4.30% senior unsecured notes, upon maturity, through available cash at the holding company.

Financing. 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 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 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, 2022, 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) until LIBOR is discontinued, 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, 2022, 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, 2022, outstanding borrowings under these facilities totaled \$366 million.
- First American Trust, FSB ("FA Trust"), 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, FA Trust is a party to master repurchase agreements under which securities may be loaned or sold. At December 31, 2022, 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, 2022, no amounts were outstanding under these facilities.

The Company's debt to capitalization ratios were 30.0% and 27.4% at December 31, 2022 and 2021, respectively. The Company's adjusted debt to capitalization ratios, excluding secured financings payable of \$366 million and \$538 million and accumulated other comprehensive loss of \$868 million and \$92 million at December 31, 2022 and 2021, were 22.9% and 21.9%, 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, 2022, 97% of the Company's investment portfolio consisted of debt securities, of which 67% 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 debt securities portfolio at December 31, 2022, see Note 3 Debt Securities to the consolidated financial statements.

In addition to its debt and marketable equity securities portfolio, the Company maintains investments in non-marketable equity securities and securities accounted for under the equity method. For further information on the Company's equity securities, see Note 4 Equity Securities to the consolidated financial statements.

Capital expenditures. Capital expenditures, which are primarily related to software development costs and purchases of property and equipment and software licenses, totaled \$275 million, \$172 million and \$121 million for 2022, 2021 and 2020, respectively.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its direct customers. Escrow deposits totaled \$10.0 billion and \$10.8 billion at December 31, 2022 and 2021, respectively, of which \$4.6 billion and \$4.8 billion, respectively, were held at FA Trust. The remaining deposits were held at third-party financial institutions.

Trust assets held or managed by FA Trust totaled \$4.1 billion and \$4.6 billion at December 31, 2022 and 2021, 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 administered by the Company totaled \$2.8 billion and \$6.0 billion at December 31, 2022 and 2021, 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.

In conducting its residential mortgage loan subservicing operations, the Company administers cash deposits on behalf of its clients. Cash deposits totaled \$1.1 billion at December 31, 2022, of which \$0.7 billion were held at FA Trust. The remaining deposits were held at third-party financial institutions. Cash deposits totaled \$0.4 billion at December 31, 2021, all of which were held at third-party financial institutions. Cash deposits held at third-party financial institutions 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 connection with certain accounts, the Company has ongoing programs for realizing economic benefits with various financial institutions whereby it earns economic benefits either as income or as a reduction in expense.

Deposit balances held at FA Trust are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying consolidated balance sheets.

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, 2022 and 2021 were \$8.2 billion and \$9.4 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, 2022 to decrease by approximately \$392 million, or 4.8%, and \$782 million, or 9.6%, respectively, and at December 31, 2021 to decrease by approximately \$387 million, or 4.1%, and \$817 million, or 8.7%.

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, 2022 and 2021, the Company had no outstanding borrowings under the facility. Assuming the full utilization of available funds under the facility of \$700 million at December 31, 2021 and 2020, 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 \$4 million and \$7 million for 2022 and 2021.

The Company's interest bearing escrow and mortgage subservicing deposit liabilities totaled \$3.3 billion and \$2.8 billion at December 31, 2022 and 2021, respectively. These variable-rate customer savings accounts are subject to market rate fluctuations. The weighted-average interest rates were 0.50% and 0.10% for 2022 and 2021, respectively. Assuming increases in interest rates of 25 and 50 basis points and that the deposit amounts at December 31, 2022 and 2021 were held constant for the entire year, interest expense for 2022 would be higher by \$8 million and \$16 million, respectively, and 2021 would be higher by \$7 million and \$14 million, respectively.

Equity Price Risk

The Company is also subject to equity price risk related to its marketable equity securities portfolio. The fair value of the Company's marketable equity securities portfolio (excluding preferred stock of \$11 million and \$17 million) was \$269 million and \$640 million as of December 31, 2022 and 2021, 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 marketable equity securities portfolio at December 31, 2022 could decrease by \$27 million and \$54 million, respectively, and at December 31, 2021 could decrease by \$64 million and \$128 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 Company's debt securities portfolio maintains an average credit quality rating of AA. For further information on the credit quality of the Company's debt securities portfolio at December 31, 2022, see Note 3 Debt 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, 2022 and 2021, and the related consolidated statements of income, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2022, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 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, 2022, 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, 2022, approximately \$1.207 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 14, 2023

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

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEETS
(in millions, except for par values)**

	December 31,	
	2022	2021
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,224	\$ 1,228
Accounts and accrued income receivable, less allowances of \$21 and \$14	367	441
Income taxes receivable	22	11
Investments:		
Deposits with banks	63	58
Debt securities (amortized cost of \$9,170 and \$9,317; pledged of \$86 and \$91)	8,170	9,362
Equity securities	754	1,176
	8,987	10,596
Secured financings receivable	423	565
Property and equipment, net	637	506
Operating lease assets	248	249
Title plants and other indexes	640	587
Deferred income taxes	54	14
Goodwill	1,798	1,588
Other intangible assets, net	194	218
Other assets	361	448
	\$ 14,955	\$ 16,451
<u>LIABILITIES AND EQUITY</u>		
Deposits	\$ 5,520	\$ 5,069
Accounts payable and accrued liabilities:		
Accounts payable	51	87
Personnel costs	299	376
Pension costs and other retirement plans	381	494
Other	184	305
	915	1,262
Deferred revenue	197	224
Reserve for known and incurred but not reported claims	1,325	1,284
Income taxes payable	10	24
Deferred income taxes	19	345
Operating lease liabilities	269	274
Secured financings payable	366	538
Notes and contracts payable	1,646	1,648
	10,267	10,668
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; Authorized—0.5 shares; Outstanding—none	—	—
Common stock, \$0.00001 par value; Authorized—300.0 shares; Outstanding—103.2 shares and 109.7 shares	—	—
Additional paid-in capital	1,812	2,179
Retained earnings	3,721	3,680
Accumulated other comprehensive loss	(868)	(92)
Total stockholders' equity	4,665	5,767
Noncontrolling interests	23	16
Total equity	4,688	5,783
	\$ 14,955	\$ 16,451

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Year Ended December 31,		
	2022	2021	2020
<i>Revenues:</i>			
Direct premiums and escrow fees	\$ 3,085	\$ 3,598	\$ 2,988
Agent premiums	3,548	3,757	2,759
Information and other	1,148	1,215	1,013
Net investment income	340	215	221
Net investment (losses) gains (realized of \$(85), \$20, \$15)	(516)	436	105
	<u>7,605</u>	<u>9,221</u>	<u>7,086</u>
<i>Expenses:</i>			
Personnel costs	2,340	2,350	1,941
Premiums retained by agents	2,830	2,987	2,184
Other operating expenses	1,272	1,323	1,119
Provision for policy losses and other claims	486	589	580
Depreciation and amortization	167	158	149
Impairment losses on exit of business	—	—	55
Premium taxes	91	100	78
Interest	93	72	57
	<u>7,279</u>	<u>7,579</u>	<u>6,163</u>
Income before income taxes	326	1,642	923
Income taxes	61	393	223
Net income	265	1,249	700
Less: Net income attributable to noncontrolling interests	2	8	4
Net income attributable to the Company	<u>\$ 263</u>	<u>\$ 1,241</u>	<u>\$ 696</u>
Net income per share attributable to the Company's stockholders:			
Basic	<u>\$ 2.46</u>	<u>\$ 11.18</u>	<u>\$ 6.18</u>
Diluted	<u>\$ 2.45</u>	<u>\$ 11.14</u>	<u>\$ 6.16</u>
Cash dividends per share	<u>\$ 2.06</u>	<u>\$ 1.94</u>	<u>\$ 1.78</u>
Weighted-average common shares outstanding:			
Basic	<u>107.0</u>	<u>111.0</u>	<u>112.7</u>
Diluted	<u>107.3</u>	<u>111.4</u>	<u>113.0</u>

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 265	\$ 1,249	\$ 700
Other comprehensive income (loss), net of tax:			
Unrealized (losses) gains on securities	(781)	(143)	88
Foreign currency translation adjustment	(42)	(1)	14
Pension benefit adjustment	47	12	(21)
Total other comprehensive (loss) income, net of tax	(776)	(132)	81
Comprehensive (loss) income	(511)	1,117	781
Less: Comprehensive income attributable to noncontrolling interests	2	8	4
Comprehensive (loss) income attributable to the Company	\$ (513)	\$ 1,109	\$ 777

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENTS OF EQUITY
(in millions)**

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, 2019	112.5	\$ —	\$ 2,300	\$ 2,161	\$ (41)	\$ 4,420	\$ 5	\$ 4,425
Net income	—	—	—	696	—	696	4	700
Dividends on common shares	—	—	—	(199)	—	(199)	—	(199)
Repurchases of Company shares	(3.2)	—	(139)	—	—	(139)	—	(139)
Shares issued in connection with share-based compensation	1.1	—	2	(3)	—	(1)	—	(1)
Share-based compensation	—	—	52	—	—	52	—	52
Net activity related to noncontrolling interests	—	—	—	—	—	—	3	3
Other comprehensive income	—	—	—	—	81	81	—	81
Balance at December 31, 2020	110.4	—	2,215	2,655	40	4,910	12	4,922
Net income	—	—	—	1,241	—	1,241	8	1,249
Dividends on common shares	—	—	—	(213)	—	(213)	—	(213)
Repurchases of Company shares	(1.7)	—	(99)	—	—	(99)	—	(99)
Shares issued in connection with share-based compensation	1.0	—	9	(3)	—	6	—	6
Share-based compensation	—	—	54	—	—	54	—	54
Net activity related to noncontrolling interests	—	—	—	—	—	—	(4)	(4)
Other comprehensive loss	—	—	—	—	(132)	(132)	—	(132)
Balance at December 31, 2021	109.7	—	2,179	3,680	(92)	5,767	16	5,783
Net income	—	—	—	263	—	263	2	265
Dividends on common shares	—	—	—	(217)	—	(217)	—	(217)
Repurchases of Company shares	(7.5)	—	(441)	—	—	(441)	—	(441)
Shares issued in connection with share-based compensation	1.0	—	7	(5)	—	2	—	2
Share-based compensation	—	—	67	—	—	67	—	67
Net activity related to noncontrolling interests	—	—	—	—	—	—	5	5
Other comprehensive loss	—	—	—	—	(776)	(776)	—	(776)
Balance at December 31, 2022	103.2	\$ —	\$ 1,812	\$ 3,721	\$ (868)	\$ 4,665	\$ 23	\$ 4,688

See Notes to Consolidated Financial Statements

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 265	\$ 1,249	\$ 700
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	486	589	580
Depreciation and amortization	167	158	149
Impairment losses on exit of business	—	—	55
Amortization of premiums and accretion of discounts on debt securities, net	19	47	39
Net investment losses (gains)	516	(436)	(105)
Share-based compensation	67	54	52
Equity in earnings of affiliates, net	(11)	(7)	(6)
Dividends from equity method investments	11	12	7
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(434)	(482)	(471)
Net change in income tax accounts	(130)	53	29
Decrease (increase) in accounts and accrued income receivable	83	(48)	(53)
(Decrease) increase in accounts payable and accrued liabilities	(266)	115	130
(Decrease) increase in deferred revenue	(28)	(47)	19
Other, net	35	(37)	(40)
Cash provided by operating activities	<u>780</u>	<u>1,220</u>	<u>1,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(278)	(187)	(393)
Net (increase) decrease in deposits with banks	(8)	(15)	1
Purchases of debt securities	(2,980)	(6,138)	(2,749)
Proceeds from sales of debt securities	1,753	1,071	759
Proceeds from maturities of debt securities	1,171	1,864	1,630
Purchases of equity securities	(157)	(198)	(194)
Proceeds from sales of equity securities	241	172	103
Net change in other investments	(7)	(12)	(11)
Advances under secured financing agreements	(15,658)	(25,926)	(17,584)
Collections of secured financings receivable	15,778	26,109	17,123
Capital expenditures	(260)	(161)	(114)
Proceeds from sales of property and equipment	7	18	14
Proceeds from insurance settlement	3	10	—
Cash used for investing activities	<u>(395)</u>	<u>(3,393)</u>	<u>(1,415)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	451	1,792	(60)
Borrowings under secured financing agreements	15,533	24,602	15,442
Repayments of secured financings payable	(15,695)	(24,594)	(15,205)
Net proceeds from issuance of unsecured senior notes	—	642	444
Borrowings under unsecured credit facility	—	—	120
Repayments of borrowings under unsecured credit facility	—	—	(280)
Repayments of other notes and contracts payable	(7)	(6)	(6)
Net activity related to noncontrolling interests	(2)	(4)	(3)
Net proceeds (payments) in connection with share-based compensation	2	6	(1)
Repurchases of Company shares	(441)	(99)	(139)
Payments of cash dividends	(217)	(213)	(199)
Cash (used for) provided by financing activities	<u>(376)</u>	<u>2,126</u>	<u>113</u>
Effect of exchange rate changes on cash	(13)	—	6
Net decrease in cash and cash equivalents	(4)	(47)	(211)
Cash and cash equivalents—Beginning of year	1,228	1,275	1,486
Cash and cash equivalents—End of year	<u>\$ 1,224</u>	<u>\$ 1,228</u>	<u>\$ 1,275</u>
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	\$ 87	\$ 64	\$ 54
Premium taxes	\$ 113	\$ 86	\$ 72
Income taxes, less refunds of \$2 and \$3 in 2022 and 2020, respectively	\$ 189	\$ 339	\$ 193

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:

- 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; provides warehouse lending services; subservices mortgage loans; and provides 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, New Zealand, South Korea and various other established and emerging markets.
- The Company’s specialty insurance segment sells home warranty products including 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.

The Company’s property and casualty business was in the final stages of its wind-down in 2022.

- The Company’s corporate segment includes its investments in venture-stage companies, certain financing facilities and corporate services that support the Company’s business operations.

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, or non-marketable equity securities, 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.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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, 2022 and 2021 totaled \$17 million and \$2 million, respectively. 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 to 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.

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.

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 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, 2022, 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.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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'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, 2022 and 2021 totaled \$38 million and \$34 million, respectively. The Company has elected to not measure an allowance for accrued interest receivable on debt securities and maintains a policy that all receivables ninety days past due are written off to 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, 2022 and 2021, the fair values of such investments totaled \$86 million and \$91 million, respectively. See Note 2 Statutory Restrictions on Investments and Stockholders' Equity for additional discussion of the Company's statutory restrictions.

Equity securities

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

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 its non-marketable equity securities 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 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.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Notes Receivable

Notes receivable are carried at cost, less allowance for credit losses. An allowance for credit losses is established on an individual note based on the Company's estimate of the net amount expected to be collected. The allowance for credit losses 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. For the year ended December 31, 2022, the Company recorded \$28 million in credit losses on notes receivable related to its venture investment portfolio. Notes receivable are included in other assets on the consolidated balance sheets.

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 majority of the underlying mortgage loans are 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 3 to 40 years and from 3 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 1 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.

Impairment losses on property and equipment for the years ended December 31, 2022 and 2021 were \$1 million and \$5 million, respectively. In connection with the Company's decision in 2020 to exit its property and casualty insurance business, it recognized impairment losses on its capitalized software of \$18 million for the year ended December 31, 2020.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 use of all, or a portion, of a leased property while a contractual obligation remains. Impairment losses related to commercial real estate leases were \$2.6 million and \$1.0 million for the years ended December 31, 2022 and 2020, respectively, and were immaterial for the year ended December 31, 2021.

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

Title plants and other indexes

Title plants are 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 a 15 year estimated useful life.

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.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. The reporting units that have been allocated goodwill include title insurance and home warranty. 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.

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

The Company chose to perform qualitative assessments for its title insurance and home warranty reporting units for 2022 and 2021, and performed quantitative impairment tests for 2020. The results of the Company's qualitative assessments in 2022 and 2021 supported the conclusion that the reporting unit fair values were not more likely than not less than their carrying amounts and, therefore, a quantitative impairment test was not considered necessary. Based on the results of the quantitative tests in 2020, the Company determined that the fair values for both reporting units exceeded their carrying amounts and no additional analysis was required. 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 related to either reporting unit for 2022, 2021 or 2020.

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 value. Management's impairment assessment for indefinite-lived other intangible assets include a valuation using a discounted cash flow analysis or through a market approach. 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.

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 contemplated as part of 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.

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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. 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 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 home warranty contracts are generally recognized ratably in proportion to expected claims experience over the duration of the policy or contract, which is typically 12 months.

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, 2022 and 2021. Revenues recognized during the years ended December 31, 2022, 2021 and 2020 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 and home warranty companies, like other types of insurers, are generally not subject to state income or franchise taxes. However, in lieu thereof, most states impose a tax based primarily on insurance premiums written. This premium tax is reported as a separate line item in the consolidated statements of income in order to provide a more meaningful disclosure of the taxation of the Company.

Income taxes

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

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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 utilizes a Monte Carlo valuation model to estimate the fair value of its market-based equity-settled performance awards.

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. In 2022, the Company began granting performance restricted stock units ("PRSUs") to certain key employees and executives, which generally contain service and market conditions. RSUs and PRSUs receive dividend equivalents in the form of RSUs/PRSUs having the same vesting requirements as the initial grant.

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 effect of dilutive potential common shares outstanding during the period using the treasury stock method. Potential dilutive common shares include RSUs and PRSUs.

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.

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 or loss earned on the Company's plan assets is included as a component of net investment income and the income or loss earned by the plan participants is included as a component of personnel costs on the consolidated statements of income.

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Foreign currency

The Company operates in other countries, including Canada, the United Kingdom, Australia, New Zealand and South Korea. 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. 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, 2022. Payments and recoveries on reinsured losses for the Company's title insurance business were immaterial during the years ended December 31, 2022, 2021 and 2020.

Escrow deposits and trust assets

The Company administers escrow deposits and trust assets as a service to its direct customers. Escrow deposits totaled \$10.0 billion and \$10.8 billion at December 31, 2022 and 2021, respectively, of which \$4.6 billion and \$4.8 billion, respectively, were held at First American Trust, FSB ("FA Trust"). The remaining deposits were held at third-party financial institutions.

Trust assets held or managed by FA Trust totaled \$4.1 billion and \$4.6 billion at December 31, 2022 and 2021, 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.

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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 administered by the Company totaled \$2.8 billion and \$6.0 billion at December 31, 2022 and 2021, 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.

Subservicing deposits

In conducting its residential mortgage loan subservicing operations, the Company administers cash deposits on behalf of its clients. Cash deposits totaled \$1.1 billion at December 31, 2022, of which \$0.7 billion were held at FA Trust. The remaining deposits were held at third-party financial institutions. Cash deposits totaled \$0.4 billion at December 31, 2021, all of which were held at third-party financial institutions. Cash deposits held at third-party financial institutions 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 connection with certain accounts, the Company has ongoing programs for realizing economic benefits with various financial institutions whereby it earns economic benefits either as income or as a reduction in expense.

Deposit balances held at FA Trust are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying consolidated balance sheets.

The Company regularly reviews the financial strength of third-party financial institutions where 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.

Pending Accounting Pronouncements

In June 2022, the Financial Accounting Standards Board (“FASB”) issued updated guidance intended to increase the comparability of financial information across reporting entities that have investments in equity securities measured at fair value that are subject to contractual restrictions preventing the sale of those securities. The updated guidance clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, as a result, should not be considered in measuring fair value. In addition, new disclosures are required about the nature of the restrictions and their remaining duration. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2023, with early adoption permitted. The Company does not expect the adoption of this guidance to impact its consolidated financial statements.

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

Investments totaling \$102 million and \$108 million were on deposit with state treasurers in accordance with statutory requirements for the protection of policyholders at December 31, 2022 and 2021, 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, 2022, under such regulations, the maximum amount available to the Company from its insurance subsidiaries in 2023, without prior approval from applicable regulators, was dividends of \$689 million and loans and advances of \$113 million.

The Company's principal title insurance subsidiary, First American Title Insurance Company ("FATICO"), maintained total statutory capital and surplus of \$1.5 billion and \$1.7 billion as of December 31, 2022 and 2021, respectively. Statutory net income for the years ended December 31, 2022, 2021 and 2020 was \$436 million, \$654 million and \$502 million, respectively. FATICO was in compliance with the minimum statutory capital and surplus requirements as of December 31, 2022.

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 \$325 million and \$293 million at December 31, 2022 and 2021, 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 operating lease assets and liabilities on the balance sheet for lease commitments in which the Company is a lessee, changes in the fair values of marketable 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 3. Debt Securities:

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

<u>(in millions)</u>	<u>Amortized cost</u>	<u>Gross unrealized</u>		<u>Estimated fair value</u>
		<u>gains</u>	<u>losses</u>	
December 31, 2022				
U.S. Treasury bonds	\$ 309	\$ 1	\$ (7)	\$ 303
Municipal bonds	1,671	3	(195)	1,479
Foreign government bonds	208	—	(14)	194
Governmental agency bonds	248	—	(19)	229
Governmental agency mortgage-backed securities	5,253	1	(653)	4,601
U.S. corporate debt securities	1,004	2	(85)	921
Foreign corporate debt securities	477	2	(36)	443
	<u>\$ 9,170</u>	<u>\$ 9</u>	<u>\$ (1,009)</u>	<u>\$ 8,170</u>
December 31, 2021				
U.S. Treasury bonds	\$ 123	\$ 1	\$ (1)	\$ 123
Municipal bonds	1,607	59	(17)	1,649
Foreign government bonds	228	2	(3)	227
Governmental agency bonds	175	3	(1)	177
Governmental agency mortgage-backed securities	5,620	34	(47)	5,607
U.S. corporate debt securities	1,071	19	(9)	1,081
Foreign corporate debt securities	493	9	(4)	498
	<u>\$ 9,317</u>	<u>\$ 127</u>	<u>\$ (82)</u>	<u>\$ 9,362</u>

Sales of debt securities resulted in realized gains of \$5 million, \$29 million and \$18 million, realized losses of \$142 million, \$9 million and \$3 million, and proceeds of \$1.8 billion, \$1.1 billion and \$759 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

(in millions)	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
December 31, 2022						
U.S. Treasury bonds	\$ 108	\$ (1)	\$ 50	\$ (6)	\$ 158	\$ (7)
Municipal bonds	813	(56)	540	(139)	1,353	(195)
Foreign government bonds	142	(6)	46	(8)	188	(14)
Governmental agency bonds	173	(8)	56	(11)	229	(19)
Governmental agency mortgage-backed securities	1,860	(141)	2,627	(512)	4,487	(653)
U.S. corporate debt securities	528	(38)	325	(47)	853	(85)
Foreign corporate debt securities	241	(17)	137	(19)	378	(36)
	\$ 3,865	\$ (267)	\$ 3,781	\$ (742)	\$ 7,646	\$ (1,009)
December 31, 2021						
U.S. Treasury bonds	\$ 76	\$ (1)	\$ —	\$ —	\$ 76	\$ (1)
Municipal bonds	684	(17)	—	—	684	(17)
Foreign government bonds	103	(1)	33	(2)	136	(3)
Governmental agency bonds	73	(1)	—	—	73	(1)
Governmental agency mortgage-backed securities	4,036	(47)	—	—	4,036	(47)
U.S. corporate debt securities	533	(9)	—	—	533	(9)
Foreign corporate debt securities	234	(4)	—	—	234	(4)
	\$ 5,739	\$ (80)	\$ 33	\$ (2)	\$ 5,772	\$ (82)

Based on the Company's review of its debt securities in an unrealized loss position it determined that the losses were due to non-credit factors and, therefore, it does not consider these securities to be credit impaired at December 31, 2022. As of December 31, 2022, 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.

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, yield to maturity, profitability and stock performance.

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Investments in debt securities at December 31, 2022, by contractual maturities, are as follows:

<u>(in millions)</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	\$ 143	\$ 141	\$ 6	\$ 19	\$ 309
Estimated fair value	\$ 143	\$ 137	\$ 5	\$ 18	\$ 303
Municipal bonds					
Amortized cost	21	288	758	604	1,671
Estimated fair value	21	268	669	521	1,479
Foreign government bonds					
Amortized cost	36	95	71	6	208
Estimated fair value	36	93	60	5	194
Governmental agency bonds					
Amortized cost	26	157	7	58	248
Estimated fair value	25	151	6	47	229
U.S. corporate debt securities					
Amortized cost	55	687	199	63	1,004
Estimated fair value	54	629	186	52	921
Foreign corporate debt securities					
Amortized cost	20	300	116	41	477
Estimated fair value	20	280	107	36	443
Total debt securities, excluding mortgage-backed securities					
Amortized cost	\$ 301	\$ 1,668	\$ 1,157	\$ 791	\$ 3,917
Estimated fair value	\$ 299	\$ 1,558	\$ 1,033	\$ 679	\$ 3,569
Total mortgage-backed securities					
Amortized cost					5,253
Estimated fair value					4,601
Total debt securities					
Amortized cost					\$ 9,170
Estimated fair value					\$ 8,170

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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The composition of the debt securities portfolio at December 31, 2022, by credit rating, is as follows:

<u>(dollars in millions)</u>	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total
	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value
U.S. Treasury bonds	\$ 303	100.0	\$ —	—	\$ —	—	\$ 303
Municipal bonds	1,432	96.8	47	3.2	—	—	1,479
Foreign government bonds	190	98.0	2	1.0	2	1.0	194
Governmental agency bonds	229	100.0	—	—	—	—	229
Governmental agency mortgage-backed securities	4,601	100.0	—	—	—	—	4,601
U.S. corporate debt securities	429	46.6	362	39.3	130	14.1	921
Foreign corporate debt securities	193	43.6	211	47.6	39	8.8	443
	\$ 7,377	90.3	\$ 622	7.6	\$ 171	2.1	\$ 8,170

Included in debt securities at December 31, 2022, were bank loans totaling \$126 million, of which \$121 million were non-investment grade; high yield corporate debt securities totaling \$44 million, all of which were non-investment grade; and emerging market debt securities totaling \$54 million, of which \$6 million were non-investment grade.

The composition of the debt securities portfolio in an unrealized loss position at December 31, 2022, by credit rating, is as follows:

<u>(dollars in millions)</u>	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total
	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value
U.S. Treasury bonds	\$ 158	100.0	\$ —	—	\$ —	—	\$ 158
Municipal bonds	1,315	97.2	38	2.8	—	—	1,353
Foreign government bonds	184	97.9	1	0.5	3	1.6	188
Governmental agency bonds	229	100.0	—	—	—	—	229
Governmental agency mortgage-backed securities	4,487	100.0	—	—	—	—	4,487
U.S. corporate debt securities	411	48.2	327	38.3	115	13.5	853
Foreign corporate debt securities	169	44.7	175	46.3	34	9.0	378
	\$ 6,953	90.9	\$ 541	7.1	\$ 152	2.0	\$ 7,646

Debt securities in an unrealized loss position at December 31, 2022, included bank loans totaling \$107 million, of which \$102 million were non-investment grade; high yield corporate debt securities totaling \$44 million, all of which were non-investment grade; and emerging market debt securities totaling \$53 million, of which \$6 million 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 4. Equity Securities:

Investments in equity securities, by classification, are summarized as follows:

<u>(in millions)</u>	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Marketable equity securities	\$ 280	\$ 657
Non-marketable equity securities	396	441
Equity method investments	78	78
	<u>\$ 754</u>	<u>\$ 1,176</u>

Investments in marketable equity securities are summarized as follows:

<u>(in millions)</u>	<u>Cost</u>	<u>Unrealized gains (losses)</u>	<u>Estimated fair value</u>
December 31, 2022			
Common stocks	\$ 324	\$ (55)	\$ 269
Preferred stocks	15	(4)	11
	<u>\$ 339</u>	<u>\$ (59)</u>	<u>\$ 280</u>
December 31, 2021			
Common stocks	\$ 418	\$ 222	\$ 640
Preferred stocks	17	—	17
	<u>\$ 435</u>	<u>\$ 222</u>	<u>\$ 657</u>

Net losses of \$263 million and net gains of \$184 million resulting from changes in the fair values of marketable equity securities were recognized for the years ended December 31, 2022 and 2021, respectively, which included net unrealized losses of \$237 million and net unrealized gains of \$172 million on securities still held at December 31, 2022 and 2021, respectively. Included in net losses during the year ended December 31, 2022 and net gains during the year ended December 31, 2021 were unrealized losses of \$191 million and unrealized gains of \$121 million, respectively, related to changes in the fair value of the Company's investment in Offerpad Solutions Inc., a tech-enabled real estate company, which began trading publicly in September 2021. Net gains and losses resulting from changes in the fair values of marketable equity securities are recognized in net investment gains/losses on the consolidated statements of income.

Investments in non-marketable equity securities are summarized as follows:

<u>(in millions)</u>	<u>Cost</u>	<u>Unrealized gains</u>	<u>Carrying amount</u>
December 31, 2022	<u>\$ 307</u>	<u>\$ 89</u>	<u>\$ 396</u>
December 31, 2021	<u>\$ 215</u>	<u>\$ 226</u>	<u>\$ 441</u>

The Company recognized unrealized losses of \$153 million, which included impairment charges of \$140 million and recognized unrealized gains of \$16 million for the year ended December 31, 2022, all related to its investments in private venture-stage companies. For the year ended December 31, 2021, the Company recognized unrealized gains of \$210 million related to its investments in private venture-stage companies. All such unrealized losses and gains related to securities still held at December 31, 2022 and 2021. Net gains and losses on non-marketable equity securities are recognized in net investment gains/losses on the consolidated statements of income.

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Also, during the year ended December 31, 2022, the Company realized a gain of \$52 million and cash proceeds of \$63 million related to the sale of an investment in a title insurance business.

NOTE 5. Allowance for Credit Losses – Accounts Receivable:

Activity in the allowance for credit losses on accounts receivable is summarized as follows:

<u>(in millions)</u>	Year Ended December 31,	
	2022	2021
Balance at beginning of period	\$ 14	\$ 14
Provision for expected credit losses	11	4
Write-offs/recoveries	(4)	(4)
Balance at end of period	\$ 21	\$ 14

NOTE 6. Property and Equipment:

Property and equipment is summarized as follows:

<u>(in millions)</u>	December 31,	
	2022	2021
Land	\$ 27	\$ 24
Buildings	189	185
Leasehold improvements	72	70
Furniture and equipment	230	215
Capitalized software	1,059	884
	1,577	1,378
Accumulated depreciation and amortization	(940)	(872)
	\$ 637	\$ 506

NOTE 7. Leases:

Lease assets and liabilities are summarized as follows:

<u>(in millions)</u>	December 31.		<u>Classification</u>
	2022	2021	
Assets			
Operating lease assets	\$ 248	\$ 249	Operating lease assets
Finance lease assets	3	2	Other assets
Total lease assets	\$ 251	\$ 251	
Liabilities			
Operating lease liabilities	\$ 269	\$ 274	Operating lease liabilities
Finance lease liabilities	3	3	Notes and contracts payable
Total lease liabilities	\$ 272	\$ 277	

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The components of lease expense are summarized as follows:

<u>(in millions)</u>	<u>Year ended December 31.</u>			<u>Classification</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>	
Operating lease cost	\$ 93	\$ 86	\$ 89	Other operating expenses
Finance lease cost:				
Amortization of lease assets	2	2	2	Depreciation and amortization
Variable lease cost	34	31	32	Other operating expenses
Short-term lease cost	3	2	1	Other operating expenses
Sublease income	(1)	(3)	(3)	Information and other
Net lease cost	<u>\$ 131</u>	<u>\$ 118</u>	<u>\$ 121</u>	

Future minimum lease payments under operating and finance leases with noncancelable lease terms, as of December 31, 2022, are summarized as follows:

<u>(in millions)</u>	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2023	\$ 86	\$ 1	\$ 87
2024	71	1	72
2025	55	1	56
2026	38	—	38
2027	21	—	21
Thereafter	17	—	17
Total lease payments	288	3	291
Interest	(19)	—	(19)
Present value of lease liabilities	<u>\$ 269</u>	<u>\$ 3</u>	<u>\$ 272</u>

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

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Weighted-average remaining lease terms (years):		
Operating leases	4	4
Finance leases	2	2
Weighted-average discount rates:		
Operating leases	3.34%	3.40%
Finance leases	3.23%	3.96%

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

<u>(in millions)</u>	<u>Year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 96	\$ 90	\$ 93
Financing cash flows from finance leases	2	2	2
Operating lease assets obtained in exchange for new operating lease liabilities	\$ 66	\$ 59	\$ 54
Finance lease assets obtained in exchange for new finance lease liabilities	\$ 3	\$ —	\$ 1

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NOTE 8. Goodwill:

A summary of the changes in the carrying amount of goodwill, by reportable segment, for the years ended December 31, 2022 and 2021, is as follows:

<u>(in millions)</u>	<u>Title Insurance and Services</u>	<u>Specialty Insurance</u>	<u>Total</u>
Balance as of December 31, 2020	\$ 1,366	\$ 13	\$ 1,379
Acquisitions	209	—	209
Balance as of December 31, 2021	<u>1,575</u>	<u>13</u>	<u>1,588</u>
Acquisitions	217	—	217
Transfers	(28)	28	—
Foreign currency translation	(7)	—	(7)
Balance as of December 31, 2022	<u>\$ 1,757</u>	<u>\$ 41</u>	<u>\$ 1,798</u>
Accumulated impairment losses	<u>\$ —</u>	<u>\$ (34)</u>	<u>\$ (34)</u>

For discussion about the Company's acquisitions in 2022, see Note 22 Business Combinations.

NOTE 9. Other Intangible Assets:

Other intangible assets are summarized as follows:

<u>(in millions)</u>	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Finite-lived intangible assets:		
Customer relationships	\$ 191	\$ 203
Noncompete agreements	34	49
Trademarks	70	32
Internal-use software licenses	24	21
Patents	<u>3</u>	<u>3</u>
	322	308
Accumulated amortization	<u>(145)</u>	<u>(107)</u>
	177	201
Indefinite-lived intangible assets:		
Licenses	<u>17</u>	<u>17</u>
	<u>\$ 194</u>	<u>\$ 218</u>

Amortization expense for finite-lived intangible assets was \$54 million, \$51 million and \$43 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

<u>Year</u>	<u>(in millions)</u>
2023	\$ 46
2024	\$ 33
2025	\$ 26
2026	\$ 26
2027	\$ 11

NOTE 10. Deposits:

Deposit accounts are summarized as follows:

<u>(dollars in millions)</u>	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Escrow deposits:		
Interest bearing	\$ 2,542	\$ 2,792
Non-interest bearing	2,077	2,083
	<u>4,619</u>	<u>4,875</u>
Mortgage subservicing deposits:		
Interest bearing	713	—
Business checking and other deposits (1)	188	194
	<u>\$ 5,520</u>	<u>\$ 5,069</u>
Weighted-average interest rate:		
Interest bearing deposit accounts	<u>0.50%</u>	<u>0.10%</u>

(1) Accounts are primarily non-interest bearing.

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:

<u>(in millions)</u>	<u>December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 1,284	\$ 1,178	\$ 1,063
Provision related to:			
Current year	468	570	532
Prior years	18	19	48
	<u>486</u>	<u>589</u>	<u>580</u>
Payments, net of recoveries, related to:			
Current year	227	292	268
Prior years	207	190	203
	<u>434</u>	<u>482</u>	<u>471</u>
Other	(11)	(1)	6
Balance at end of year	<u>\$ 1,325</u>	<u>\$ 1,284</u>	<u>\$ 1,178</u>

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The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the years ended December 31, 2022 and 2021, and 5.0% for the year ended December 31, 2020.

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

The 2021 loss rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years.

The 2020 loss rate of 5.0% reflected an ultimate loss rate of 4.5% for policy year 2020 and a net increase in the loss reserve estimates for prior policy years of 0.5%, or \$26 million.

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

<u>(dollars in millions)</u>	<u>December 31,</u>			
	<u>2022</u>		<u>2021</u>	
Known title claims	\$ 62	4.7%	\$ 67	5.2%
IBNR title claims	1,207	91.1%	1,143	89.0%
Total title claims	1,269	95.8%	1,210	94.2%
Non-title claims	56	4.2%	74	5.8%
Total loss reserves	<u>\$ 1,325</u>	<u>100.0%</u>	<u>\$ 1,284</u>	<u>100.0%</u>

Short-Duration Insurance Contracts

Home Warranty

The following reflects information as of December 31, 2022 about incurred and paid claims development 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.

The information below about incurred and paid claims development for the years ended December 31, 2013 to 2021, is presented as supplementary information.

<u>Accident Year</u>	<u>Incurred claims and allocated claim adjustment expenses</u>										<u>December 31, 2022</u>	
	<u>Years ended December 31,</u>											<u>Cumulative number of reported claims</u>
	<u>2013*</u>	<u>2014*</u>	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>	<u>2019*</u>	<u>2020*</u>	<u>2021*</u>	<u>2022</u>		
	(in millions)											
2013	\$ 124	124	124	124	124	124	124	124	124	124	\$ 124	0.7
2014		124	124	124	124	124	124	124	124	124	124	0.8
2015			144	144	144	144	144	144	144	144	144	0.9
2016				173	173	173	173	173	173	173	173	1.0
2017					167	167	167	167	167	167	167	1.0
2018						180	180	180	180	180	180	1.1
2019							174	174	174	174	174	1.1
2020								197	197	197	197	1.2
2021									218	218	218	1.2
2022										211	211	1.1
									Total	<u>\$ 1,712</u>		

*Amounts unaudited.

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Accident Year	Cumulative paid claims and allocated claim adjustment expenses										
	Years ended December 31,										
	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022	
	(in millions)										
2013	\$ 111	124	124	124	124	124	124	124	124	124	\$ 124
2014		111	124	124	124	124	124	124	124	124	124
2015			129	144	144	144	144	144	144	144	144
2016				155	173	173	173	173	173	173	173
2017					151	167	167	167	167	167	167
2018						163	180	180	180	180	180
2019							159	174	174	174	174
2020								178	197	197	197
2021									199	199	218
2022											192
									Total		\$ 1,693
										All outstanding liabilities before 2013	—
										Liabilities for claims and claims adjustment expenses	\$ 19

*Amounts unaudited.

A reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expense at December 31, 2022, is as follows:

	<u>December 31, 2022</u>
	(in millions)
Liability for unpaid claims and claim adjustment expenses — short-duration:	
Home warranty	\$ 19
Property and casualty insurance	37
	<u>56</u>
Insurance lines other than short-duration:	
Title insurance	1,269
Total liability for unpaid claims and claims adjustment expenses	<u>\$ 1,325</u>

Supplementary information about average historical claims duration for the Company's home warranty business as of December 31, 2022, is as follows:

Average annual percentage payout of incurred claims by age (unaudited)										
Years	1	2	3	4	5	6	7	8	9	10
Annual payout	90.3%	9.7%	—	—	—	—	—	—	—	—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 12. Notes and Contracts Payable:

	December 31,	
	2022	2021
	(dollars in millions)	
2.40% senior unsecured notes due August 15, 2031, effective interest rate of 2.44%	\$ 650	\$ 650
4.00% senior unsecured notes due May 15, 2030, effective interest rate of 4.05%	450	450
4.60% senior unsecured notes due November 15, 2024, effective interest rate of 4.60% . . .	300	300
4.30% senior unsecured notes due February 1, 2023, effective interest rate of 4.35%	250	250
Trust deed note due November 1, 2023, collateralized by land and buildings with net book values of \$36 and \$37 at December 31, 2022 and 2021, respectively, fixed interest rate of 5.26%	4	8
Other notes and contracts payable with maturities through 2027, weighted -average interest rates of 3.30% and 4.21% at December 31, 2022 and 2021, respectively	4	4
	1,658	1,662
Unamortized discounts and debt issuance costs	(12)	(14)
	\$ 1,646	\$ 1,648

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 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 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, 2022, 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) until LIBOR is discontinued, 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, 2022, 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> <u>(in millions)</u>
2023	\$ 256
2024	301
2025	1
2026	—
2027	—
Thereafter	1,100
	<u>\$ 1,658</u>

On February 1, 2023, the Company repaid its \$250 million 4.30% senior unsecured notes, upon maturity, through available cash.

NOTE 13. Net Investment Income:

The components of net investment income are summarized as follows:

	<u>Year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>(in millions)</u>		
Interest on:			
Debt securities	\$ 206	\$ 133	\$ 126
Deposits and other investments	135	47	69
Dividends on equity securities	9	11	11
Deferred compensation plan assets	(25)	19	13
Equity in earnings of affiliates, net	11	7	6
Other	7	1	—
Total investment income	<u>343</u>	<u>218</u>	<u>225</u>
Investment expenses	<u>(3)</u>	<u>(3)</u>	<u>(4)</u>
Net investment income	<u>\$ 340</u>	<u>\$ 215</u>	<u>\$ 221</u>

NOTE 14. Income Taxes:

For the years ended December 31, 2022, 2021 and 2020, domestic and foreign pretax income, before noncontrolling interests, were \$268 million and \$58 million, \$1.5 billion and \$93 million, and \$850 million and \$73 million, respectively.

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Income taxes are summarized as follows:

	Year ended December 31,		
	2022	2021	2020
	(in millions)		
Current:			
Federal	\$ 132	\$ 244	\$ 191
State	19	37	27
Foreign	18	20	12
	169	301	230
Deferred:			
Federal	(80)	65	(18)
State	(25)	24	1
Foreign	(3)	3	10
	(108)	92	(7)
	\$ 61	\$ 393	\$ 223

The Company's actual income tax expense differs from the expense computed by applying the federal income tax rate of 21% for the years ended December 31, 2022, 2021 and 2020. A reconciliation of these differences is as follows:

	Year ended December 31,					
	2022		2021		2020	
	(dollars in millions)					
Taxes calculated at federal rate	\$ 68	21.0%	\$ 345	21.0%	\$ 194	21.0%
State taxes, net of federal benefit	(5)	(1.5)	48	2.9	22	2.4
Change in liability for tax positions	(1)	(0.3)	—	—	—	—
Foreign income taxed at different rates	2	0.6	1	0.1	5	0.6
Unremitted foreign earnings	—	—	1	0.1	(2)	(0.2)
Other items, net	(3)	(1.1)	(2)	(0.2)	4	0.3
	\$ 61	18.7%	\$ 393	23.9%	\$ 223	24.1%

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 18.7%, 23.9%, and 24.1% for the years ended December 31, 2022, 2021, and 2020, respectively. The effective income 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 amounts reported for income tax purposes, including the recognition of excess tax benefits or tax deficiencies associated with share-based payment transactions through income tax expense. The effective income tax rate for 2022 also reflects the impact on pretax earnings from losses and impairments on equity investments and benefits from the resolution of state tax matters from prior years. The effective tax rates for 2021 and 2020 also reflect benefits related to foreign tax law changes and, for 2020, also reflects the impairment of nondeductible goodwill relating to the wind-down of the Company's property and casualty insurance business.

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

	December 31,	
	2022	2021
	(in millions)	
Deferred tax assets:		
Deferred revenue	\$ 8	\$ 11
Employee benefits	97	102
Bad debt reserves	12	7
Pension	13	30
Net operating loss carryforward	29	10
Foreign tax credit	5	4
Operating lease liabilities	59	58
Payroll taxes	—	5
Securities	264	—
Other	10	6
	497	233
Valuation allowance	(7)	(8)
	490	225
Deferred tax liabilities:		
Depreciable and amortizable assets	282	274
Claims and related salvage	82	89
Investments in affiliates	26	63
Securities	—	65
Operating lease assets	53	52
Unremitted foreign earnings	12	13
	455	556
Net deferred tax asset (liability)	\$ 35	\$ (331)

On August 16, 2022, the Inflation Reduction Act was signed into law. The Inflation Reduction Act includes various tax provisions, which are effective for tax years beginning on or after January 1, 2023. While the Company is still evaluating these tax law changes, it does not expect them to have a material impact on its consolidated financial statements.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was signed into law in 2020, allowed 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 on December 31, 2021 and December 31, 2022. Under this provision of the CARES Act, the Company deferred \$49 million in payroll taxes for 2020 and recorded the tax impact of \$12 million as a deferred tax asset. As of December 31, 2022, the Company has remitted all of its deferred payroll taxes and has no remaining deferred tax asset.

The vesting of RSUs represents a tax benefit that has been reflected as a reduction to income taxes payable and income tax expense for the years ended December 31, 2022, 2021 and 2020. The benefits recorded were \$2 million, \$2 million and \$4 million for the years ended December 31, 2022, 2021 and 2020, respectively.

At December 31, 2022, the Company had available a \$4 million foreign tax credit carryover, net of a valuation allowance, and expects to utilize this credit within the carryover period.

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At December 31, 2022, the Company had available net operating loss carryforwards for income tax purposes totaling \$196 million, consisting of federal, state and foreign losses of \$85 million, \$86 million and \$25 million, respectively. Of the aggregate net operating losses, \$107 million has an indefinite expiration.

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 in assessing the likelihood of realization of its deferred tax assets include forecasts of future taxable income and available tax planning strategies that could be implemented. The Company's ability to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of its deferred tax assets. At December 31, 2022 and 2021, the Company carried a valuation allowance of \$7 million and \$8 million, respectively, of which \$6 million and \$7 million, respectively, related to net operating losses and the remaining \$1 million related to other deferred tax assets. The decrease in the overall valuation allowance during 2022 was primarily due to the reversal of the 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, 2022, 2021 and 2020, the liability for income taxes associated with uncertain tax positions was \$3 million, \$8 million and \$7 million, respectively. The net decrease in the liability in 2022 from 2021 was primarily attributable to the resolution of state tax matters from prior years and the net increase in the liability in 2021 from 2020 was primarily attributable to positions taken on the Company's tax returns for prior years. The liabilities could be reduced by \$2 million, \$3 million and \$2 million as of December 31, 2022, 2021 and 2020, 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, 2022, 2021 and 2020 is as follows:

	Year ended December 31,		
	2022	2021	2020
	(in millions)		
Unrecognized tax benefits—beginning balance	\$ 8	\$ 7	\$ 1
Gross increases (decreases)—prior period tax positions	—	—	5
Gross increases—current period tax positions	1	1	1
Settlements with taxing authorities	(6)	—	—
Unrecognized tax benefits—ending balance	\$ 3	\$ 8	\$ 7

The Company's continuing practice is to recognize interest and penalties 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, 2022, 2021 and 2020.

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, 2022, the Company is, generally, no longer subject to U.S. federal and state income tax examinations for years prior to 2019, and, for 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 taxing 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 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,		
	2022	2021	2020
	(in millions, except per share data)		
Numerator			
Net income attributable to the Company	\$ 263	\$ 1,241	\$ 696
Denominator			
Basic weighted-average common shares	107.0	111.0	112.7
Effect of dilutive RSUs	0.3	0.4	0.3
Diluted weighted-average common shares	107.3	111.4	113.0
Net income per share attributable to the Company's stockholders (1)			
Basic	\$ 2.46	\$ 11.18	\$ 6.18
Diluted	\$ 2.45	\$ 11.14	\$ 6.16

(1) Net income per share may not recalculate due to rounding.

For the years ended December 31, 2022 and 2020, 19 thousand and 203 thousand RSUs were excluded from the weighted-average diluted common shares outstanding due to their antidilutive effect. For the year ended December 31, 2021, RSUs excluded from diluted weighted-average common shares outstanding due to their antidilutive effect were not material.

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 1.6 million shares and 1.7 million shares of the Company's common stock, representing 1.5% and 1.6% of the Company's total common shares outstanding at December 31, 2022 and 2021, respectively. Effective July 1, 2015, additional investments in common stock of the Company are no longer allowed.

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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 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, 2022 and 2021, the value of the assets held in the Rabbi Trust of \$110 million and \$134 million, respectively, and the unfunded liabilities of \$136 million and \$153 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, which are comprised primarily of the Executive and Management Supplemental Benefit Plans and the smaller Pension Restoration Plan (collectively, the “unfunded supplemental benefit plans”). The Executive and Management Supplemental Benefit Plans, subject to certain limitations, provide participants with maximum annual 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:

	Year ended December 31,		
	2022	2021	2020
	(in millions)		
Expense:			
Savings plan	\$ 37	\$ 74	\$ 32
Unfunded supplemental benefit plans	12	11	9
Other plans, net (1)	(14)	24	19
	\$ 35	\$ 109	\$ 60

(1) For the year ended December 31, 2022, participant investments included in the deferred compensation plan realized losses in excess of expenses recorded by the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
	(in millions)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 262	\$ 283
Interest costs	6	5
Actuarial gains	(57)	(11)
Benefits paid	(15)	(15)
Projected benefit obligation at end of year	<u>196</u>	<u>262</u>
Change in plan assets:		
Contributions	15	14
Benefits paid	(15)	(14)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Reconciliation of funded status:		
Unfunded status of the plans	<u>\$ 196</u>	<u>\$ 262</u>
Amounts recognized in the consolidated balance sheet:		
Accrued benefit liability	<u>\$ 196</u>	<u>\$ 262</u>
Amounts recognized in accumulated other comprehensive income/loss:		
Unrecognized net actuarial loss	<u>\$ 48</u>	<u>\$ 111</u>
	<u>\$ 48</u>	<u>\$ 111</u>
Accumulated benefit obligation at end of year	<u>\$ 196</u>	<u>\$ 262</u>

Net periodic benefit costs related to the Company's unfunded supplemental benefit pension plans are summarized as follows:

	<u>Year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
	(in millions)		
Expense:			
Interest costs	\$ 6	\$ 5	\$ 7
Amortization of net actuarial loss	6	7	5
Amortization of prior service credit	—	(1)	(3)
	<u>\$ 12</u>	<u>\$ 11</u>	<u>\$ 9</u>

Net actuarial loss for the unfunded supplemental benefit plans expected to be amortized from accumulated other comprehensive income/loss into net periodic benefit cost during 2023 is \$2 million.

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The weighted-average discount rate assumptions used to determine net periodic benefit costs for the Executive and Management Supplemental Benefit Plans for the years ended December 31, 2022, 2021 and 2020, are as follows:

	Year ended December 31,		
	2022	2021	2020
Discount rates:			
Projected benefit obligation	2.89%	2.49%	3.27%
Service cost	3.29%	3.14%	3.71%
Interest cost	2.37%	1.83%	2.86%

The weighted-average discount rate assumptions used to determine the projected benefit obligations for the Executive and Management Supplemental Benefit Plans at December 31, 2022 and 2021, are as follows:

	December 31,	
	2022	2021
Discount rate	5.56%	2.89%

The discount rate assumptions used 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 \$16 million to its unfunded supplemental benefit plans during 2023.

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

Year	(in millions)
2023	\$ 16
2024	\$ 17
2025	\$ 17
2026	\$ 17
2027	\$ 16
Five years thereafter	\$ 77

NOTE 17. Fair Value Measurements:

Certain of the Company's assets and liabilities 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 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.

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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.

Marketable equity securities

The fair values of marketable 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, 2022 and 2021:

<u>(in millions)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2022				
Debt securities:				
U.S. Treasury bonds	\$ 303	\$ —	\$ 303	\$ —
Municipal bonds	1,479	—	1,479	—
Foreign government bonds	194	—	194	—
Governmental agency bonds	229	—	229	—
Governmental agency mortgage-backed securities	4,601	—	4,601	—
U.S. corporate debt securities	921	—	921	—
Foreign corporate debt securities	443	—	443	—
	<u>8,170</u>	<u>—</u>	<u>8,170</u>	<u>—</u>
Marketable equity securities:				
Common stocks	269	269	—	—
Preferred stocks	11	11	—	—
	<u>280</u>	<u>280</u>	<u>—</u>	<u>—</u>
Mortgage loans held for sale	16	—	14	2
Total	<u>\$ 8,466</u>	<u>\$ 280</u>	<u>\$ 8,184</u>	<u>\$ 2</u>
<u>(in millions)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2021				
Debt securities:				
U.S. Treasury bonds	\$ 123	\$ —	\$ 123	\$ —
Municipal bonds	1,649	—	1,649	—
Foreign government bonds	227	—	227	—
Governmental agency bonds	177	—	177	—
Governmental agency mortgage-backed securities	5,607	—	5,607	—
U.S. corporate debt securities	1,081	—	1,081	—
Foreign corporate debt securities	498	—	498	—
	<u>9,362</u>	<u>—</u>	<u>9,362</u>	<u>—</u>
Marketable equity securities:				
Common stocks	640	640	—	—
Preferred stocks	17	17	—	—
	<u>657</u>	<u>657</u>	<u>—</u>	<u>—</u>
Mortgage loans held for sale	12	—	11	1
Total	<u>\$ 10,031</u>	<u>\$ 657</u>	<u>\$ 9,373</u>	<u>\$ 1</u>

There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2022 and 2021. 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.

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, 2022 and 2021:

<u>(in millions)</u>	<u>Carrying Amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2022					
Assets:					
Cash and cash equivalents	\$ 1,224	\$ 1,224	\$ 1,224	\$ —	\$ —
Deposits with banks	\$ 63	\$ 62	\$ 8	\$ 54	\$ —
Notes receivable, net	\$ 11	\$ 11	\$ —	\$ —	\$ 11
Secured financings receivable	\$ 423	\$ 423	\$ —	\$ 423	\$ —
Liabilities:					
Secured financings payable	\$ 366	\$ 366	\$ —	\$ 366	\$ —
Notes and contracts payable	\$ 1,646	\$ 1,405	\$ —	\$ 1,401	\$ 4

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<u>(in millions)</u>	<u>Carrying Amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2021					
Assets:					
Cash and cash equivalents	\$ 1,228	\$ 1,228	\$ 1,228	\$ —	\$ —
Deposits with banks	\$ 58	\$ 58	\$ 13	\$ 45	\$ —
Notes receivable, net	\$ 32	\$ 32	\$ —	\$ —	\$ 32
Secured financings receivable	\$ 565	\$ 565	\$ —	\$ 565	\$ —
Liabilities:					
Secured financings payable	\$ 529	\$ 529	\$ —	\$ 529	\$ —
Notes and contracts payable	\$ 1,648	\$ 1,724	\$ —	\$ 1,720	\$ 4

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 equity-method investments.

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, PRSUs, 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, 2022, 1.6 million shares of common stock remain available to be issued by the Company, subject to certain annual limits based on the type of award granted. The Company settles its equity awards with authorized but unissued shares of its common stock. The Incentive Compensation Plan terminates 10 years from its effective date unless canceled earlier 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 0.6 million shares issued in connection with this plan for the year ended December 31, 2022 and 0.5 million for the years ended December 31, 2021 and 2020.

In March 2022, the Company’s board of directors amended the First American Financial Corporation 2010 Employee Stock Purchase Plan (the “Amended ESPP”), effective July 1, 2022. The Amended ESPP increases the maximum number of shares of Company common stock available for sale from 5 million to 14 million. In addition, the Amended ESPP extends the term of the plan from July 1, 2023 to July 1, 2032. At December 31, 2022, there were 9.0 million shares reserved for future issuances.

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

	Year ended December 31,		
	2022	2021	2020
	(in millions)		
Expense:			
RSUs	\$ 58	\$ 48	\$ 47
PRSUs	3	—	—
Employee stock purchase plan	6	6	5
	\$ 67	\$ 54	\$ 52

The following table summarizes RSU and PRSU activity for the year ended December 31, 2022:

(in millions, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
Unvested at December 31, 2021	0.9	\$ 58.11
Granted during 2022	1.0	67.65
Vested during 2022	(1.0)	63.47
Unvested at December 31, 2022	0.9	\$ 63.01

As of December 31, 2022, there was \$29 million of total unrecognized compensation cost related to unvested RSUs and PRSUs that is expected to be recognized over a weighted-average period of 2.0 years. The fair values of RSUs and PRSUs is generally based on the market value of the Company’s shares on the date of grant. The weighted-average grant-date fair values of RSUs and PRSUs for the year ended December 31, 2022 was \$67.65 and, for the years ended December 31, 2021 and 2020, the weighted-average grant-date fair values of RSUs were \$56.65 and \$63.14 for the years ended December 31, 2022, 2021 and 2020, respectively. The total fair values of shares distributed for the years ended December 31, 2022, 2021 and 2020 were \$57 million, \$49 million and \$56 million, respectively. At December 31, 2022, 1.2 million shares were vested but not distributed.

NOTE 19. Stockholders’ Equity:

In June 2022, the Company’s board of directors approved a new share repurchase plan and terminated its prior share repurchase plan. The Company’s new share repurchase plan authorizes the repurchase of up to \$400 million of the Company’s common stock, of which \$287 million remained as of December 31, 2022. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. During the year ended December 31, 2022, the Company repurchased and retired, under both the Company’s prior authorization and the current authorization, 7.5 million shares of its common stock for a total purchase price of \$441 million and, as of December 31, 2022, had cumulatively repurchased and retired 10.4 million shares of its common stock for a total purchase price of \$598 million.

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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, 2022, 2021 and 2020:

<u>(in millions)</u>	First American Financial Corporation			
	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
Balance at December 31, 2019	\$ 84	\$ (52)	\$ (73)	\$ (41)
Change in unrealized gains (losses) on debt securities	116	—	—	116
Change in unrealized gains (losses) on debt securities for which credit-related portion was recognized in earnings	1	—	—	1
Change in foreign currency translation adjustment	—	14	—	14
Net actuarial loss	—	—	(31)	(31)
Amortization of net actuarial loss	—	—	5	5
Amortization of prior service credit	—	—	(3)	(3)
Tax effect	(29)	—	8	(21)
	172	(38)	(94)	40
Balance at December 31, 2020	172	(38)	(94)	40
Change in unrealized gains (losses) on debt securities	(189)	—	—	(189)
Change in foreign currency translation adjustment	—	(2)	—	(2)
Net actuarial gain	—	—	11	11
Amortization of net actuarial loss	—	—	7	7
Amortization of prior service credit	—	—	(1)	(1)
Tax effect	46	1	(5)	42
	29	(39)	(82)	(92)
Balance at December 31, 2021	29	(39)	(82)	(92)
Change in unrealized gains (losses) on debt securities	(1,045)	—	—	(1,045)
Change in foreign currency translation adjustment	—	(43)	—	(43)
Net actuarial gain	—	—	57	57
Amortization of net actuarial loss	—	—	6	6
Tax effect	264	1	(16)	249
	(752)	(81)	(35)	(868)
Balance at December 31, 2022	\$ (752)	\$ (81)	\$ (35)	\$ (868)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the other comprehensive income (loss) reclassification adjustments for the years ended December 31, 2022, 2021 and 2020:

	<u>Unrealized gains (losses) on debt securities</u>	<u>Foreign currency translation adjustment</u>	<u>Pension benefit adjustment</u>	<u>Total other comprehensive income (loss)</u>
	(in millions)			
Year ended December 31, 2022				
Pretax change before reclassifications	\$ (1,182)	\$ (43)	\$ 57	\$ (1,168)
Reclassifications out of AOCI	137	—	6	143
Tax effect	<u>264</u>	<u>1</u>	<u>(16)</u>	<u>249</u>
Total other comprehensive income (loss), net of tax	<u>\$ (781)</u>	<u>\$ (42)</u>	<u>\$ 47</u>	<u>\$ (776)</u>
Year ended December 31, 2021				
Pretax change before reclassifications	\$ (169)	\$ (2)	\$ 11	\$ (160)
Reclassifications out of AOCI	(20)	—	6	(14)
Tax effect	<u>46</u>	<u>1</u>	<u>(5)</u>	<u>42</u>
Total other comprehensive income (loss), net of tax	<u>\$ (143)</u>	<u>\$ (1)</u>	<u>\$ 12</u>	<u>\$ (132)</u>
Year ended December 31, 2020				
Pretax change before reclassifications	\$ 125	\$ 14	\$ (31)	\$ 108
Reclassifications out of AOCI	(8)	—	2	(6)
Tax effect	<u>(29)</u>	<u>—</u>	<u>8</u>	<u>(21)</u>
Total other comprehensive income (loss), net of tax	<u>\$ 88</u>	<u>\$ 14</u>	<u>\$ (21)</u>	<u>\$ 81</u>

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

(in millions)	<u>Year ended December 31,</u>			<u>Affected line items</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>	
Unrealized gains (losses) on debt securities:				
Net realized (losses) gains on sales of debt securities	\$ (137)	\$ 20	\$ 15	Net investment (losses) gains
Credit losses recognized on debt securities	—	—	(7)	Net investment (losses) gains
Pretax total	<u>\$ (137)</u>	<u>\$ 20</u>	<u>\$ 8</u>	
Tax effect	<u>\$ 35</u>	<u>\$ (5)</u>	<u>\$ (2)</u>	
Pension benefit adjustment (1):				
Amortization of net actuarial loss	\$ (6)	\$ (7)	\$ (5)	Other operating expenses
Amortization of prior service credit	—	1	3	Other operating expenses
Pretax total	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ (2)</u>	
Tax effect	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 1</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 lawsuits and are also involved in numerous ongoing routine legal and regulatory proceedings related to their operations. These lawsuits and proceedings frequently are similar in nature to other lawsuits and proceedings pending against the Company's competitors. When 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.

With respect to the Company's outstanding ordinary course lawsuits and proceedings, 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 ordinary course lawsuits include putative or purported class action lawsuits, which challenge practices in the Company's title insurance and services and home warranty businesses.

The Company's title insurance, property and casualty insurance, home warranty, mortgage servicing and subservicing, 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. Exams and investigations by governmental agencies include an investigation initiated in connection with the information security incident that occurred during the second quarter of 2019 by the New York Department of Financial Services. The New York Department of Financial Services has alleged violations of its cyber security requirements for financial services companies and filed a statement of charges on July 22, 2020, as amended on March 10, 2021, and the previously scheduled administrative hearing has been postponed and not rescheduled. While the ultimate disposition of the New York Department of Financial Services matter is not yet determinable, the Company does not believe that it or any of the other pending examinations or investigations 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.

NOTE 22. Business Combinations:

During the year ended December 31, 2022, the Company completed acquisitions for an aggregate purchase price of \$311 million in cash. These acquisitions have been included in the Company's title insurance and services segment.

In May 2022, the Company acquired a California-based provider of title insurance, underwriting and escrow services for residential and commercial real estate transactions for a purchase price of \$300 million in cash. In connection with the purchase, the Company recorded fair value estimates for goodwill, other intangible assets and title plants of \$203 million, \$34 million and \$29 million, respectively. The Company recognized revenues of \$110 million and pre-tax income of \$12 million since the acquisition date, related to the acquiree, during the year ended December 31, 2022.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 23. Segment Financial Information:

Selected financial information about the Company's operations, by segment, for the years ended December 31, 2022, 2021 and 2020, is as follows:

	<u>Revenues</u>	<u>Depreciation and amortization</u>	<u>Income (loss) before income taxes</u> (in millions)	<u>Assets</u>	<u>Capital expenditures</u>
2022					
Title Insurance and Services	\$ 7,547	\$ 162	\$ 758	\$ 13,911	\$ 271
Specialty Insurance	437	5	27	461	4
Corporate and Eliminations	(379)	—	(459)	583	—
	<u>\$ 7,605</u>	<u>\$ 167</u>	<u>\$ 326</u>	<u>\$ 14,955</u>	<u>\$ 275</u>
2021					
Title Insurance and Services	\$ 8,320	\$ 152	\$ 1,358	\$ 15,058	\$ 168
Specialty Insurance	541	6	36	557	4
Corporate and Eliminations	360	—	248	836	—
	<u>\$ 9,221</u>	<u>\$ 158</u>	<u>\$ 1,642</u>	<u>\$ 16,451</u>	<u>\$ 172</u>
2020					
Title Insurance and Services	\$ 6,535	\$ 141	\$ 1,026	\$ 11,922	\$ 117
Specialty Insurance	532	8	(25)	645	4
Corporate and Eliminations	19	—	(78)	229	—
	<u>\$ 7,086</u>	<u>\$ 149</u>	<u>\$ 923</u>	<u>\$ 12,796</u>	<u>\$ 121</u>

	<u>Direct premiums and escrow fees</u>	<u>Agent premiums</u>	<u>Information and other</u> (in millions)	<u>Net investment income</u>	<u>Net investment gains (losses)</u>	<u>Total Revenues</u>
2022						
Title Insurance and Services	\$ 2,663	\$ 3,548	\$ 1,127	\$ 359	\$ (150)	\$ 7,547
Specialty Insurance	422	—	22	6	(13)	437
Corporate and Eliminations	—	—	(1)	(25)	(353)	(379)
	<u>\$ 3,085</u>	<u>\$ 3,548</u>	<u>\$ 1,148</u>	<u>\$ 340</u>	<u>\$ (516)</u>	<u>\$ 7,605</u>
2021						
Title Insurance and Services	\$ 3,100	\$ 3,757	\$ 1,203	\$ 188	\$ 72	\$ 8,320
Specialty Insurance	498	—	13	7	23	541
Corporate and Eliminations	—	—	(1)	20	341	360
	<u>\$ 3,598</u>	<u>\$ 3,757</u>	<u>\$ 1,215</u>	<u>\$ 215</u>	<u>\$ 436</u>	<u>\$ 9,221</u>
2020						
Title Insurance and Services	\$ 2,490	\$ 2,759	\$ 1,001	\$ 199	\$ 86	\$ 6,535
Specialty Insurance	498	—	13	9	12	532
Corporate and Eliminations	—	—	(1)	13	7	19
	<u>\$ 2,988</u>	<u>\$ 2,759</u>	<u>\$ 1,013</u>	<u>\$ 221</u>	<u>\$ 105</u>	<u>\$ 7,086</u>

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's title insurance and services segment offers title insurance, closing services and similar or related products and services both domestically and internationally. The operations of the Company's specialty insurance and corporate segments are entirely domestic.

Domestic and foreign revenues from external customers for the title insurance and services segment are as follows:

	Year Ended December 31,					
	2022		2021		2020	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
	(in millions)					
Revenues	\$ 7,131	\$ 416	\$ 7,872	\$ 448	\$ 6,193	\$ 342

Domestic and foreign long-lived assets for the title insurance and services segment are as follows:

	December 31,					
	2022		2021		2020	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
	(in millions)					
Long-lived assets	\$ 1,001	\$ 51	\$ 945	\$ 51	\$ 957	\$ 60

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

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

December 31, 2022

Column A	Column B	Column C	Column D
Type of investment	Cost	Market value	Amount at which shown in the balance sheet
Deposits with banks:			
Consolidated	\$ 63	\$ 62	\$ 63
Debt securities:			
U.S. Treasury bonds			
Consolidated	\$ 309	\$ 303	\$ 303
Municipal bonds			
Consolidated	\$ 1,671	\$ 1,479	\$ 1,479
Foreign government bonds			
Consolidated	\$ 208	\$ 194	\$ 194
Governmental agency bonds			
Consolidated	\$ 248	\$ 229	\$ 229
Governmental agency mortgage-backed securities			
Consolidated	\$ 5,253	\$ 4,601	\$ 4,601
U.S. corporate debt securities			
Consolidated	\$ 1,004	\$ 921	\$ 921
Foreign corporate debt securities			
Consolidated	\$ 477	\$ 443	\$ 443
Total debt securities:			
Consolidated	\$ 9,170	\$ 8,170	\$ 8,170
Equity securities:			
Consolidated	\$ 724	\$ 754(1)	\$ 754
Notes receivable, net:			
Consolidated	\$ 11	\$ 11	\$ 11
Total investments:			
Consolidated	\$ 9,968	\$ 8,997	\$ 8,998

(1) Included in equity securities are non-marketable equity securities and equity method investments. Estimates of fair value for these investments could not be made without incurring excessive costs.

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)

CONDENSED BALANCE SHEETS
(in millions, except par values)

	December 31,	
	2022	2021
Assets		
Cash and cash equivalents	\$ 597	\$ 925
Due from subsidiaries, net	10	79
Income taxes receivable	22	11
Investment in subsidiaries	5,908	6,862
Equity securities	15	206
Deferred income taxes	54	14
Other assets	118	137
	\$ 6,724	\$ 8,234
Liabilities and Equity		
Accounts payable and other accrued liabilities	\$ 36	\$ 30
Pension costs and other retirement plans	333	416
Income taxes payable	10	24
Deferred income taxes	19	345
Notes and contracts payable	1,638	1,636
	2,036	2,451
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; Authorized—0.5 shares;		
Outstanding—none	—	—
Common stock, \$0.00001 par value; Authorized—300.0 shares;		
Outstanding—103.2 shares and 109.7 shares	—	—
Additional paid-in capital	1,812	2,179
Retained earnings	3,721	3,680
Accumulated other comprehensive loss	(868)	(92)
Total stockholders' equity	4,665	5,767
Noncontrolling interests	23	16
Total equity	4,688	5,783
	\$ 6,724	\$ 8,234

See Notes to Condensed Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION
(Parent Company)

CONDENSED STATEMENTS OF INCOME
(in millions)

	Year Ended December 31,		
	2022	2021	2020
Revenues:			
Dividends from subsidiaries	\$ 733	\$ 622	\$ 604
Other (losses) income	(23)	19	14
Net investment (losses) gains	(192)	121	7
	<u>518</u>	<u>762</u>	<u>625</u>
Expenses:			
Other expenses	55	84	69
Income before income taxes and equity in undistributed earnings of subsidiaries ...	463	678	556
Income taxes	86	162	134
Equity in undistributed (losses) earnings of subsidiaries	(112)	733	278
Net income	265	1,249	700
Less: Net income attributable to noncontrolling interests	2	8	4
Net income attributable to the Company	<u>\$ 263</u>	<u>\$ 1,241</u>	<u>\$ 696</u>

See Notes to Condensed Financial Statements

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

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 265	\$ 1,249	\$ 700
Other comprehensive income (loss), net of tax:			
Unrealized (losses) gains on securities	(781)	(143)	88
Foreign currency translation adjustment	(42)	(1)	14
Pension benefit adjustment	47	12	(21)
Total other comprehensive (loss) income, net of tax	(776)	(132)	81
Comprehensive (loss) income	(511)	1,117	781
Less: Comprehensive income attributable to noncontrolling interests	2	8	4
Comprehensive (loss) income attributable to the Company	\$ (513)	\$ 1,109	\$ 777

See Notes to Condensed Financial Statements

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

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Cash provided by operating activities	\$ 779	\$ 641	\$ 600
Cash flows from investing activities:			
Net cash effect of acquisitions	(296)	—	—
Net payments to subsidiaries	(155)	(259)	(668)
Purchases of equity securities	—	—	(19)
Proceeds from sales of property and equipment	—	—	7
Cash used for investing activities	(451)	(259)	(680)
Cash flows from financing activities:			
Net proceeds from issuance of unsecured senior notes	—	642	444
Borrowings under unsecured credit facility	—	—	120
Repayments of borrowings under unsecured credit facility	—	—	(280)
Net proceeds (payments) in connection with share-based compensation	2	6	(1)
Repurchases of Company shares	(441)	(99)	(139)
Payments of cash dividends	(217)	(213)	(199)
Cash (used for) provided by financing activities	(656)	336	(55)
Net (decrease) increase in cash and cash equivalents	(328)	718	(135)
Cash and cash equivalents—Beginning of period	925	207	342
Cash and cash equivalents—End of period	<u>\$ 597</u>	<u>\$ 925</u>	<u>\$ 207</u>

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 \$731 million, \$624 million and \$574 million for the years ended December 31, 2022, 2021 and 2020, respectively.

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**SUPPLEMENTARY INSURANCE INFORMATION
(in millions)**

BALANCE SHEET CAPTIONS

Column A	Column B	Column C	Column D
<u>Segment</u>	<u>Deferred policy acquisition costs</u>	<u>Claims reserves</u>	<u>Deferred revenues</u>
2022			
Title Insurance and Services	\$ —	\$ 1,269	\$ 7
Specialty Insurance	20	56	190
Total	<u>\$ 20</u>	<u>\$ 1,325</u>	<u>\$ 197</u>
2021			
Title Insurance and Services	\$ —	\$ 1,210	\$ 6
Specialty Insurance	24	74	218
Total	<u>\$ 24</u>	<u>\$ 1,284</u>	<u>\$ 224</u>

**FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES**

**SUPPLEMENTARY INSURANCE INFORMATION
(in millions)**

INCOME STATEMENT CAPTIONS

Column A	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Premiums and escrow fees	Net investment income (1)	Loss provision	Amortization of deferred policy acquisition costs (credits)	Other operating expenses	Premiums written
2022						
Title Insurance and Services	\$ 6,211	\$ 209	\$ 248	\$ —	\$ 1,155	\$ —
Specialty Insurance	422	(7)	238	4	82	394
Corporate and Eliminations	—	(378)	—	—	35	—
Total	<u>\$ 6,633</u>	<u>\$ (176)</u>	<u>\$ 486</u>	<u>\$ 4</u>	<u>\$ 1,272</u>	<u>\$ 394</u>
2021						
Title Insurance and Services	\$ 6,857	\$ 260	\$ 275	\$ —	\$ 1,198	\$ —
Specialty Insurance	498	30	314	11	89	450
Corporate and Eliminations	—	361	—	—	36	—
Total	<u>\$ 7,355</u>	<u>\$ 651</u>	<u>\$ 589</u>	<u>\$ 11</u>	<u>\$ 1,323</u>	<u>\$ 450</u>
2020						
Title Insurance and Services	\$ 5,249	\$ 285	\$ 263	\$ —	\$ 1,000	\$ —
Specialty Insurance	498	21	317	(2)	83	520
Corporate and Eliminations	—	20	—	—	36	—
Total	<u>\$ 5,747</u>	<u>\$ 326</u>	<u>\$ 580</u>	<u>\$ (2)</u>	<u>\$ 1,119</u>	<u>\$ 520</u>

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

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

REINSURANCE
(dollars in millions)

<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					
2022	\$ 6,229	\$ 19	\$ 1	\$ 6,211	0.0%
2021	\$ 6,879	\$ 22	\$ —	\$ 6,857	0.0%
2020	\$ 5,265	\$ 16	\$ —	\$ 5,249	0.0%
Specialty Insurance					
2022	\$ 423	\$ 1	\$ —	\$ 422	0.0%
2021	\$ 504	\$ 6	\$ —	\$ 498	0.0%
2020	\$ 508	\$ 10	\$ —	\$ 498	0.0%

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS
(in millions)

Year Ended December 31, 2022

Column A	Column B	Column C		Column D	Column E
Description	Balance at beginning of period	Additions		Deductions from reserve	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Reserve deducted from accounts receivable:					
Consolidated	\$ 14	\$ 11	\$ —	\$ 4(1)	\$ 21
Reserve for known and incurred but not reported claims:					
Consolidated	\$ 1,284	\$ 486	\$ (11)	\$ 434(2)	\$ 1,325
Reserve deducted from notes receivable:					
Consolidated	\$ —	\$ 28	\$ —	\$ 21	\$ 7
Reserve deducted from deferred income taxes:					
Consolidated	\$ 8	\$ —	\$ —	\$ 1	\$ 7

(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 millions)

Year Ended December 31, 2021

Column A	Column B	Column C		Column D	Column E
Description	Balance at beginning of period	Additions		Deductions from reserve	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Reserve deducted from accounts receivable:					
Consolidated	\$ 14	\$ 4	\$ —	\$ 4(1)	\$ 14
Reserve for known and incurred but not reported claims:					
Consolidated	\$ 1,178	\$ 589	\$ (1)	\$ 482(2)	\$ 1,284
Reserve deducted from deferred income taxes:					
Consolidated	\$ 9	\$ —	\$ —	\$ 1	\$ 8

(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 millions)

Year Ended December 31, 2020

Column A	Column B	Column C		Column D	Column E
Description	Balance at beginning of period	Additions		Deductions from reserve	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Reserve deducted from accounts receivable:					
Consolidated	\$ 13	\$ 7	\$ —	\$ 6(1)	\$ 14
Reserve for known and incurred but not reported claims:					
Consolidated	\$ 1,063	\$ 580	\$ 6	\$ 471(2)	\$ 1,178
Reserve deducted from deferred income taxes:					
Consolidated	\$ 10	\$ —	\$ —	\$ 1	\$ 9

(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, 2022, 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, 2022. 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, 2022, 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, 2022, 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 14, 2023, the Company entered into amended and restated employment agreements with Kenneth D. DeGiorgio, Mark E. Seaton and Lisa W. Cornehl. Pursuant to the amendments, the term of each of the revised agreements was extended by one year and now expires on December 31, 2025. 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 10.6 to 10.8.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

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, 2022 for the Company's upcoming 2023 meeting of stockholders (the "2023 Proxy Statement"). If the 2023 Proxy Statement is not filed within 120 days after the fiscal year ended December 31, 2022, 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 2023 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," "Pay Versus Performance," "Director Compensation," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the 2023 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 2023 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 and Litigation with Management and Others" in the 2023 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 2023 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 46 in Item 8 of Part II of this report.

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 January 19, 2022.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed January 21, 2022.
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.
4.5	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.
4.6	Fourth Supplemental Indenture, dated as of August 3, 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 August 3, 2021.
4.7	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.
4.8	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.
4.9	Form of 2.40% Senior Notes due 2031.	Incorporated by reference herein to Exhibit A to Exhibit 4.2 to the Current Report on Form 8-K filed August 3, 2021.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
10.1	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.
*10.2	First American Financial Corporation Executive Supplemental Benefit Plan, amended and restated effective as of January 1, 2011.	Incorporated by reference herein to Exhibit 10.12 to the Annual Report on Form 10-K for the year ended December 31, 2010.
*10.2.1	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.
*10.3	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.
*10.3.1	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.
*10.3.2	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.
*10.4	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.
*10.4.1	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.
*10.4.2	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	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.
*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 19, 2021.	Incorporated by reference herein to Exhibit 10.6.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2020.
*10.5.2	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 19, 2021.	Incorporated by reference herein to Exhibit 10.6.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2020.
*10.5.3	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved February 2, 2022.	Incorporated by reference herein to Exhibit 10.6.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
*10.5.4	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved February 2, 2022.	Incorporated by reference herein to Exhibit 10.6.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2021.
*10.5.5	Form of Performance Restricted Stock Unit Grant (Employee) and Performance Restricted Stock Unit Award Agreement (Employee), approved February 2, 2022.	Incorporated by reference herein to Exhibit 10.6.5 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2021.
*10.5.6	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 17, 2023.	Attached.
*10.5.7	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 17, 2023.	Attached.
*10.5.8	Form of Performance Restricted Stock Unit Grant (Employee) and Performance Restricted Stock Unit Award Agreement (Employee), approved January 17, 2023.	Attached.
*10.6	Employment Agreement, dated February 14, 2023, between First American Financial Corporation and Kenneth D. DeGiorgio.	Attached.
*10.7	Employment Agreement, dated February 14, 2023, between First American Financial Corporation and Mark E. Seaton.	Attached.
*10.8	Employment Agreement, dated February 14, 2023, between First American Financial Corporation and Lisa W. Cornehl.	Attached.
*10.9	Employment Agreement, dated May 3, 2022, between Mother Lode Holding Company and Marsha A. Spence.	Incorporated by reference herein to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.
*10.10	Amendment to Employment Agreement between Mother Lode Holding Company and Marsha A. Spence.	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.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
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.
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/ KENNETH D. DEGIORGIO

Kenneth D. DeGiorgio
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2023

By /s/ MARK E. SEATON

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

Date: February 14, 2023

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/ KENNETH D. DEGIORGIO </u> Kenneth D. DeGiorgio	Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2023
<u> /s/ MARK E. SEATON </u> Mark E. Seaton	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	February 14, 2023
<u> /s/ STEVEN A. ADAMS </u> Steven A. Adams	Chief Accounting Officer (Principal Accounting Officer)	February 14, 2023
<u> /s/ DENNIS J. GILMORE </u> Dennis J. Gilmore	Chairman of the Board of Directors	February 14, 2023
<u> /s/ JAMES L. DOTI </u> James L. Doti	Director	February 14, 2023
<u> /s/ REGINALD H. GILYARD </u> Reginald H. Gilyard	Director	February 14, 2023
<u> /s/ PARKER S. KENNEDY </u> Parker S. Kennedy	Director	February 14, 2023

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MARGARET M. MCCARTHY</u> Margaret M. McCarthy	Director	February 14, 2023
<u>/s/ MICHAEL D. MCKEE</u> Michael D. McKee	Director	February 14, 2023
<u>/s/ THOMAS V. MCKERNAN</u> Thomas V. McKernan	Director	February 14, 2023
<u>/s/ MARK C. OMAN</u> Mark C. Oman	Director	February 14, 2023
<u>/s/ MARSHA A. SPENCE</u> Marsha A Spence	Director	February 14, 2023
<u>/s/ MARTHA B. WYRSCH</u> Martha B. Wyrsh	Director	February 14, 2023

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*First American
Financial Corporation*

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