# First American Financial

## Winter 2017 Investor Presentation

# Safe Harbor Statement

CERTAIN STATEMENTS MADE IN THIS PRESS RELEASE AND THE RELATED MANAGEMENT COMMENTARY CONTAIN, AND RESPONSES TO INVESTOR QUESTIONS MAY CONTAIN, FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS “BELIEVE,” “ANTICIPATE,” “EXPECT,” “INTEND,” “PLAN,” “PREDICT,” “ESTIMATE,” “PROJECT,” “WILL BE,” “WILL CONTINUE,” “WILL LIKELY RESULT,” OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS “WILL,” “MAY,” “MIGHT,” “SHOULD,” “WOULD,” OR “COULD.” THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

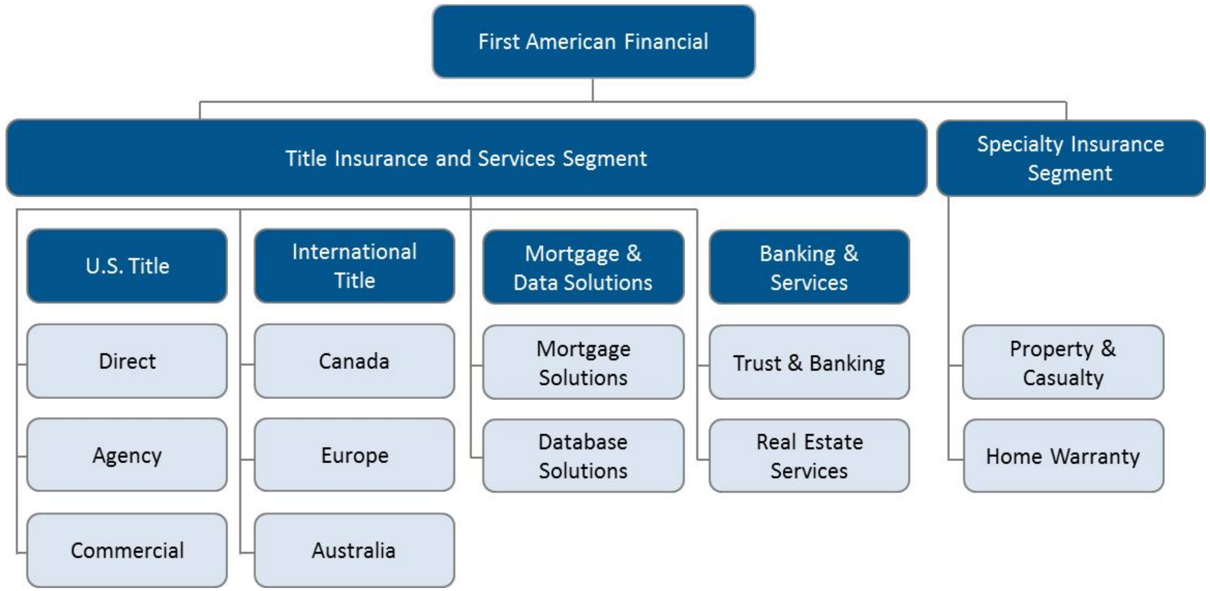
RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION: INTEREST RATE FLUCTUATIONS; CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS; VOLATILITY IN THE CAPITAL MARKETS; UNFAVORABLE ECONOMIC CONDITIONS; IMPAIRMENTS IN THE COMPANY’S GOODWILL OR OTHER INTANGIBLE ASSETS; FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS; CHANGES IN APPLICABLE GOVERNMENT REGULATIONS; HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY’S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY’S BUSINESSES; THE CONSUMER FINANCIAL PROTECTION BUREAU’S EXERCISE OF ITS BROAD RULEMAKING AND SUPERVISORY POWERS; REGULATION OF TITLE INSURANCE RATES; REFORM OF GOVERNMENT-SPONSORED MORTGAGE ENTERPRISES; LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA; CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES; CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY’S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS; LOSSES IN THE COMPANY’S INVESTMENT PORTFOLIO; MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE; DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY’S USE OF TITLE AGENTS; ANY INADEQUACY IN THE COMPANY’S RISK MITIGATION EFFORTS; SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS OR UNAUTHORIZED DATA DISCLOSURES; ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS; INABILITY TO REALIZE THE BENEFITS OF THE COMPANY’S OFFSHORE OPERATIONS; INABILITY OF THE COMPANY’S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS; INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY’S ACQUISITION STRATEGY; AND OTHER FACTORS DESCRIBED IN THE COMPANY’S QUARTERLY REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

# Use of non-GAAP Financial Measures

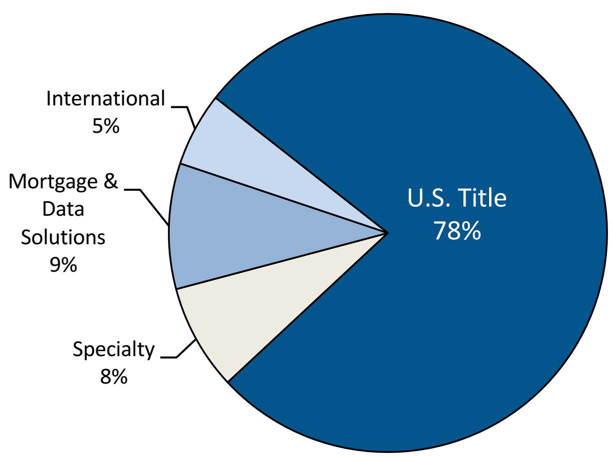
This slide presentation contains, and related commentary and answers to questions may contain certain financial measures that are not presented in accordance with generally accepted accounting principles (GAAP), including net operating revenue and success ratios. Although these exclusions represent actual gains, losses or expenses to the Company, they may mask the periodic income and financial and operating trends associated with the Company's business.

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

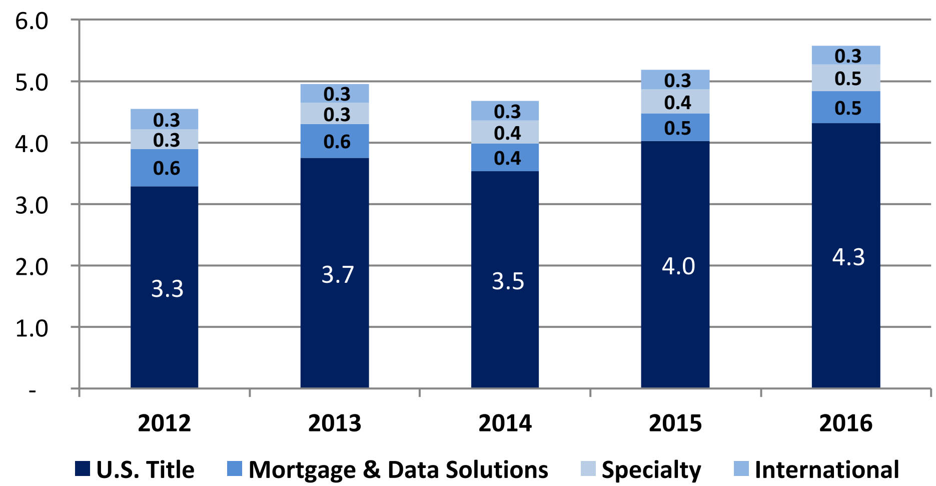
# Organizational Structure




## 2016 Revenue: $5.6B




## Total Revenue Trend



# Strategy Evolution

| | 2010-2013 | 2013-2016 | 2016 - 2020 |
|---|---|---|---|
| | **Position FA post-spin & manage crisis fallout** | **Become more efficient & strengthen balance sheet** | **Grow profitably & innovate for productivity** |
| Key business actions | • Standardized and centralized back-office operations<br>• Increased leverage of offshore assets<br>• Simplified operating structure | • Moderate market share growth<br>• Enhanced data capabilities<br>• Achieved cost leadership | • Continue to drive cost advantage<br>• Emphasize growth, primarily in direct and complementary businesses<br>• Leverage data for productivity |
| Key capital actions | • Simplified legal entity structure | • Strengthened balance sheet<br>• Increased dividend | • Deploy capital towards growth<br>• Distribute more cash to shareholders |

Common themes

Focus on efficiency
Value our people
Prudently manage our capital

# First American's Strategy

First American

**Vision:**
***To be the premier title insurance and settlement services company***

**Profitably grow our core title and settlement business**

**Strengthen the enterprise through data and process advantage**

**Manage and actively invest in complementary businesses that support or expand the core**

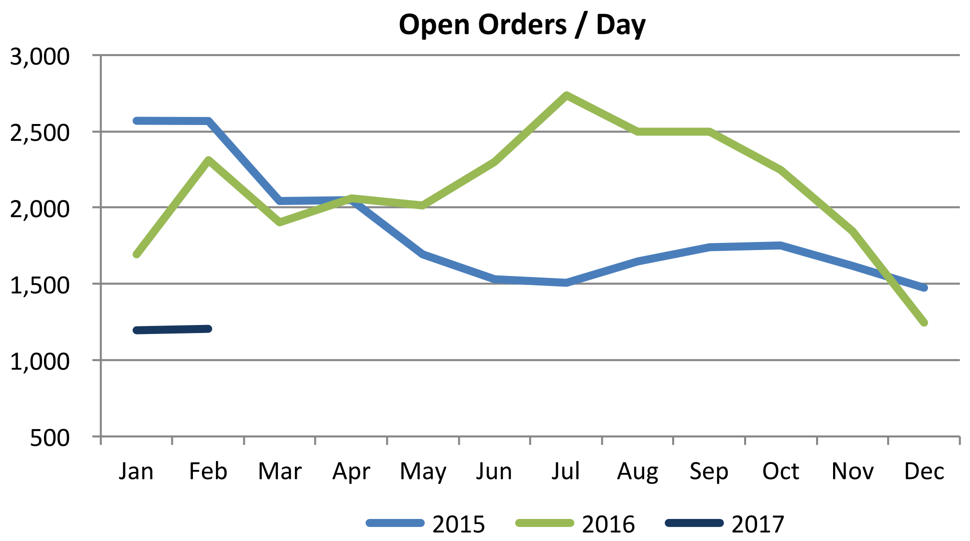
**Deploy our capital to maximize long-term shareholder returns**

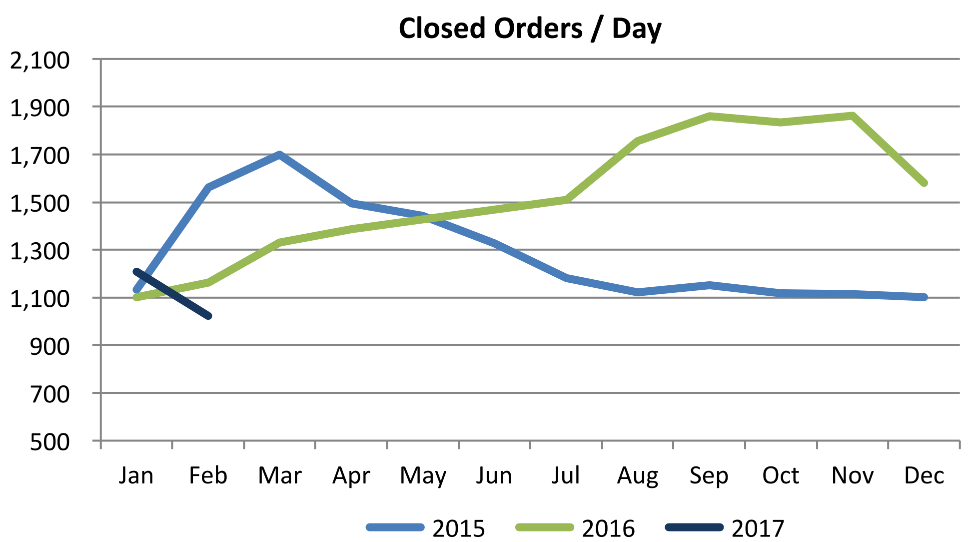
**Innovation**

**Compliance and risk management**

**People and culture**

# Refinance Market



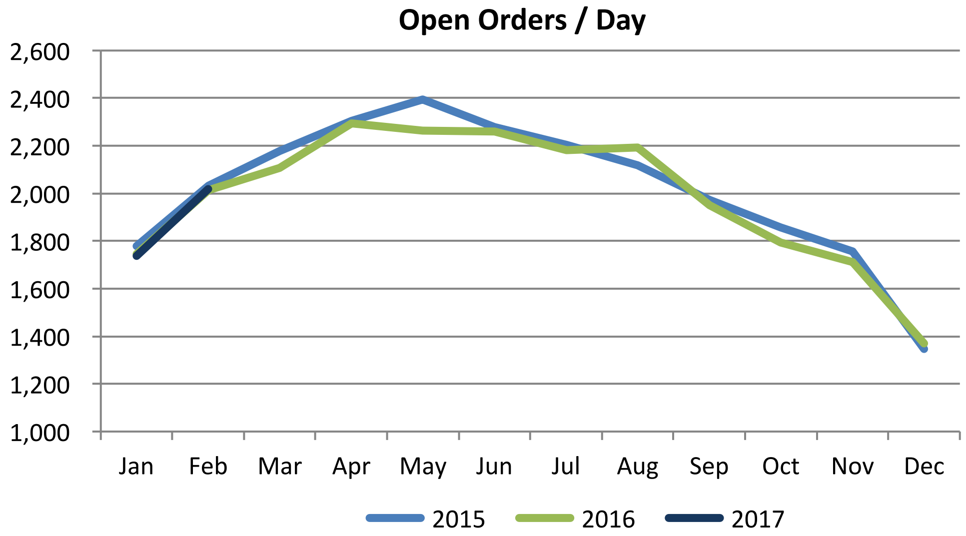

## Current Trend

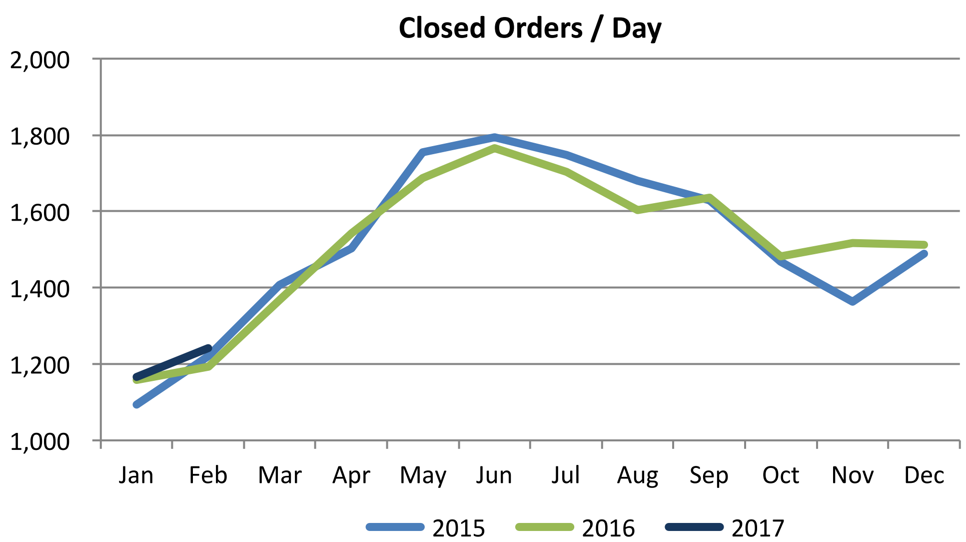
- Open orders have stabilized at ~1200 per day in 1Q
- Significantly reducing resource commitments in our refinance focused businesses
- Closely monitoring order levels as always

## Outlook

- Rising interest rates will likely continue to weigh on refinance transactions in 2017
- Longer term, expect refinance volumes to remain low

# Purchase Market



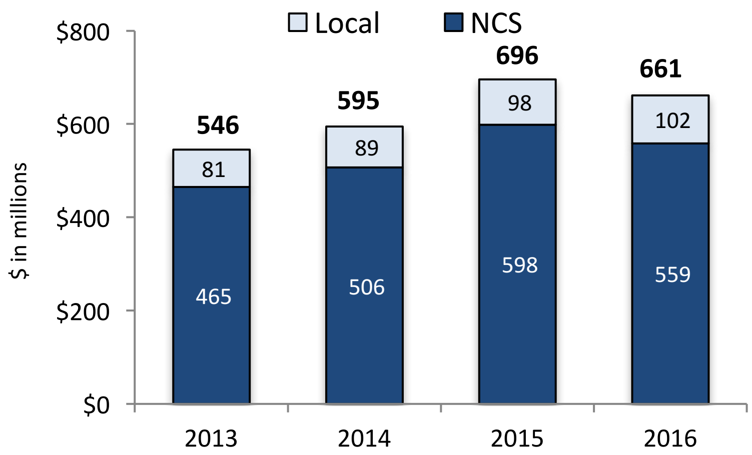

## Current Trend

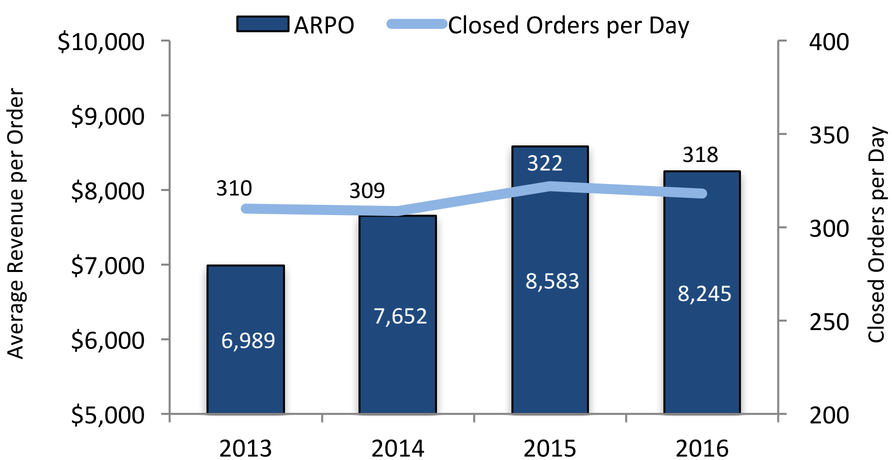
- 6% revenue growth in 2016
    - Fees per file grew 6%
    - Closed orders were flat
- Home price appreciation robust
    - Strong buyer demand
    - Lack of for sale inventory in existing homes a key factor

## Outlook

- Expect continued growth in 2017 and beyond

# Commercial Market



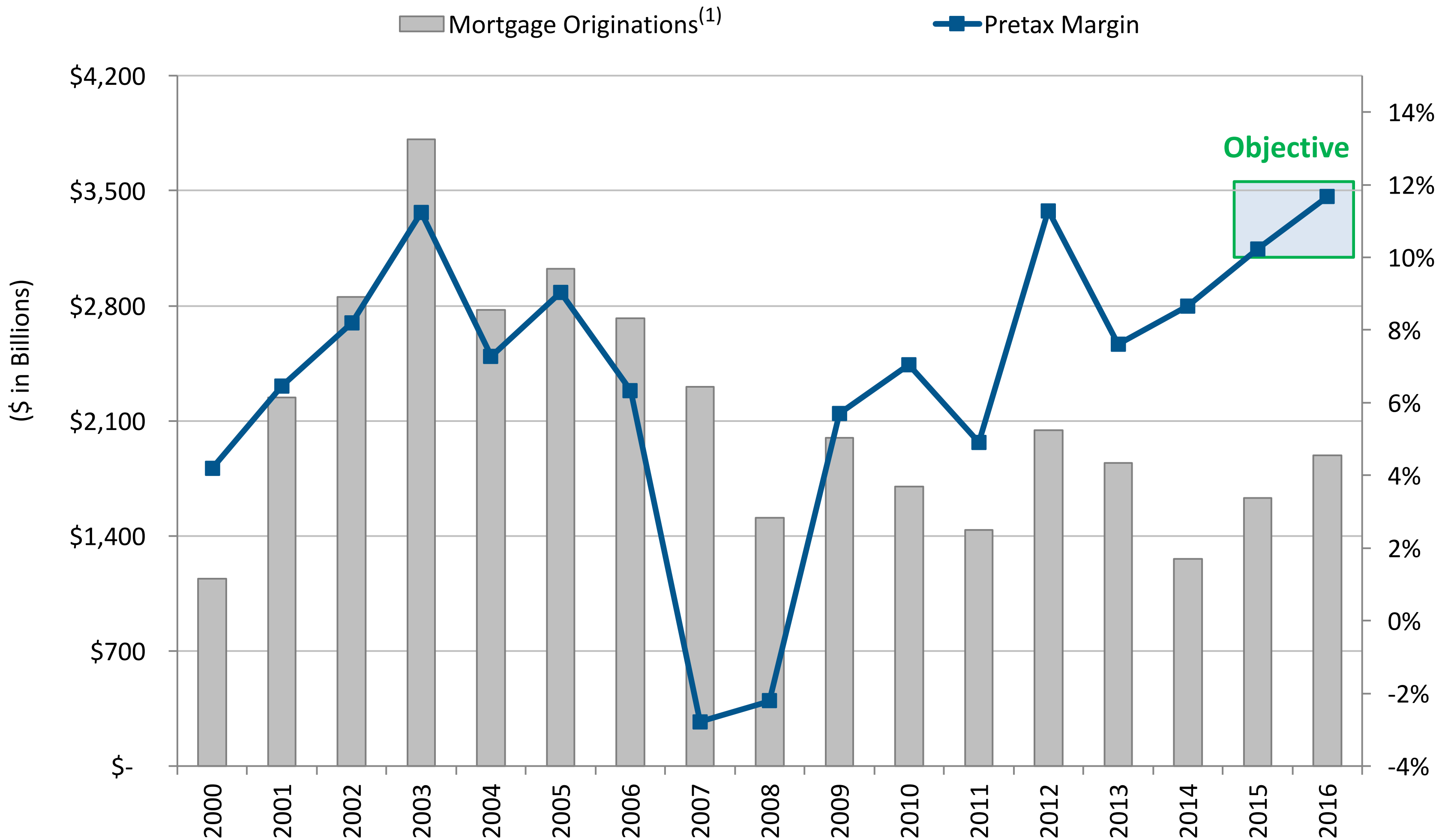

### Current Trend

- Seeing continued strength across most markets and asset classes
- Overall quality and size of deals remain high, although large premium deals have slowed
- Capital availability and foreign flows continue to support market

### Outlook

- Expect strength in commercial over the next 1-3 years, albeit below 2015 record levels
- Well positioned national platform

# Title Insurance Segment Margins




(1) Source: Mortgage Bankers Association

# Capital Management Strategy

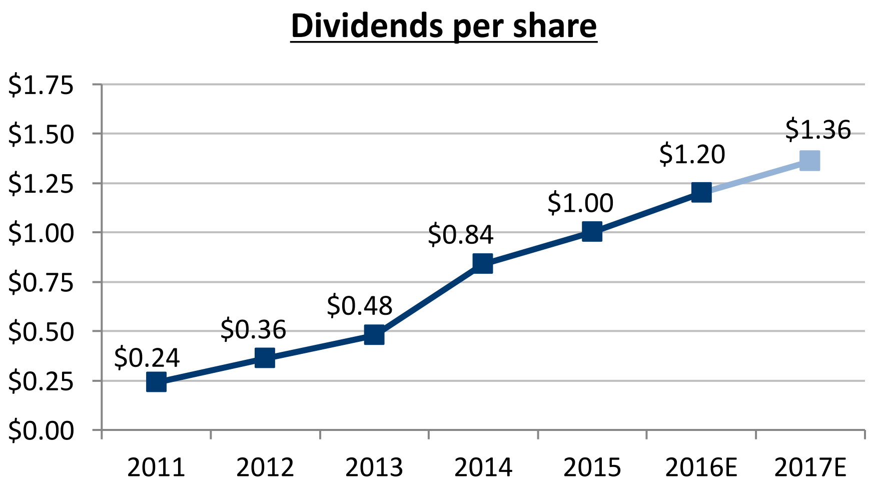
First American

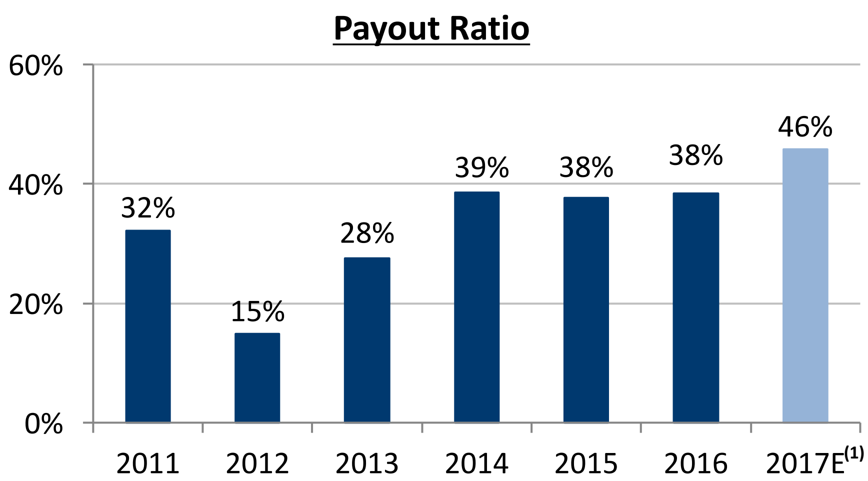
**Objective: Create Long-Term Shareholder Value**

- Capital Management Priorities:
  - Make **value-creating** investments in our core business
  - Acquire businesses that fit within our **core strategy**
  - Return excess capital to shareholders through dividends and share repurchases
  - Maintain **adequate** capital levels
  - Manage our capital structure **prudently**
  - Maintain **ample financial flexibility** and holding company liquidity

# Dividends

First American



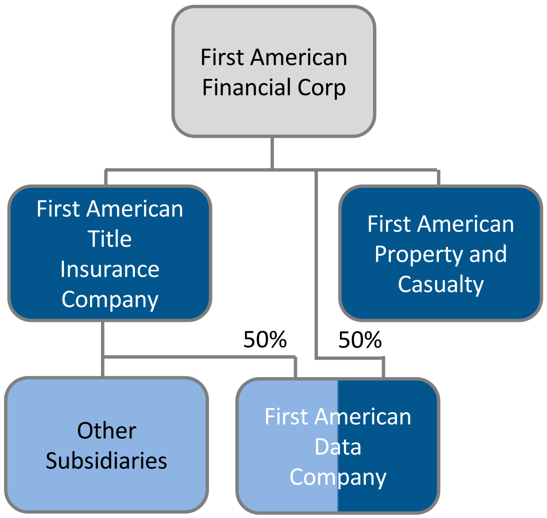

**Dividend Considerations:**

- First American expects to pay a meaningful dividend given the company's cash flow generation and investment opportunities
- Dividend increases should be sustainable
- Dividends are reviewed by the board regularly, with a stronger emphasis in the first quarter to determine whether to adjust the dividend
- Dividend increases will be dependent upon expected holding company cash flows, market conditions and alternative uses of capital, among other factors
- The company is not committed to increasing the dividend every year

1) Calculated using Consensus EPS estimate for 2017. The Consensus EPS excludes the pension termination impact

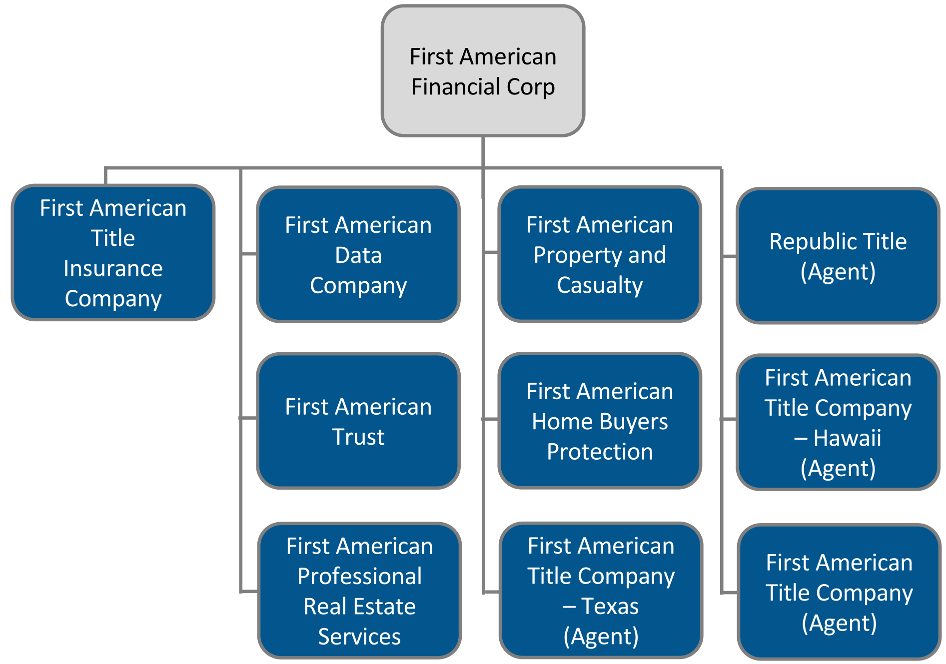
# Legal Entity Re-alignment Increased Dividend Capacity

## 2012




| 2012 Actual dividends to Holding Company excluding FATICO | |
|---|---|
| Other Subsidiaries | $12M |

## 2015




| 2015 Actual dividends to Holding Company excluding FATICO | |
|---|---|
| Other Subsidiaries | $83M |

Note: Legal structure as of June 30, 2012; not a complete list of legal entities

# Enhanced Statutory Capital

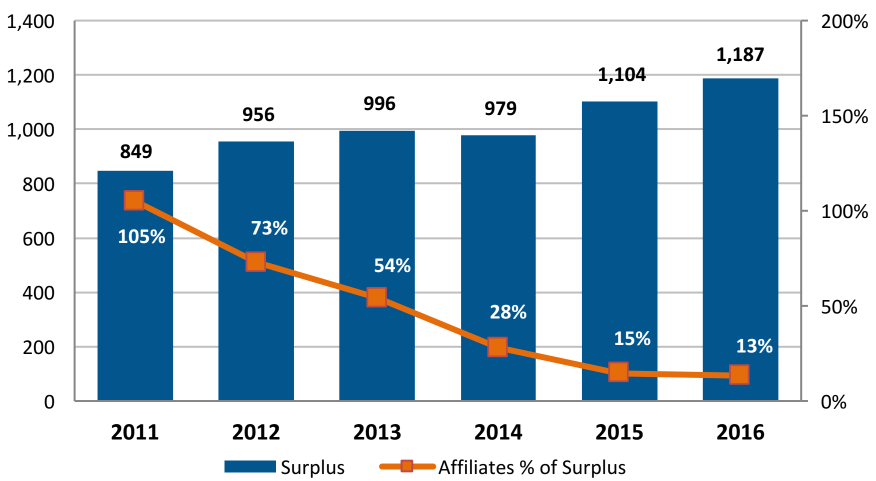
| *US$ in millions* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| **Beginning Surplus** | **868** | **849** | **956** | **996** | **979** | **1,104** |
| Net Income | 92 | 301 | 199 | 393 | 192 | 150 |
| Dividend to Parent | (47) | (219) | (139) | (263) | (60) | - |
| Other | (65) | 26 | (20) | (148) | (7) | (67) |
| **Ending Surplus** | **849** | **956** | **996** | **979** | **1,104** | **1,187** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Dividend to Parent:** | | | | | | |
| Cash | 45 | - | 40 | - | 60 | - |
| **Non-cash** | **2** | **219** | **99** | **263** | **-** | **-** |
| **Total** | **47** | **219** | **139** | **263** | **60** | **-** |

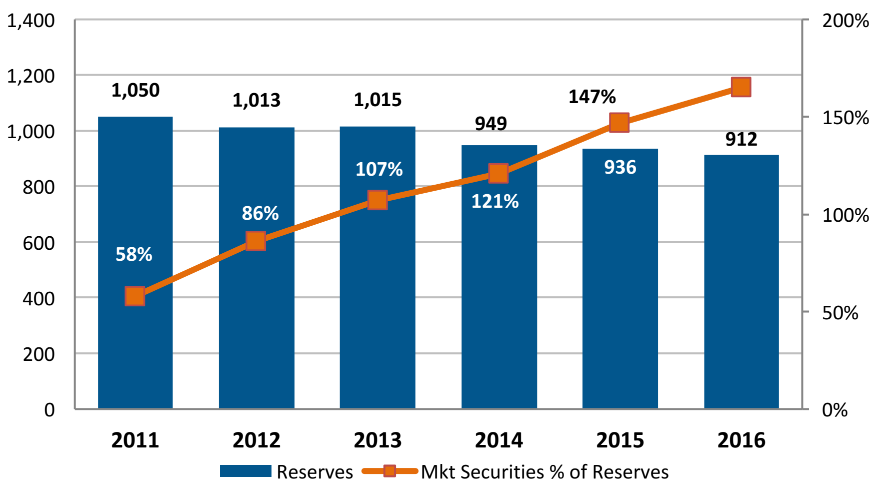
**Total <u>Non-cash</u> dividend to Parent for the prior 6 years** **582**

- Recently completed a multi-year effort to enhance the financial strength and flexibility of the company
- ~50% of free cash flow between 2011-2016 was used to grow the investment portfolio, primarily to strengthen the surplus quality of our primary underwriter - FATICO
- Future cash flows at FATICO will primarily be up-streamed to the holding company for capital deployment (dividend, M&A, etc.)

*US$ in millions*

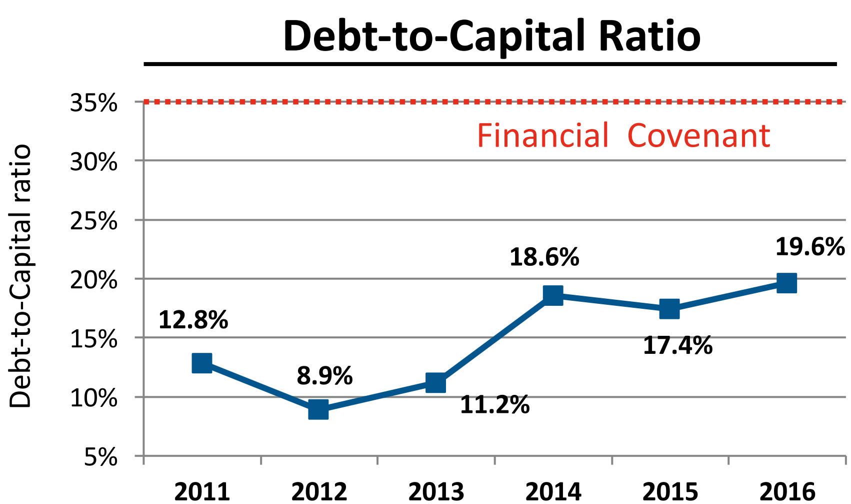



*US$ in millions*



# Capital Structure

| *As of December 31, 2016 ($ in millions)* | |
|---|---|
| 4.3% senior notes due 2023 | $248 |
| 4.6% senior notes due 2024 | 298 |
| Trust deed notes | 27 |
| Other notes | 4 |
| Revolving credit facility | 160 |
| Total debt | $737 |
| Total equity | $3,014 |
| Debt-to-Capital ratio | 19.6% |




- Management's target debt-to-capital ratio is 18-20%
  - Supports target financial strength ratings
- No significant maturities until 2023
- Majority of current debt has a fixed interest rate
  - The credit facility rate floats at LIBOR + 175 basis points
- FAF has significant financial flexibility to seize strategic opportunities

# Impact of Higher Interest Rates

## Benefits

✓ Insurance portfolio investment income

- Yield on new investments will be greater than current book yield

✓ Banking Profitability

- ~40% of banking portfolio in floating-rate securities
- Spread to deposit costs widen in higher interest rate environment

✓ Reduced defined benefit plan obligations

- Defined benefit plans highly sensitive to interest rates

✓ Greater investment income on escrow balances

- Deposits at third party banks

✓ Greater earnings at FA Exchange

## Risks

✗ Decreased value of fixed income portfolio

✗ Impact to refinance volumes

- Refinance represented 17% of direct revenue premiums in 2016
- 2016 average revenue per order:
  - Refinance: $884
  - Resale: $2,146
  - Commercial: $8,229

✗ Reduced housing affordability

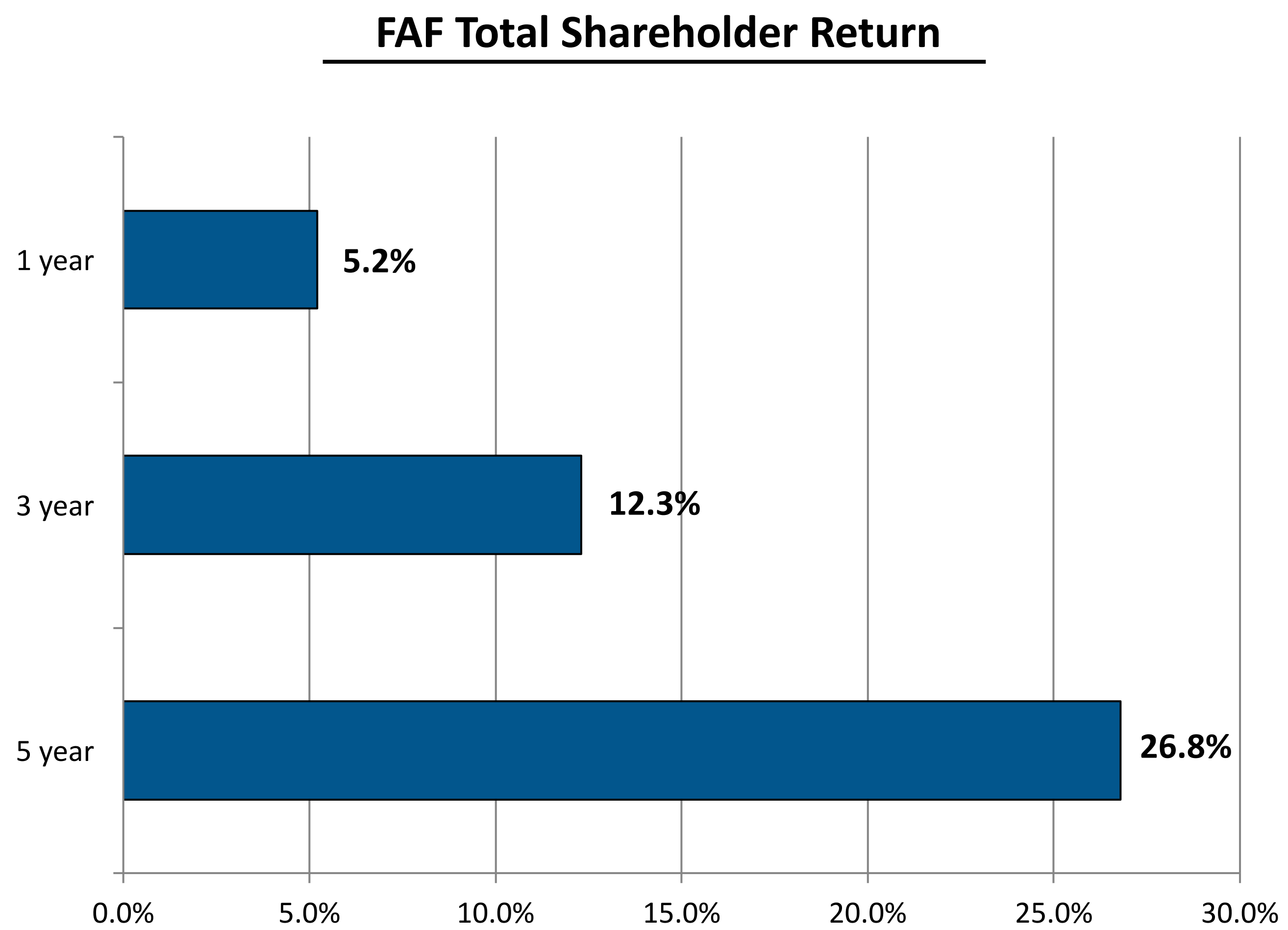
✗ Higher interest expense on credit facility

# Investment Considerations

- “Pure play” in title and mortgage markets
- Strong competitive position in title and settlement services
  - Continue to pursue profitable market share gains
  - Strengthening the enterprise through data capabilities
- Record title segment margins with longer-term upside remaining
  - Expect earnings and margin growth as purchase market improves
  - Anticipate cash flow to increase from both higher earnings and lower paid claims
- Strong balance sheet and financial flexibility
  - Recently completed legal entity re-alignment increases dividend capacity and capital deployment opportunity
- Commitment to return capital to shareholders
  - Raised dividend 36% in 2016

# Total Shareholder Return

First American




Source: Annualized return through 12/31/2016

# Appendix

First American 125 YEARS 1889 · 2014

# Balance Sheet

First American

As of December, 31 2016 ($ millions)

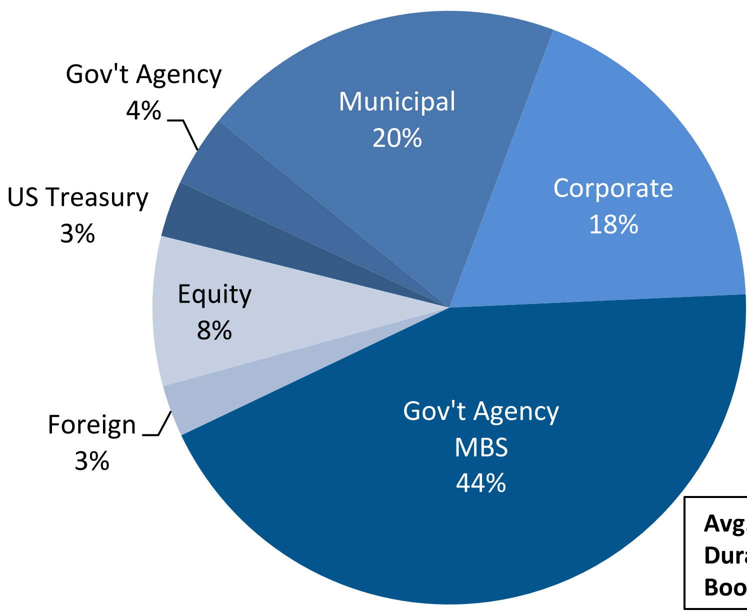
| Assets | |
|---|---|
| Cash & equivalents | $1,006 |
| Investments | 5,141 |
| Other assets | 1,589 |
| Goodwill & intangibles | 1,096 |
| Total assets | $8,832 |
| **Liabilities & Equity** | |
| Demand Deposits | $2,779 |
| Other Liabilities | 1,275 |
| Reserves | 1,026 |
| Debt | 737 |
| Equity | 3,014 |
| Total liabilities & equity | $8,832 |

| Return on Equity | |
|---|---|
| TTM Net income | $343 |
| Average Equity | $2,884 |
| ROE | 11.9% |
| Debt-to-capital | 19.6% |
| Book value per share | $27.42 |
| Tangible equity | $1,918 |
| Statutory surplus | $1,187 |

# Investment Portfolio

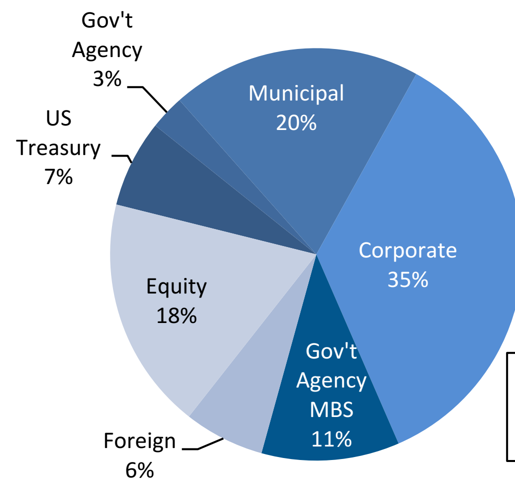
First American

## Consolidated Portfolio
## $5.0 Billion



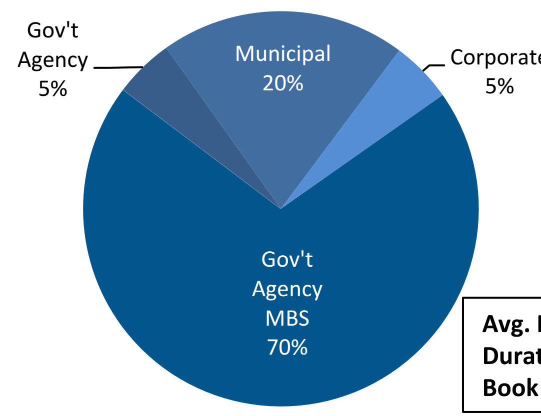

| | |
|---|---|
| **Avg. Rating:** | **AA** |
| **Duration:** | **3.5** |
| **Book Yield:** | **2.1%** |

## Insurance Portfolio
## $2.2 Billion




| | |
|---|---|
| **Avg. Rating:** | **AA** |
| **Duration:** | **3.5** |
| **Book Yield:** | **2.7%** |

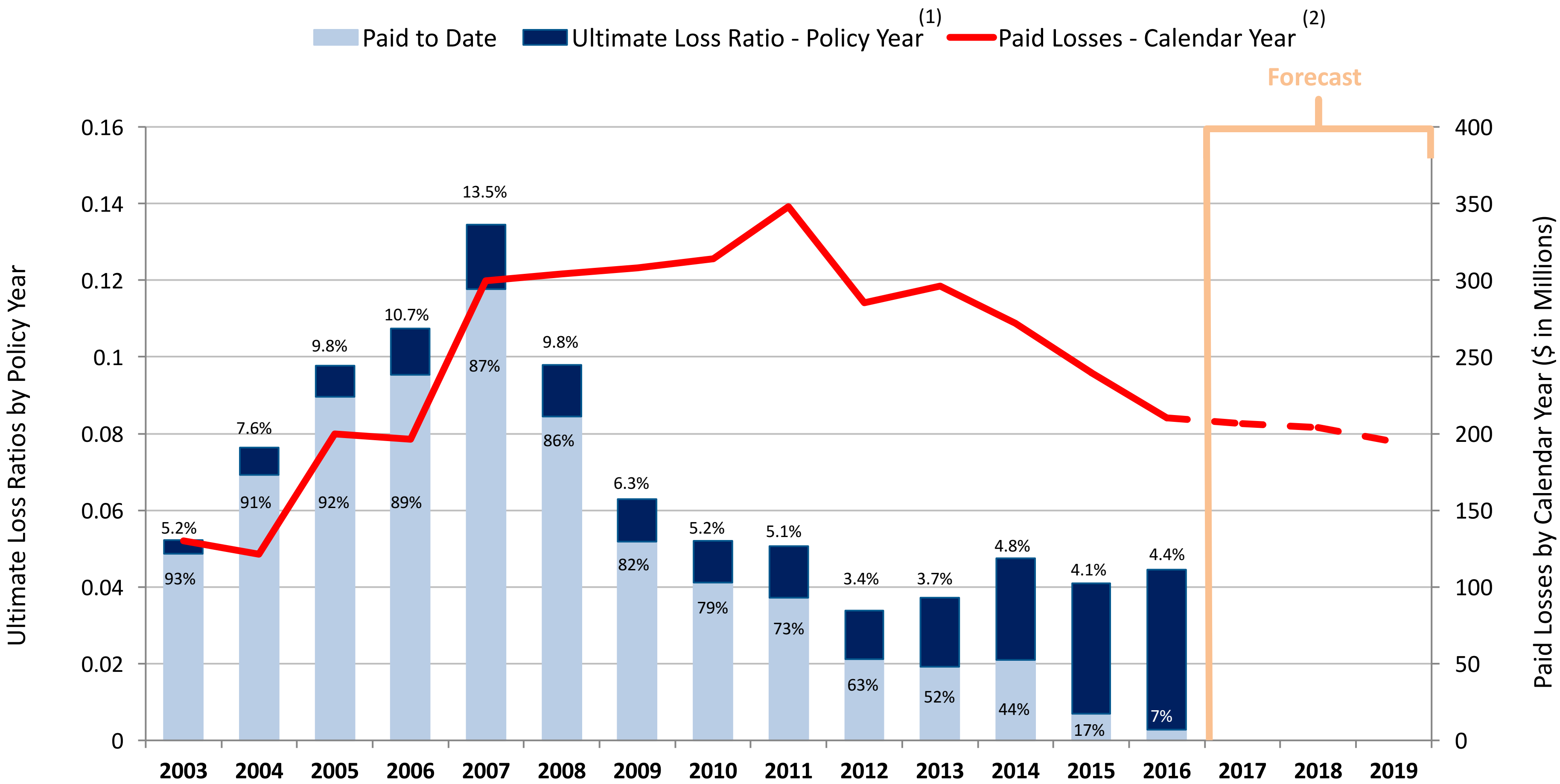
## Bank Portfolio
## $2.8 Billion




| | |
|---|---|
| **Avg. Rating:** | **AA** |
| **Duration:** | **2.9** |
| **Book Yield:** | **1.5%** |

Note: Debt and equity securities as of September 30, 2016

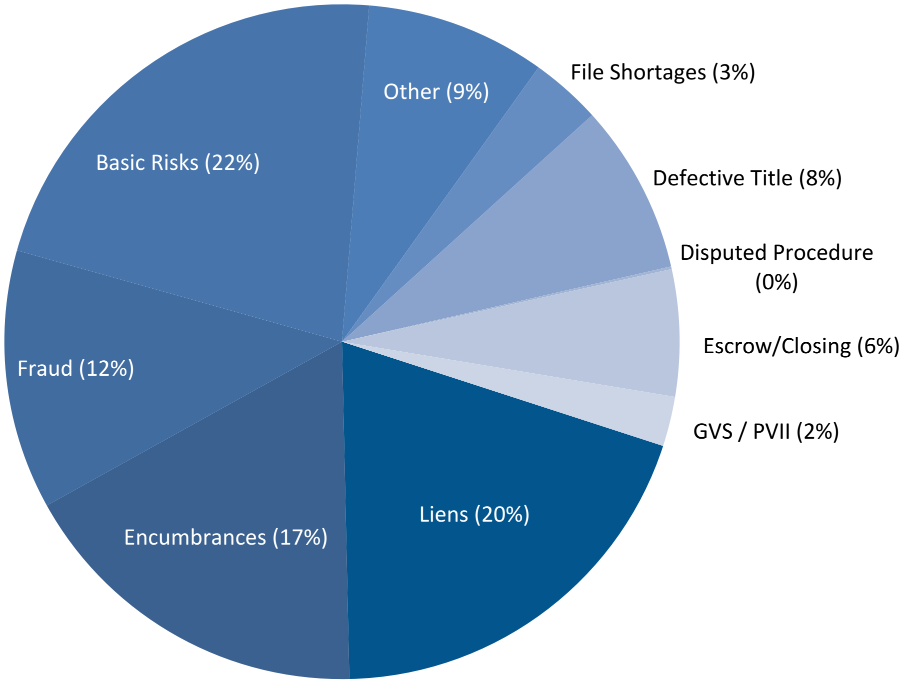
# Ultimate Loss Ratios by Policy Year




(1) Ultimate loss ratios are estimates and calculated as a percentage of title premiums and escrow fees for a given policy year as of December 31, 2016
(2) Paid claims forecast assumes 5% ultimate loss ratio and ~1% premium growth rate for 2017-2018

# 2016 Incurred Claims Detail

## Claim Cause




## Process Cause