

**First American Title Insurance Company of Australia Pty Limited (New
Zealand Branch)**

**Annual Financial Report
31 December 2014**

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(New Zealand Branch)
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**First American Title Insurance Company of Australia Pty
Limited (New Zealand Branch)
Directors' Report
31 December 2014**

Company number	AKOS 1022212
IRD number	76-345-783
Nature of business	Provision of general insurance services
Registered office	First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) Level 13, 99 Albert Street Auckland

Directors' information

The directors present their report together with the financial statements of First American Title Insurance Company of Australia (New Zealand Branch) for the financial year ended 31 December 2014 and the auditor's report thereon.

Directors

Mr Eric Richard Dodd

- Appointed as an independent director on 26 June 2002;
- Eric is the Chairman of the First American Title Insurance Company of Australia Pty Limited, and has many years of experience in the financial services industry in Australia at senior management level, including the roles of Managing Director of NRMA Insurance Limited and Chief Executive Officer of NRMA Limited.

Mr Anthony Peter Gill

- Appointed as an independent director on 11 September 2006;
- Anthony is Chairman of the Board Remuneration Committee, is a member of the Board Audit Committee, and has many years of experience in the banking industry in Australia in the areas treasury, mortgage banking and securitisation. He is past Chairman of the Australian Securitisation Forum and past President of the Mortgage Industry Association of Australia.

Mr Kenneth David DeGiorgio

- Appointed as a non-executive director on 17 October 2012;
- Kenneth is currently a member of both the Board Audit Committee and the Board Remuneration Committee, and is executive vice president of the First American Financial Corporation, a New York Stock Exchange listed provider of financial services.

Mrs Patti Evers

- Appointed as an executive director on 31 July 2013;
- Patti is the Chief Executive Officer of the First American Title Insurance Company of Australia Pty Limited, and has many years of experience in senior managerial roles in the financial services industry in both Australia and Europe, including the role of Chief Financial Officer of First Mortgage Services (Australia and New Zealand) prior to being appointed to this current position.

David John Ryan

- Appointed as an independent director on 6 February 2015;
- David is the chairman of both the Board Audit and Board Risk Committees, and is a member of the Board Remuneration Committee. He has extensive experience at executive management level in commercial banking, investment banking and operational business management, together with over 20 years experience as a non-executive director, including chairing a number of Board and other senior level Committees.

Directors ceased during the year

Mr Richard Gerald Nott (resigned 10 September 2014)

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)
Directors' Report (continued)
31 December 2014

The Board of Directors presents its annual report including financial statements of First American Title Insurance Company of Australia Pty Ltd (New Zealand Branch) for the year ended 31 December 2014.

As required by section 211 (1) of the Companies Act 1993 we disclose the following information:

- The business of the Company is insurance.
- The nature of the Company's business has not changed during the year under review.
- The business operates as a profit making concern.
- There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.
- There were no transactions entered into by the Directors during the year that require disclosure.
- Directors remuneration paid during the year is \$525,560 (2013: \$593,017) for services performed in Australia. This is borne by First American Title Insurance Company of Australia Pty Ltd ('The Australian Company'). Remuneration paid is as follows:

	Short-term benefits	Post-employment benefits	Other long-term benefits	Share-based payments	Total
	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
2014	505,145	20,415	-	-	525,560
2013	557,534	35,483	-	-	593,017

- Donations made by the Company during the year are as reported in the statement of comprehensive income.


- The following persons were directors of the Company during the year and up to date of report:

Mr Eric Richard Dodd
 Mr Anthony Peter Gill
 Mr Richard Gerald Nott (resigned 10 September 2014)
 Mr Kenneth David DeGiorgio
 Mrs Patti Evers

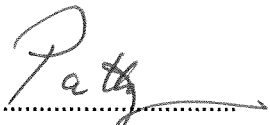
The Company had an agency agreement with First Mortgages Services Pty Limited and First Title Pacific Limited for the transacting of title insurance in Australia. The contract was based on normal commercial terms and conditions.

The Company has the power to amend and reissue the financial report.

For and behalf of the Board of Directors


 Director

14/04/2015
 Date


 Director

14/04/2015
 Date

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Corporate Governance
31 December 2014**

First American Title Insurance Company of Australia Pty Ltd ("The Branch") is incorporated in New South Wales, Australia.

The Board operates in accordance with its Board Charter which sets out the key governance principles adopted by the Board.

The Charter describes the Board's responsibilities which include:

- The Board composition and skill mix is adequate in the context of the range of risks and interests managed;
- An appropriately experienced, skilled and competent Chief Executive Officer is appointed;
- Shareholders' interests are protected;
- Regulatory requirements are met;
- Decisions are ethically and practically based;
- Strategic direction is set and monitored; and
- Systems are in place to monitor performance.

Under the Charter, the Board duties include the following:

- Consider and approve appropriate key Committee charters and First Title policies which underpin its governance responsibilities;
- Determine the terms and conditions of, and targets for, appointment and performance of the Chief Executive Officer;
- Annually review First Title's strategic plan;
- Annually approve the budget;
- Review financial results;
- Identify and manage effectively areas of significant risk; and
- Annually review the performance of the Board Audit, Risk and Remuneration Committees, and review the charters of these Committees every five years.

The Board also delegates a number of responsibilities to the Chief Executive Officer. There are five directors on the Board of First Title, comprising the following:

- Three independent directors, one of whom is the Chairman;
- One executive director (and Chief Executive Officer); and
- One non-executive director.

Brief details of directors' qualifications and experience are set out in the Directors' Report.

First Title has three Board Committees in place to assist with the overall governance of the organisation. These are:

- Board Audit Committee;
- Board Remuneration Committee; and
- Board Risk Committee.

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2014**

	Note	2014 NZD\$	2013 NZD\$
Premium revenue		351,210	295,635
Outwards reinsurance premium expense		(3,178)	(2,120)
Net premium revenue		348,032	293,515
Claims released/(expense)		47,995	106,224
Reinsurance and other recoveries		(8,416)	(62,854)
Net claims incurred		39,579	43,370
Acquisition costs		(61,688)	(50,269)
Underwriting expenses		(61,688)	(50,269)
Underwriting result		325,923	286,616
Interest income		245,856	215,400
Other income		12,722	-
Loss on investments		(16,322)	(17,341)
Accountancy fees		(1,528)	(1,726)
Professional consulting expenses		(2,064)	(4,246)
General expenses		(150,460)	(288)
		88,204	191,799
Profit before tax expense		414,127	478,415
Income tax expense	6	(18,520)	(20,066)
Profit after income tax expense for the year		395,607	458,349
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the Company		395,607	458,349

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Statement of Financial Position
as at 31 December 2014

	Notes	2014 NZD\$	2013 NZD\$
Current Assets			
Cash and cash equivalents	5	5,228,163	5,000,682
Trade and other accounts receivable	8	79,678	133,067
Accrued interest		52,945	56,650
Reinsurance and other recoveries	9	26,614	58,820
		<u>5,387,400</u>	<u>5,249,219</u>
Non-Current Assets			
Investments	7	504,337	520,658
Reinsurance and other recoveries	9	97,331	74,792
		<u>601,668</u>	<u>595,450</u>
Total Assets		<u>5,989,068</u>	<u>5,844,669</u>
Current Liabilities			
Trade payables and accruals	18	23,951	19,157
Amount due to related entities	11	3,465	185,749
Outstanding claims	10	46,870	64,339
Provision for tax	6	9,834	31,078
		<u>84,120</u>	<u>300,323</u>
Non-Current Liabilities			
Outstanding claims	10	126,899	161,904
		<u>126,899</u>	<u>161,904</u>
Total Liabilities		<u>211,019</u>	<u>462,227</u>
Net Assets		<u>5,778,049</u>	<u>5,382,442</u>
REPRESENTED BY:			
Reserves			
Retained Earnings		5,778,049	5,382,442
Total Equity		<u>5,778,049</u>	<u>5,382,442</u>

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Statement of Changes in Equity
for the year ended 31 December 2014**

	Retained earnings NZ\$	Total equity NZ\$
Balance at 1 January 2014	5,382,442	5,382,442
Total Comprehensive income for the year		
Profit for the year	395,607	395,607
Total other comprehensive income for the year	-	-
<i>Total comprehensive income for the year</i>	<u>395,607</u>	<u>395,607</u>
Transactions with owners of the Company in their capacity as		
<i>Total transactions with owners of the company</i>	-	-
Balance at 31 December 2014	<u>5,778,049</u>	<u>5,778,049</u>

	Retained earnings NZ\$	Total equity NZ\$
Balance at 1 January 2013	4,924,093	4,924,093
Total Comprehensive income for the year		
Profit for the year	458,349	458,349
Total other comprehensive income for the year	-	-
<i>Total comprehensive income for the year</i>	<u>458,349</u>	<u>458,349</u>
Transactions with owners of the Company in their capacity as		
<i>Total transactions with owners of the company</i>	-	-
Balance at 31 December 2013	<u>5,382,442</u>	<u>5,382,442</u>

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Cash Flow Statement
for the year ending 31 December 2014**

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Premiums received		404,599	245,835
Outwards reinsurance premium expense		(3,178)	(2,120)
Claims paid		(3,228)	(596)
Interest received		249,561	217,606
Other expenses paid		(380,509)	(56,497)
Income taxes paid		(39,764)	(11,789)
Net cash flow from operating activities	17	227,481	392,439
Cash at the beginning of the financial year		5,000,682	4,608,243
Cash at the end of the financial year		5,228,163	5,000,682

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Notes to Financial Statements
for the year ended 31 December 2014**

1) STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

First American Title Insurance Company of Australia Pty Ltd is a Company registered under the Companies Act 1993, operating under a Reserve Bank License and Insurance (Prudential Supervision) Act 2012 and is a reporting entity for the purposes of the Financial Reporting Act 1993 due to operating a branch in New Zealand. The Branch is 100% owned by First American Title Insurance Company of Australia Pty Ltd ("the Company") and its ultimate parent is First American Title Insurance Company.

BASIS OF PREPARATION

The financial statements were authorised for issue by the Board of Directors on 14 April 2015.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, appropriate for profit orientated entities.

The financial statements comply with International Financial Reporting Standards.

1.1 Measurement Base

The financial statements are prepared on the historical cost basis except the following assets and liabilities are stated at fair value:

- Cash and cash equivalents;
- Investments;
- Reinsurance and other recoveries; and
- Outstanding claims.

1.2 Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by the Branch in the preparation of its financial statements.

Premium revenue

Premium revenue comprises amounts charged to the policyholders excluding GST. The Branch underwrites title insurance policies. The insurance risk relates to losses arising from title and associated defects existing at the date the policy was accepted by the Branch and premium revenue is recognised as fully earned at the date of attachment of the policy.

Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, in line with premium revenue, no reinsurance premium has been treated as a prepayment at balance date.

Payables

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

1.2 Significant Accounting Policies (continued)

Provision for outstanding claims

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

Discount rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on claims expense.

Goods and Services Tax

These financial statements have been prepared exclusive of Goods & Services Tax (GST). All items in the statement of financial position are stated net of GST except for accounts receivable and accounts payable which are stated at GST inclusive values.

Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, claims reported but not yet paid, IBNR and IBNER are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Cash and cash equivalents

Cash is cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

Income taxes

The income tax expense or revenue for the period is the total of the current period's taxable income based on the national income tax rate in New Zealand plus/minus prior years under/over provisions and plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves. Deferred tax is provided in full using the liability method.

Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on the national income tax rate in New Zealand. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either the accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The income tax expense or revenue attributable to amounts recognised directly in equity is also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts.

1.2 Particular Accounting Policies (continued)

Financial Instruments

The carrying amount of cash assets and bank overdrafts approximate their fair value. For the purposes of the statement of cash flow, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. Unlisted fixed interest securities are measured at fair value based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the Branch commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the asset have expired, or have been transferred, and the Branch has transferred substantially the risks and rewards of ownership. Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

An allowance for impairment of receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the net present value of the estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Statement of Comprehensive Income. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income.

Presentation Currency

All amounts in the Financial Statements are expressed in New Zealand Dollars (\$), which is the Branch's functional and presentation currency.

Foreign currency

Transactions entered in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognised in profit or loss. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognised in respect of that financial instrument.

1.2 Significant Accounting Policies (continued)

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the branch will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Branch elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

The branch's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

1.3 Changes in Accounting Policies

There have been no changes in accounting policies.

No new standards, interpretations, and amendments effective for periods beginning after 1 January 2014 have been early adopted.

2) CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

2) CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

2.1 The ultimate liability arising from claims made under insurance contracts

The Branch operates in a specialised line of business (title insurance), resulting in a lack of comparable data relating to assumptions. The value of outstanding claims has been adjusted to reflect the uncertainty of current market conditions. Whilst this represents the best estimate of the value at balance date, the current market uncertainty means the ultimate value of outstanding claims may be higher or lower than the value recorded in the financial statements. Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of subrogation rights and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The estimation of claims incurred but not reported (IBNR) is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is available. IBNR claims may often not be apparent to the insured until many years after the events which gives rise to the claim.

In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- (i) changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- (ii) changes in the legal environment;
- (iii) the effects of inflation;
- (iv) changes in the mix of business; and
- (v) the impact of large losses;

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Branch has regard to the claims circumstances as reported, any information available from loss adjustors and information on the cost of settling claims with similar characteristics in previous periods. Large claims are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for possible distortion of the development and incidence of these large claims. The Branch adopts multiple methods to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from the reinsurer based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

3) ACTUARIAL ASSUMPTIONS AND METHODS

The Branch writes one class of business only. The cost of claims notified to the Branch at the reporting date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate number of claims is projected based on past reporting patterns. Payment experience is analysed based on averages per claim incurred and averages paid per claim finalised. Historic case estimate development is also used to develop a model of future payments. The resulting average claim sizes from these models are analysed, along with loss ratios and other statistics, in order to determine a final estimate of outstanding claims. Claims inflation is incorporated into the resulting projected payments, to allow for general economic inflation detected in the modelling of payments experience.

Projected payments are discounted to allow for the time value of money.

3.1 Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

	2014	2013
Average weighted term to settlement from claim reported date	1.63 years	2.28 years
Expense rate	6%	6%
Discount rate	2.30%	3.00%
Inflation	0%	0%
Prudential margin	40%	40%

3.2 Process to determine assumptions

A description of the processes used to determine these assumptions is provided below. The overall reserves are valued at a 75% level of confidence.

Average weighted term to settlement

The estimated average weighted term to settlement is based on historic settlement patterns.

IBNR factors

The adopted factors are based on historical cost development patterns.

Prior expected loss ratios

Adopted ratios are based on historical loss ratios.

Inflation

Implicit allowance for inflation is made by using the Bornhuetter-Ferguson valuation method. Inflation is not expected to have a material impact.

Reinsurance and non-reinsurance recoveries

Estimates of recoveries are based on historical recovery rates and projected cash flows.

Claims handling expenses

The allowance for claims handling expenses is based on the historical relationship between the claims handling expenses and gross claim costs.

Discount rate

The adopted discount rate is estimated using the expected claim payment profile and the Australian government bond yield curve at balance date.

4) INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Branch's policies and procedures in respect of managing these risks are set out below.

4.1 Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Branch has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, this can lead to significant variability in the loss experience; profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is a feature of insurance business.

The Board and the senior management of First American Title Insurance Company of Australia Pty Limited (The Company) have developed, implemented and maintained a Risk Management Strategy (RMS) and a Reinsurance Management Strategy (ReMS). The RMS and the ReMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company and The New Zealand Branch. Annually, the Board certifies that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and ReMS.

The RMS and ReMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks include:

- (i) The maintenance and use of management information systems, which provide up-to-date, reliable data on the risks to which the business is exposed at any time.
- (ii) Actuarial models, using information from the management information systems, are used to monitor claims patterns. Past experience and statistical methods are used as part of the process.
- (iii) Documented procedures are followed for underwriting and accepting insurance risks.
- (iv) Reinsurance is used to limit the Company and New Zealand Branch's exposure to large single claims and cap the aggregate exposure of the Company and New Zealand Branch in any one underwriting year.
- (v) The assets in which the Company and New Zealand Branch invests are selected to ensure that the Company and New Zealand Branch can meet their claim paying obligations.

4) INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

4.2 Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Branch. The majority of insurance contracts written are entered into on a standard basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

4.3 Concentration of insurance risk

The Branch has in place measures to manage its exposure to accumulations of risk. At the outset concentration risk in the New Zealand context is underpinned by a system of land title which is government guaranteed. As a general insurer operating within the real property market in New Zealand, the Board understands the nature of the Branch's business is such that a catastrophic risk and/or risks resulting from placement concentration are highly unlikely.

4.4 Development of claims

There is a possibility that changes may occur in the estimate of the Branch's obligations at the end of a contract period. A gross claim development table is set out in note 10. No net development table has been presented due to the aggregate reinsurance treaty minimising the volatility of the net claims.

4.5 Interest rate risk

With the exception of the discount rate discussed above none of the financial assets or liabilities arising from insurance contracts entered into by the Branch are directly exposed to interest rate risk.

Insurance contracts are entered into once, i.e. are not renewed on a periodic basis. At the time of entering into the contract all terms and conditions are negotiable.

5) CASH

	2014 NZ\$	2013 NZ\$
Cash at bank	247,373	230,125
Short term deposit	4,980,790	4,770,557
	5,228,163	5,000,682

Short term deposits

The deposits are bearing floating interest rates between 3.00% and 5.00% (2013: between 2.60% and 4.40%).

Account Type	Maturity date	Term	Interest rate
Term Deposit			
ANZ Bank	13 October 2015	12 months	5.00%
ANZ Bank	28 September 2015	12 months	4.60%
ANZ Bank	6 November 2015	12 months	4.85%
Bank of New Zealand	29 July 2015	12 months	5.00%
Cash Management Account			
ANZ Bank	N/A	N/A	3.00%

First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Notes to Financial Statements
for the year ended 31 December 2014

6) TAXATION

	2014 NZ\$	2013 NZ\$
Income Tax		
Taxable premium income	35,121	29,563
Tax at 28%	<u>9,834</u>	<u>8,277</u>
Income Tax Expense		
Premium tax	9,834	8,277
Withholding tax paid on non resident insurance	31,486	24,166
Under/over prior year provision	<u>(22,800)</u>	<u>(12,377)</u>
Taxation expense	<u>18,520</u>	<u>20,066</u>
Tax Payable		
Tax account opening balance	31,078	22,801
Tax expense on premium income	9,834	8,277
Non resident insurance withholding tax	<u>31,486</u>	<u>24,166</u>
	72,398	55,244
Less:		
Under/over prior year provision	(22,800)	-
Tax paid on premium income	(8,278)	-
Withholding tax paid on non resident insurance	<u>(31,486)</u>	<u>(24,166)</u>
	<u>(62,564)</u>	<u>(24,166)</u>
Tax payable as per Statement of Financial Position	<u>9,834</u>	<u>31,078</u>

7) INVESTMENTS

<i>Financial assets at fair value through profit or loss</i>		
NZ government security	<u>504,337</u>	<u>520,658</u>

Investment	Interest rate	Maturity date
NZ Government Bond	6.00%	15-Apr-15

The New Zealand Government Bond is measured at fair value with interest payments received semiannually.

8) TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other receivables	<u>79,678</u>	<u>133,067</u>
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Trade receivables amounted to \$79,678 (2013: \$133,067) and includes a portion of receivables that are past due but not impaired – refer to note 12. Trade receivables generally have terms of 45 days and are interest free. Trade receivables of a short-term duration are not discounted.

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)**

**Notes to Financial Statements
for the year ended 31 December 2014**

9) REINSURANCE AND OTHER RECOVERIES

	2014 NZ\$	2013 NZ\$
Undiscounted expected future recoveries	130,737	145,472
Discount to present value	(6,792)	(11,860)
Reinsurance and other recoveries	123,945	133,612
Reinsurance and other recoveries - current	26,614	58,820
Reinsurance and other recoveries – non-current	97,331	74,792
	123,945	133,612

10) OUTSTANDING CLAIMS

Undiscounted expected future claim payments	148,068	199,725
Central estimate	20,251	20,338
Risk margin	6,426	12,383
Handling costs	9,472	12,139
	184,217	244,585
Discount to present value	(10,448)	(18,342)
	173,769	226,243
Current	46,870	64,339
Non-current	126,899	161,904
	173,769	226,243

Claims development table

The following tables show the development of gross undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years.

Policy Year	Prior years \$NZ	2010 \$NZ	2011 \$NZ	2012 \$NZ	2013 \$NZ	2014 \$NZ	Total \$NZ
Estimate of ultimate claims cost:							
At end of policy year		63,426	76,230	95,322	51,882	46,628	
One year later		47,791	58,799	43,229	33,419		
Two years later		41,460	28,550	26,148			
Three years later		19,164	16,584				
Four years later		9,874					
Current estimate of cumulative claims costs	958,191	9,874	16,584	26,148	33,419	46,628	1,090,845
Cumulative payments	919,299	-	-	-	3,228	-	922,527
Outstanding claims - undiscounted	38,893	9,874	16,584	26,148	30,191	46,628	168,319
Discount	(1,365)	(452)	(875)	(1,611)	(2,151)	(3,994)	(10,448)
Outstanding claims - discounted	37,528	9,422	15,710	24,538	28,040	42,633	157,871
Claims handling expense (disc)	2,252	565	943	1,472	1,682	2,558	9,472
Risk Margin (disc)							6,426
Total gross outstanding claims							173,769

First American Title Insurance Company of Australia Pty Limited
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11) AMOUNT DUE TO RELATED ENTITIES

During the year, the Branch entered into following transactions with related parties:

	2014 NZ\$	2013 NZ\$
<i>Amounts owed to related parties</i>		
Amounts due to parent entity	-	185,307
Amounts due to ultimate parent entity	1,401	442
Amounts due to related entity - FMSA Pty Limited	2,064	-
	3,465	185,749

12) FINANCIAL INSTRUMENTS

12.1 Market risk

Interest rate risk

The Branch's main interest rate risk arises from cash and short term deposits. There are no interest rates derivatives open at reporting date. At 31 December 2014, if interest rates had changed by -1%/+1% from the year end rates with all other variables held constant, equity and post-tax profit for the year would have been \$52,282 lower/ higher mainly as a result of investing.

Summarised Sensitivity Analysis

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and foreign exchange risk. A reasonably possible change in risk variable has been determined after taking into account past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets. The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2013. The analysis assumes that all other variables remain constant.

The following table summarises the sensitivity of the Branch's financial assets and financial liabilities to interest rate risk.

31-Dec-14	Carrying amount NZ\$	Interest rate risk			
		-1%		+1%	
		Profit NZ\$	Equity NZ\$	Profit NZ\$	Equity NZ\$
Financial assets					
Cash and cash equivalents	5,228,163	(52,282)	(52,282)	52,282	52,282
Total increase/(decrease)		(52,282)	(52,282)	52,282	52,282

31-Dec-13	Carrying amount NZ\$	Interest rate risk			
		-1%		+1%	
		Profit NZ\$	Equity NZ\$	Profit NZ\$	Equity NZ\$
Financial assets					
Cash and cash equivalents	5,000,682	(50,007)	(50,007)	50,007	50,007
Total increase/(decrease)		(50,007)	(50,007)	50,007	50,007

12) FINANCIAL INSTRUMENTS (continued)

12.2 Credit risk

Credit risk arises when there is the possibility of the Branch's debtors defaulting on their contractual obligations, resulting in a financial loss to the Branch. Credit risk arises from the financial assets of the Branch including cash, receivables and investments. The carrying amount of financial assets in the Branch's balance sheet represents the Branch's maximum exposure to risk. No collateral is held by the Branch. The Branch has not granted any financial guarantees.

The credit risk on financial assets which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

Credit Quality Table	2014 rating	2013 rating	2014 NZ\$	2013 NZ\$
Cash and cash equivalents	AA-	AA-	5,228,163	5,000,682
Trade and other receivables	Not rated	Not rated	79,678	133,067
Reinsurance recoveries	A-	BBB+	123,945	133,612
Accrued interest	AA-	AA-	52,945	56,650
Government Bond New Zealand	AA+	AA+	504,337	520,658

Aging Table	Not past Due	Past Due but not impaired	Impaired	2014 NZ\$
Trade and other receivables	52,776	26,902	-	79,678
Reinsurance recoveries	123,945	-	-	123,945
Accrued interest	52,945	-	-	52,945
Government Bond New Zealand	504,337	-	-	504,337

Aging Table	Not past Due	Past Due but not impaired	Impaired	2013 NZ\$
Trade and other receivables	43,197	89,870	-	133,067
Reinsurance recoveries	133,612	-	-	133,612
Accrued interest	56,650	-	-	56,650
Government Bond New Zealand	520,658	-	-	520,658

12) FINANCIAL INSTRUMENTS (continued)

12.3 Liquidity risk

Liquidity risk is the risk that the Branch will be unable to meet its obligations when they fall due. The Branch continuously manages risk through rolling forecasts of the Branch's liquidity reserve on the basis of expected cash flow.

No assets have been pledged as collateral. The Branch's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The only financial liabilities that exist are trade and sundry payables to various entities, outstanding claims and taxes. These liabilities have the following maturity pattern:

Maturity Profile Table	1 year or less	1 to 3 years	2014 NZ\$
Payables	17,285	-	17,285
Outstanding claims	46,870	126,899	173,769
GST payable	6,666	-	6,666
Provision for tax	9,834	-	9,834

Maturity Profile Table	1 year or less	1 to 3 years	2013 NZ\$
Payables	10,284	-	10,284
Outstanding claims	64,339	161,904	226,243
GST payable	8,873	-	8,873
Provision for tax	31,078	-	31,078

12.4 Financial Instruments by category of financial instruments

2014	Loans and Receivables NZ\$	At Fair value through Profit or Loss NZ\$	Available-For- Sale NZ\$	Liabilities at amortised Cost NZ\$	Total NZ\$
Other investments	-	504,337	-	-	504,337
Trade and other receivables	79,678	-	-	-	79,678
Cash and cash equivalents	-	5,228,163	-	-	5,228,163
Total	79,678	5,732,500	-	-	5,812,178

2013	Loans and Receivables NZ\$	At Fair value through Profit or Loss NZ\$	Available-For- Sale NZ\$	Liabilities at amortised Cost NZ\$	Total NZ\$
Other investments	-	520,658	-	-	520,658
Trade and other receivables	133,067	-	-	-	133,067
Cash and cash equivalents	-	5,000,682	-	-	5,000,682
Total	133,067	5,521,340	-	-	5,654,407

12) FINANCIAL INSTRUMENTS (continued)

12.5 Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities approximates their carrying amounts. As noted in accounting policy 1.2, investments are measured at fair value at balance date.

		Fixed interest maturing in:				
2014		1 year or less	Over 1 to 5 years	Variable rate	Non interest bearing	Total
	Note	\$	\$	\$	\$	\$
Financial assets						
Cash	5	4,980,790	-	247,373	-	5,228,163
Receivables	8	-	-	-	79,678	79,678
Investments	7	504,337	-	-	-	504,337
Total		5,485,127	-	247,373	79,678	5,812,178
Weighted average interest rate						
		4.43%	6.00%	Variable		
Financial Liabilities						
Accounts payable	18	-	-	-	17,285	17,285
Total		-	-	-	17,285	17,285
Weighted average interest rate						
		n/a	n/a	n/a		
Net Financial Assets		5,485,127	-	247,373	62,393	5,794,893
Non-Financial Assets						176,890
Non-Financial Liabilities						193,734
Net Assets						5,778,049

		Fixed interest maturing in:				
2013		1 year or less	Over 1 to 5 years	Variable rate	Non interest bearing	Total
	Note	\$	\$	\$	\$	\$
Financial assets						
Cash	5	4,770,557	-	230,125	-	5,000,682
Receivables	8	-	-	-	133,067	133,067
Investments	7	-	520,658	-	-	520,658
Total		4,770,557	520,658	230,125	133,067	5,654,407
Weighted average interest rate						
		4.03%	6.00%	Variable		
Financial Liabilities						
Accounts payable	18	-	-	-	10,284	10,284
Total		-	-	-	10,284	10,284
Weighted average interest rate						
		n/a	n/a	n/a		
Net Financial Assets		4,770,557	520,658	230,125	122,784	5,644,124
Non-Financial Assets						190,262
Non-Financial Liabilities						451,943
Net Assets						5,382,442

12) FINANCIAL INSTRUMENTS (continued)

12.6 Fair value of financial instruments

The following tables detail the company's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Cash and cash equivalents	5,228,163	-	-	5,228,163
Fixed interest securities	-	-	-	-
Total assets	<u>5,228,163</u>	<u>-</u>	<u>-</u>	<u>5,228,163</u>
2013				
<i>Assets</i>				
Cash and cash equivalents	5,000,682	-	-	5,000,682
Fixed interest securities	520,658	-	-	520,658
Total assets	<u>5,521,340</u>	<u>-</u>	<u>-</u>	<u>5,521,340</u>

There were no transfers between levels during the financial year.

13) AUDITOR'S REMUNERATION

Audit fees were paid by a related entity.

14) COMMITMENTS

There were no capital or any other commitments as at 31 December 2014 (2013: \$Nil).

15) CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2014 (2013: \$Nil).

16) SUBSEQUENT EVENTS

There were no events subsequent to reporting date that would affect the financial statements.

17) RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Profit after income tax expense for the year	395,607	458,349
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in receivables	53,389	(49,800)
(Increase)/decrease in other assets	29,693	217,971
(Decrease)/ increase in tax payable	(21,244)	8,277
(Decrease)/ increase in payables	4,795	(133)
(Decrease)/ increase in related party payables	(182,285)	-
Decrease in provisions	(52,474)	(242,225)
Net cash flows from operating activities	<u>227,481</u>	<u>392,439</u>

18) TRADE PAYABLES AND ACCRUALS

Sundry creditors and accruals	17,285	10,284
GST payables	6,666	8,873
Total payables	<u>23,951</u>	<u>19,157</u>

**First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)
Directors Declaration
31 December 2014**

In the opinion of the Directors of First American Title Insurance Company of Australia Pty Limited (New Zealand Branch), the financial statements and notes of the New Zealand Branch (the branch), on pages 4 to 23;

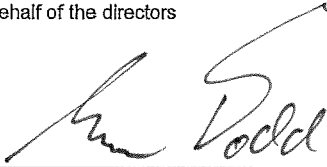
- (a) comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Branch as at 31 December 2014 and the result of operation for the year ended on that date; and
- (b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have been taken adequate steps to safeguard of the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts and claims as and when they are due.

Signed in Sydney on 14 April 2015 in accordance with a resolution of the Directors.

On behalf of the directors



Eric Richard Dodd
Director
Sydney
14 April 2015



To the members of First American Title Insurance Company of Australia (New Zealand Branch)

Report on the Branch financial statements

We have audited the accompanying financial statements of First American Title Insurance Company of Australia (New Zealand Branch) ("the Branch") on pages 4 to 23. The financial statements comprise the statements of financial position as at 31 December 2014, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information for the Branch.

Directors' responsibility for the Branch financial statements

The directors are responsible for the preparation of Branch financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of Branch financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Branch financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Branch financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Branch financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Branch in relation to tax compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch. These matters have not impaired our independence as auditor of the Branch. The firm has no other relationship with, or interest in, the Branch.



Opinion

In our opinion the financial statements on pages 4 to 23:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch and the group as at 31 December 2014 and of the financial performance and cash flows of the Branch for the year then ended.

Other matter

The financial statements of First American Title Insurance Company of Australia (New Zealand Branch) , for the year ended 31 December 2013, were audited by another auditor who expressed an unqualified opinion on those statements on 16 April 2014.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by First American Title Insurance Company of Australia (New Zealand Branch) as far as appears from our examination of those records.

KPMG

KPMG Sydney

14 April 2015