First American Title Insurance Company of Australia Pty Limited

ABN 64 075 279 908

Annual Report

31 December 2012

First American Title Insurance Company of Australia Pty Limited

Directors' Report
31 December 2012

Your Directors present their report together with the financial statements, on the entity consisting of First American Title Insurance Company of Australia Pty Limited (the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2012.

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

Mr Eric Richard Dodd
Mr Jonathan Flaws
Mr Anthony Peter Gill
Mr Richard Gerald Nott
Mr Thomas Grifferty
Mr Christopher Tyler
Mr Kenneth David DeGiorgio (appointed 17 October 2012)

Principal Activities
The Company's principal continuing activity is the underwriting of title insurance risks. The Company is wholly owned by First American Title Insurance Company, Santa Ana, California 92707 USA.

Dividends
The Directors do not recommend a payment of dividend in the current year (2011: $Nil).

Review of Operations

	2012	**2011**
	$	**$**
Underwriting operations	3,960,280	3,469,053
Investment operations	517,009	543,041
Other operations	(4,040,746)	(3,456,572)
Profit	436,543	555,522
Income tax expense	(27,184)	(27,380)
Net Profit	**409,359**	**528,142**

A summary of results is set out below:

Significant Changes in the State of Affairs
There were no significant changes in the state of affairs of the Company during the financial year.

Matters Subsequent to the End of the Financial Year
The Directors are not aware of any matter or circumstance arising subsequent to reporting date, not otherwise dealt with in the financial report, that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Likely Developments and Expected Results of Operations
There are no likely developments that have arisen since reporting date which are not disclosed elsewhere in this report.

Environmental Regulations
The Company is not subject to any significant environmental regulations in respect of its activities.

First American Title Insurance Company of Australia Pty Limited

Directors' Report
31 December 2012 (continued)

Directors' Benefit
Since the end of the previous financial year, no Director of the Company has received or became entitled to receive a benefit (other than remuneration benefit) by reason of the contract made or proposed by the company or a related entity with a Director or with a firm of which the director is a member or with an entity in which the Director has a substantial financial interest.

Insurance of Officers
During the financial year, the parent entity paid a premium to insure the Directors, Secretary and Officers of the Company. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract is prohibited by a confidentiality clause in the contract.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from the liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain an advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on Behalf of Company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditor
BDO East Coast Partnership continues in office as Auditors in accordance with section 327 of the *Corporations Act 2001.*

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

This report is made in accordance with a resolution of Directors, pursuant to Section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors,

Dodd

Director

Sydney 22nd April 2013

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 10, 1 Margaret St
Sydney NSW 2000

Australia

DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LIMITED

As lead auditor of First American Title Insurance Company of Australia Pty Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Arthur Milner

Partner

BDO East Coast Partnership

Sydney, 22 April 2013

First American Title Insurance Company of Australia Pty Limited

Financial Report
For the year ended 31 December 2012

First American Title Insurance Company of Australia Pty Limited (the Company) is a company limited by shares, incorporated in and domiciled in Australia. Its registered office and principal place of business is:

Level 7, 115 Pitt St
Sydney, NSW 2000

Contents

The Financial Report consists of the Financial Statements, Notes to the Financial Statements and the Directors' Declaration.

This Financial Report covers the operations of First American Title Insurance Company of Australia Pty Limited and its subsidiary First Title New Zealand Limited. The report is presented in Australian dollars, which is the company's functional and presentational currency.

A description of the Company's operations and principal activities is included in the Directors' Report on pages 1 and 2. The Directors' Report does not form part of this Financial Report.

The Financial Report was authorised for issue by the Directors on 22nd April 2013.

The Directors have the power to amend and reissue the Financial Report.

First American Title Insurance Company of Australia Pty Limited

Statement of Comprehensive Income
For the year ended 31 December 2012

	Note	2012 $	2011 $
Premium revenue		4,618,244	4,022,444
Outwards reinsurance premium expense		(200,656)	(180,886)
Net premium revenue		**4,417,588**	**3,841,558**
Claims expense		2,218,760	2,012,017
Reinsurance and other recoveries		(1,852,455)	(1,680,456)
Net claims incurred	6	**366,305**	**331,561**
Acquisition costs		91,003	38,264
Other underwriting expenses		-	2,680
Underwriting expenses	8	**91,003**	**40,944**
Underwriting result		**3,960,280**	**3,469,053**
Investment income	7	517,009	543,041
Other income	8	1,701,106	1,681,128
Administration expenses	8	(5,741,852)	(5,137,700)
		(3,523,737)	**(2,913,531)**
Profit before tax expense		**436,543**	**555,522**
Income tax expense	9	(27,184)	(27,380)
Profit after income tax expense for the year		**409,359**	**528,142**
Other comprehensive income			
Exchange difference on translating foreign operations net of tax effects		168,732	(69,210)
Total comprehensive income for the year attributable to owners of the Company		**578,091**	**458,932**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

First American Title Insurance Company of Australia Pty Limited

Statement of Financial Position
As at 31 December 2012

	Notes	2012 $	2011 $
Current Assets			
Cash and cash equivalents	10	9,301,098	9,527,388
Trade and other receivables	11	757,317	1,586,885
Reinsurance and other recoveries	12	1,878,267	1,942,958
Other financial assets at amortised cost	13	146,960	-
Other assets	11	174,435	114,700
Total current asset		**12,258,077**	**13,171,931**
Non-Current Assets			
Reinsurance and other recoveries	12	3,286,320	3,722,165
Other financial assets at amortised cost	13	1,735,638	420,294
Property, plant and equipment	14	58,928	57,762
Intangible assets	15	769,670	700,399
Total non-current assets		**5,850,556**	**4,900,620**
Total Assets		**18,108,633**	**18,072,551**
Current Liabilities			
Trade and other payables	16	938,491	1,044,678
Outstanding claims	17	1,959,285	2,228,876
Employee benefit provisions	19	289,648	216,354
Total current liabilities		**3,187,424**	**3,489,908**
Non-Current Liabilities			
Employee benefit provisions	19	59,837	44,182
Outstanding claims	17	4,765,664	5,020,844
Total non-current liabilities		**4,825,501**	**5,065,026**
Total Liabilities		**8,012,925**	**8,554,934**
Net Assets		**10,095,708**	**9,517,617**
Shareholders' Equity			
Contributed equity	22	15,573,346	15,573,346
Reserves	22	(290,015)	(458,747)
Accumulated losses		(5,187,623)	(5,596,982)
Total Equity		**10,095,708**	**9,517,617**

The above statement of financial position should be read in conjunction with the accompanying notes.

First American Title Insurance Company of Australia Pty Limited

Statement of Changes in Equity
For the year ended 31 December 2012

	Share Capital $	Foreign Exchange Reserve $	Accumulated Losses $	Total $
At 1 January 2011	**15,573,346**	**(389,537)**	**(6,125,124)**	**9,058,685**
Profit after income tax expense for the year	-	-	528,142	528,142
Other comprehensive income for the year, net of tax	-	(69,210)	-	(69,210)
Total comprehensive income for the year attributable to equity holders	**-**	**(69,210)**	**528,142**	**458,932**
Total equity at 31 December 2011	**15,573,346**	**(458,747)**	**(5,596,982)**	**9,517,617**
Profit after income tax expense for the year	-	-	409,359	409,359
Other comprehensive income for the year, net of tax	-	168,732	**-**	168,732
Total comprehensive income for the year attributable to equity holders	**-**	**168,732**	**409,359**	**578,091**
Total equity at 31 December 2012	**15,573,346**	**(290,015)**	**(5,187,623)**	**10,095,708**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

First American Title Insurance Company of Australia Pty Limited

Statement of Cash Flows
For the year ended 31 December 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Premiums received		4,824,594	3,750,919
Outwards reinsurance paid		(217,809)	(192,926)
Claims paid		(2,738,948)	(2,425,234)
Reinsurance and other recoveries received		2,348,408	2,815,198
Acquisition costs paid		(91,003)	(38,264)
Other underwriting expenses paid		-	(2,680)
Interest received		480,694	502,921
Management fees and other revenue received		2,324,325	1,151,797
Other expenses paid		(5,138,184)	(4,547,178)
Income taxes paid		(26,702)	(27,397)
Net cash flow from operating activities	32	**1,765,375**	**987,156**
Cash flows from investing activities			
Purchase of property, plant and equipment		(26,090)	(28,527)
Disposal of property, plant and equipment		15,317	-
Payment for software development		(531,049)	(422,432)
Intercompany loan paid		(1,455,000)	-
Net cash flow from investing activities		**(1,996,822)**	**(450,959)**
Cash flows from financing activities		**-**	**-**
Net cash flow from financing activities		**-**	**-**
Net increase/(decrease) in cash held		(231,447)	536,197
Cash at the beginning of the financial year		9,527,388	9,001,607
Effects of exchange rate changes on cash		5,157	(10,416)
Cash at the end of the financial year	10	**9,301,098**	**9,527,388**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Table of Contents

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated these policies have been consistently applied to all years presented.

New, revised or amending Accounting Standards and Interpretations adopted

The company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the company from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the company.

The following Accounting Standards and Interpretations are most relevant to the company:

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

The company has applied AASB 2010-6 amendments from 1 January 2012. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised; and (ii) when assets are derecognised but the company has a continuing exposure to the asset after the sale.

AASB 1054 Australian Additional Disclosures

The company has applied AASB 1054 from 1 January 2012. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The company has applied AASB 2011-1 amendments from 1 January 2012. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets

The company has applied AASB 2010-8 amendments from 1 January 2012. These amendments offer a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life.

Note 1 Summary of significant accounting policies (continued)

This general purpose financial report has been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Standards Board Interpretations and the *Corporations Act 2001* as appropriate for profit oriented entities.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Company, comprising the financial statements and notes comply with International Financial Reporting Standards (IFRS).

This financial report is prepared in accordance with the historical cost convention of accounting with certain exceptions as described in the accounting policies below.

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed at note 2.

As described in note 13 the Company has one subsidiary, First Title New Zealand Limited. This company has not traded and has net assets of $81 represented by a receivable from the Company. The Subsidiary is not material and has not been consolidated. Accordingly, the results, the cash flows and financial position of the Company are also those of the Group.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 31 December 2012. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The company will adopt this standard from 1 January 2015 but the impact of its adoption is yet to be assessed by the company.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on

Note 1 Summary of significant accounting policies (continued)

transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the company from 1 January 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised)
AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 January 2013 will not have a material impact on the company.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 January 2013 is expected to reduce the reported annual leave liability of the company.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 January 2013 will impact the company’s presentation of its statement of comprehensive income.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 January 2013 will increase the disclosures by the company.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 January 2014 will not have a material impact on the company.

Note 1 Summary of significant accounting policies (continued)

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 ‘Income Taxes’; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 January 2013 will not have a material impact on the company.

The company will apply these standards for the annual reporting period on or after the operative date set out above.

(a) Premium revenue

Premium revenue comprises amounts charged to the policyholders, excluding stamp duties and GST.

The insurance risk relates to losses arising from title and associated defects existing at the date the policy was accepted by the Company and premium revenue is recognised as fully earned at the date of attachment of the policy.

(b) 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.

(c) 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.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. A risk margin increases the probability that the net liability is adequately provided. In the policy years where the net liability is expected to exceed the aggregate reinsurance deductible a risk margin is not brought to account (refer Note 17).

Note 1 Summary of significant accounting policies (continued)

(d) Reinsurance and other recoveries

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

Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(e) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are recognised as an expense.

Costs are fully expensed at the date of attachment of the policy.

(f) Income tax

The income tax expense or benefit for the period on the current period's taxable income is based on the national income tax rate for each jurisdiction adjusted by changes to deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to cumulative amounts deductible and assessable temporary differences to measure the deferred tax asset and liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Assets backing general insurance liabilities

As part of its investment strategy the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that all financial assets are held to back general insurance liabilities and on that basis that all financial assets are valued at fair value through profit and loss.

The following policies apply to financial assets held to back and match general insurance liabilities which are measured at the present value of expected future payments – refer Note 1 (c). These assets are:

- Cash and cash equivalents
- Trade and other receivables
- Fixed interest securities

Financial assets are designated at fair value through profit or loss or at amortised cost. Initial recognition is at fair value, being the cost, in the Statement of Financial Position and subsequent measurement is at fair value or at amortised cost with any resultant unrealised profits and losses or unwinding of discount recognised in the Statement of Comprehensive Income.

Note 1 Summary of significant accounting policies (continued)

Details of fair value for different types of financial assets are listed below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. 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 recorded at amounts 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 Company 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 Company 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.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision 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.

(h) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight line method to allocate their cost over their estimated useful lives as follows;

Computer Equipment	3 – 5 years
Furniture and Fittings	5 – 20 years

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and are included in the Statement of Comprehensive Income

Note 1 Summary of significant accounting policies (continued)

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid within agreed terms.

(j) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within twelve months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

(k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

(l) Other financial liabilities

Other financial liabilities are carried at the principal amounts which represent the value of future cash flows associated with servicing debt. Interest is accrued over the period it becomes due and is recorded as part of payables.

(m) Contributed equity

Ordinary shares and irredeemable, non-cumulative preference shares are classified as equity.

(n) Foreign currency transactions

Foreign currency transactions are initially translated into Australian currency at rates of exchange at the dates of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated into Australian currency at rates of exchange at that date. Resulting exchange rate differences are brought to account in the foreign currency translation reserve.

(o) Impairment of assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(p) Intangible assets

Intangible assets are measured at cost. Those with a finite useful life are amortised using the straight line method over the estimated useful life. Estimated useful lives are 2.5 to 3 years.

Note 1 Summary of significant accounting policies (continued)

(q) Revenue recognition from software sales
Revenue from the sale of a right to use the intangible asset is recognised as part of other income.

(r) Management fee revenue
The Company receives revenue from a commonly controlled entity which reflects an allocation of agreed operating expenses.

Note 2 Critical accounting judgements and estimates

The Company 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.

(a) The ultimate liability arising from claims made under insurance contracts
The company operates in a specialised line of business (title insurance) with few competitors, resulting in a lack of comparable data relating to assumptions.

The value of outstanding claims has been adjusted to reflect the uncertainty of the market conditions. Whilst this represents the best estimate of the value at balance date, the 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 Statement of Financial Position 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 Company 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 Company, 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. The main difficulty in providing for title insurance IBNR claims is the lack of experience within the Australian market. In calculating the estimated cost of unpaid claims the Company 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:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business

Note 2 Critical accounting judgements and estimates (continued)

- the impact of large losses
- movements in industry benchmarks
- technological developments

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 Company 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 Company 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.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance reflects the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Note 3 Actuarial assumptions and methods

The Company writes one class of business only. The cost of claims notified to the Company at the Statement of Financial Position 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.

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

	2012	2011
Average weighted term to settlement from claim reported date	**2.96 years**	**2.91 years**
Expense rate	**6%**	**6%**
Discount rate	**2.8%**	**3.3%**
Inflation	**0%**	**0%**

Process to determine assumptions
A description of the processes used to determine these assumptions is provided below:

Average weighted term to settlement
The average weighted term to settlement is calculated 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.

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 Government bond yield curve at balance date.

Note 3 Actuarial assumptions and methods (continued)

Sensitivity analysis – insurance contracts

i) Summary

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuation included in the reported results is calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity changes in these assumptions both gross and net of reinsurance.

Variable	**Impact of movement in variable**
Average weighted term to settlement	A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term to settlement would have a corresponding increase or decrease in claims expense.
Average claim frequency	Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency would have a corresponding impact on claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
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.
Inflation rate	No explicit allowance for inflation has been made as changes in inflation rates do not materially impact the ultimate settlement of claims which relate to settlement of mortgages. No consideration has been given to the changes in inflation as it is considered not to be a variable.

ii) Impact of changes in key variables

		Profit/(Loss) Impact		
		Gross of Reinsurance	**Net of Reinsurance**	**Equity**
		$	**$**	**$**
Recognised amounts per the financial statements		(1,186,352)	460,864	(10,120,029)
Variable	**Movement in variable**			
IBNR Factors	20%	(786,890)	(164,565)	(9,955,464)
	-20%	884,945	192,791	(10,312,820)
Prior Expected Loss Ratios	10%	(2,451,482)	(455,155)	(9,664,874)
	-10%	2,440,936	719,478	(10,839,507)
Discount Rate	1%	162,290	51,958	(10,171,987)
	-1%	(165,088)	(49,043)	(10,070,986)
Claims Handling Expense Rate	50%	(215,065)	(215,065)	(9,904,964)
	-50%	220,484	220,484	(10,340,513)
XOL Recoveries Rate	10%	(33,767)	227,087	(10,347,116)
	-10%	27,559	(175,100)	(9,944,929)

Note 4 Insurance contracts – risk management policies and procedures

The financial condition and operation of the Company 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 Company's policies and procedures in respect of managing these risks are set out below.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Company 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.

In accordance with Prudential Standard GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Arrangements for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Board and the senior management of the Company have developed, implemented and maintained a sound and prudent 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. Annually, the Board certifies to APRA 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 and lodged with APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up-to-date, reliable data on the risks to which the business is exposed at any time.
- 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.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Company's exposure to large single claims and cap the aggregate exposure of the Company in any one underwriting year.
- The assets in which the Company invests are selected to ensure that the Company can meet its claim paying obligations.

(b) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. 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. Insurance contracts written in Australia and New Zealand are subject to substantially the same terms and conditions.

(c) Concentration of insurance risk

The company has in place measures to manage its exposure to accumulations of risk. At the outset concentration risk in the Australian and 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 Australia, the Board understands the nature of the Company's business is such that a catastrophic risk and/or risks resulting from placement concentration is highly unlikely.

Note 4 Insurance contracts – risk management policies and procedures (continued)

(d) Development of claims

There is a possibility that changes may occur in the estimate of the Company's obligations at the end of a contract period. The tables in note 17 show estimates of total claims outstanding for each underwriting year at successive year ends.

(e) 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 Company 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.

Note 5 Financial risk management

The Company's activities expose it to a variety of financial risks; fair value interest rate risk, credit risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rate. The tables in Note 18 show the effect any changes in the interest rate would have on the cash flow.

Note 6 Net claims incurred

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

	2012		
	Current Year $	**Prior Years $**	**Total $**
Gross incurred claims and related expenses			
- Undiscounted including prudential margin	1,557,015	546,663	2,105,678
- Discounted	1,402,784	815,976	2,218,760
Reinsurance and other recoveries			
- Undiscounted	(963,228)	(791,615)	(1,754,942)
- Discounted	(766,956)	(1,085,499)	(1,852,455)
Net incurred claims	**635,828**	**(269,523)**	**366,305**

	2011		
	Current Year $	**Prior Years $**	**Total $**
Gross incurred claims and related expenses			
- Undiscounted including prudential margin	1,357,009	495,995	1,853,004
- Discounted	1,201,579	810,438	2,012,017
Reinsurance and other recoveries			
- Undiscounted	(777,942)	(766,340)	(1,544,282)
- Discounted	(678,869)	(1,001,587)	(1,680,456)
Net incurred claims	**522,710**	**(191,149)**	**331,561**

Note 7 Investment income

	2012 $	**2011 $**
Interest	528,326	539,750
Unwinding discount	(11,317)	3,291
Total investment income	**517,009**	**543,041**

Note 8 Other income and expenses

	2012	2011
Income	**$**	**$**
(a) Income by function		
Additional services	1,013,851	1,023,502
Other income	687,255	657,626
Total income	**1,701,106**	**1,681,128**
(b) Income by nature		
Additional services	1,013,851	1,023,502
Other income	687,255	657,626
Total income	**1,701,106**	**1,681,128**

	2012	2011
Expenses	**$**	**$**
(a) Expenses by function		
Underwriting expenses	91,003	40,944
Administration expenses	5,741,852	5,137,700
Total expenses	**5,832,855**	**5,178,644**
(b) Expenses by nature		
Employee benefit expense	2,585,245	2,245,533
Employee termination payments	44,231	-
Employee on costs	436,004	387,655
Occupancy costs	250,754	231,223
Depreciation, amortisation and impairment charges	486,678	478,875
Other underwriting expenses	91,003	40,943
Professional fees	350,660	244,695
Outside search fees	559,603	745,174
IT related fees	191,833	159,208
Other expenses	836,844	645,338
Total expenses	**5,832,855**	**5,178,644**

Note 9 Income tax

	2012 $	2011 $
Reconciliation between net loss before tax and tax expense		
Profit before income tax	436,543	555,522
Income tax at standard rate of 30% (2011: 30%)	**130,963**	**166,657**
Tax effect of permanent differences	(185,652)	(608,238)
Prima facie tax loss adjusted for differences	(54,689)	(441,581)
Benefit of tax losses not brought to account	87,184	532,962
Tax effect of timing differences not brought to account	(32,495)	(91,381)
New Zealand tax payable	27,184	27,380
Income tax expense	**27,184**	**27,380**
Future income tax benefit not brought to account – opening balance	4,545,317	4,045,426
Benefit not brought to account current year	87,184	532,962
Prior year overstatement	16,312	(33,071)
Future income tax benefit not brought to account – closing balance	**4,648,813**	**4,545,317**

Future income tax benefit not brought to account
Potential future income tax benefits of $4,648,813 (2011: $4,545,317) attributable to tax losses carried forward have not been brought to account because the Directors do not believe it is appropriate to regard realisation of future income tax benefits as probable.

These benefits will only be obtained if:

(i) The Company derives future assessable income of a nature and amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) The Company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the entity in realising the benefit from the deductions for the loss.

Note 10 Cash

	2012 $	2011 $
Cash at bank	893,902	756,160
Short term deposit	8,407,196	8,771,228
	9,301,098	**9,527,388**

Deposits at call
The deposits are bearing floating interest rates between 2.70% and 6.27% (2011: between 1.25% and 6.27%).

Note 11 Trade and other receivables and other assets

	2012 $	2011 $
Trade and other receivables		
Current		
Premiums receivable	555,782	678,116
Less: Provision for doubtful debts	(5,303)	(1,697)
	550,479	**676,419**
Other receivables	474	80,882
Loans to related entities	206,364	829,584
	757,317	**1,586,885**
Other Assets		
Current		
Accrued interest	124,687	95,677
Prepayments	49,748	19,023
	174,435	**114,700**

Trade debtors are required to be settled within agreed terms. Further information can be found in Note 18.

The terms and conditions of loans advanced to related entities during the period are detailed in Note 29.

The Company does not have any significant exposure to any individual customer or counterparty.

Note 12 Reinsurance and other recoveries

	2012 $	2011 $
Undiscounted expected future recoveries		
- on claims paid	379,303	266,532
- on outstanding claims	5,126,017	5,826,415
	5,505,320	**6,092,947**
Discount to present value	(340,733)	(427,824)
Reinsurance and other recoveries	**5,164,587**	**5,665,123**
Reinsurance and other recoveries - current	1,878,267	1,942,958
Reinsurance and other recoveries - non-current	3,286,320	3,722,165
	5,164,587	**5,665,123**

Refer to note 17 for a reconciliation of the movement in reinsurance and other recoveries on incurred claims.

Note 13 Financial assets

Financial assets	2012 $	2011 $
Current investments		
Non-traded		
Intercompany Loan	146,960	-
Non-current investments		
Traded on a prescribed stock exchange		
Government bond	427,517	420,213
Non-traded		
Shares in subsidiary	81	81
Intercompany Loan	1,308,040	-
	1,882,598	**420,294**

The fixed interest rate on the government bond is 6.0% (2011: 6.0%).
The Company owns 100% (2011: 100%) of the shares in First Title New Zealand Limited a company incorporated in New Zealand. As described in Note 1 the subsidiary has not been consolidated on grounds of materiality.

Note 14 Property, plant and equipment

	2012		
Cost or valuation	**Leasehold Improvements $**	**Office Furniture & Equipment $**	**Total $**
At 1 January 2012	7,280	712,904	720,184
Additions	-	26,090	26,090
Disposals	-	(15,317)	(15,317)
At 31 December 2012	**7,280**	**723,677**	**730,957**
Accumulated deprecation			
At 1 January 2012	(3,776)	(658,646)	(662,422)
Disposals	-	15,294	15,294
Depreciation for the year	-	(24,901)	(24,901)
At 31 December 2012	**(3,776)**	**(668,253)**	**(672,029)**
Carrying amount			
At 1 January 2012	**3,504**	**54,258**	**57,762**
At 31 December 2012	**3,504**	**55,424**	**58,928**

Note 14 Property, plant and equipment (continued)

	2011		
	Leasehold Improvements	Office Furniture & Equipment	Total
Cost or valuation	**$**	**$**	**$**
At 1 January 2011	7,280	684,377	691,657
Additions	-	28,527	28,527
Disposals	-	-	-
At 31 December 2011	**7,280**	**712,904**	**720,184**
Accumulated deprecation			
At 1 January 2011	(1,897)	(613,748)	(615,645)
Disposals	-	-	-
Depreciation for the year	(1,879)	(44,898)	(46,777)
At 31 December 2011	**(3,776)**	**(658,646)**	**(662,422)**
Carrying amount			
At 1 January 2011	**5,383**	**70,629**	**76,012**
At 31 December 2011	**3,504**	**54,258**	**57,762**

Note 15 Intangible assets

	2012 Software	2011 Software
Cost or valuation	**$**	**$**
At 1 January	3,021,960	2,657,802
Additions	531,049	422,432
Disposals	-	(58,274)
At 31 December	**3,553,009**	**3,021,960**
Accumulated amortisation		
At 1 January	(2,321,561)	(1,947,737)
Disposals	-	58,274
Amortisation for the year	(461,778)	(432,098)
At 31 December	**(2,783,339)**	**(2,321,561)**
Carrying amount		
At 1 January	**700,399**	**710,065**
At 31 December	**769,670**	**700,399**

This asset class represents internally developed software. The remaining amortisation period of the intangible assets ranges from 0 – 3 years.

Note 16 Trade and other payables

	2012 $	2011 $
Current		
Other creditors	157,553	138,503
Employee benefits	155,936	213,490
Sundry creditors and accruals	625,002	692,685
	938,491	**1,044,678**

Trade creditors are settled within agreed terms.

Note 17 Outstanding claims

	2012 $	2011 $
(a) Outstanding claims liability		
Undiscounted expected future claim payments		
Central estimate	6,492,092	7,094,118
Risk margin	258,071	244,342
Handling costs	467,431	510,777
	7,217,594	**7,849,237**
Discount to present value	(492,645)	(599,517)
Liability for outstanding claims	**6,724,949**	**7,249,720**
Current	1,959,285	2,228,876
Non-Current	4,765,664	5,020,844
	6,724,949	**7,249,720**

(b) Risk margin

Process for determining the risk margin

The selection of the Risk margin is entirely based upon actuarial judgement and the selected risk margin of 40% is not unreasonable for a portfolio of this size, and the sparseness of data. For policy years that are projected to trigger the aggregate XOL treaty there is a zero risk margin as the claims amounts on a net/net basis cannot develop further for FATICA.

Risk margin applied

The discounted risk margin applied for 2012 is $312,688 (2011: $300,981).

(c) Reconciliation of discounted outstanding claims liability

	2012			2011		
	Gross	**Recoveries**	**Net**	**Gross**	**Recoveries**	**Net**
	$	$	$	$	$	$
Outstanding claims liability brought forward	7,249,720	(5,398,591)	1,851,129	7,662,457	(5,871,950)	1,790,507
Incurred claims per the Statement of Comprehensive Income	2,218,760	(1,852,455)	366,305	2,012,017	(1,680,456)	331,561
Less claims (paid)/recovered	(2,743,531)	2,466,215	(277,316)	(2,424,754)	2,153,815	(270,939)
Total outstanding claims liability carried forward	**6,724,949**	**(4,784,831)**	**1,940,118**	**7,249,720**	**(5,398,591)**	**1,851,129**

Note 17 Outstanding claims (continued)

(d) Claims development table

Gross

Policy Year	Prior years	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Estimate of ultimate claims cost:							
At end of policy year		1,291,535	776,090	928,340	1,250,394	1,452,969	
One year later		965,264	680,438	713,357	998,499		
Two years later		1,188,529	581,799	590,976			
Three years later		1,287,354	500,605				
Four years later		1,529,184					
Current estimate of cumulative claims costs	23,068,909	1,529,184	500,605	590,976	998,499	1,452,969	28,141,142
Cumulative payments	20,262,568	1,138,966	147,400	12,766	79,474	7,875	21,649,049
Outstanding claims - undiscounted	2,806,341	390,218	353,205	578,210	919,025	1,445,094	6,492,093
Discount	(134,709)	(21,603)	(22,487)	(42,594)	(77,543)	(143,873)	(442,809)
Outstanding claims - discounted	2,671,632	368,615	330,718	535,616	841,482	1,301,221	6,049,284
Claims handling expense (disc)	160,298	22,117	19,843	32,137	50,489	78,073	362,957
Other classes outstanding claims (short tail)							312,688
Total gross outstanding claims							6,724,929

Net

Accident Year	Prior years	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Estimate of ultimate claims cost:							
At end of accident year		500,000	362,073	332,444	482,786	500,000	
One year later		377,803	308,511	271,459	433,195		
Two years later		335,241	265,963	215,465			
Three years later		357,509	230,524				
Four years later		393,970					
Current estimate of cumulative claims costs	3,152,732	393,970	230,524	215,465	433,195	500,000	4,925,886
Cumulative payments	3,073,305	270,137	116,604	12,766	79,124	7,875	3,559,811
Outstanding claims - undiscounted	79,427	123,833	113,921	202,699	354,071	492,125	1,366,076
Discount	(3,800)	(6,856)	(7,253)	(14,932)	(29,875)	(39,361)	(102,077)
Outstanding claims	75,627	116,977	106,668	187,767	324,196	452,764	1,263,999
Claims handling expense	160,298	22,117	19,843	32,137	50,489	78,073	362,957
Other classes outstanding claims (short tail)							312,888
Total net outstanding claims							1,939,844

Note 18 Financial instruments

The Company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the financial risk management committee under the authority of the board. The board reviews and agrees policies for managing each of the risks identified below, including interest rate risk, credit allowances, and future cash flow forecast projections.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. The Company's exposure to market risk is primarily through foreign exchange risk on the Company's cash and cash equivalents.

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposure with respect to the New Zealand dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity and cash flow forecasting.

At 31 December 2012, had the Australian dollar weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, equity and post-tax profit for the year would have been $366,192 higher/ lower mainly as a result of foreign exchange gains/losses on translations of New Zealand dollar held accounts.

(ii) Interest rate risk

The Company's main interest rate risk arises from cash and cash equivalents. The Company's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. There are no interest rate derivatives open at balance date. The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. The exposure to each class of financial asset and liability is located under the relevant note. Also refer to Note 4 (e) Insurance Contracts – interest rate risk.

At 31 December 2012, 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 $93,011 lower/higher mainly as a result of interest income from cash and cash equivalents.

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

Note 18 Financial instruments (continued)

experience of the financial markets. The sensitivity analysis is based on risk exposures in existence at the Statement of Financial Position date. The analysis is performed on the same basis for 2012. The analysis assumes that all other variables remain constant.

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

Note 18 Financial instruments (continued)

31-Dec-12	Carrying amount $	Interest rate risk -1% Profit $	Interest rate risk -1% Equity $	Interest rate risk 1% Profit $	Interest rate risk 1% Equity $	Foreign exchange risk (Exposure to NZ$) -10% Profit $	Foreign exchange risk (Exposure to NZ$) -10% Equity $	Foreign exchange risk (Exposure to NZ$) 10% Profit $	Foreign exchange risk (Exposure to NZ$) 10% Equity $
Financial assets									
Cash and cash equivalents	9,301,098	(93,011)	(93,011)	93,011	93,011	(366,192)	(366,192)	366,192	366,192
Government bond New Zealand	427,598	-	-	-	-	(42,760)	(42,760)	42,760	42,760
Reinsurance recoveries	1,644,759	-	-	-	-	(164,476)	(164,476)	164,476	164,476
Total increase/ (decrease)	**11,373,455**	**(93,011)**	**(93,011)**	**93,011**	**93,011**	**(573,427)**	**(573,427)**	**573,427**	**573,427**

31-Dec-11	Carrying amount $	Interest rate risk -1% Profit $	Interest rate risk -1% Equity $	Interest rate risk 1% Profit $	Interest rate risk 1% Equity $	Foreign exchange risk (Exposure to NZ$) -10% Profit $	Foreign exchange risk (Exposure to NZ$) -10% Equity $	Foreign exchange risk (Exposure to NZ$) 10% Profit $	Foreign exchange risk (Exposure to NZ$) 10% Equity $
Financial assets									
Cash and cash equivalents	9,527,388	(95,274)	(95,274)	95,274	95,274	(298,332)	(298,332)	298,332	298,332
Government bond New Zealand	420,213	-	-	-	-	(42,021)	(42,021)	42,021	42,021
Reinsurance recoveries	2,565,717	-	-	-	-	(256,572)	(256,572)	256,572	256,572
Total increase/ (decrease)	**12,513,318**	**(95,274)**	**(95,274)**	**95,274**	**95,274**	**(596,925)**	**(596,925)**	**596,925**	**596,925**

Note 18 Financial instruments (continued)

(b) Credit risk

Credit risk arises when there is the possibility of the Company's debtors defaulting on their contractual obligations, resulting in a financial loss to the Company. Credit risk arises from the financial assets of the Company including cash, receivables and investments. The carrying amount of financial assets in the Company's Statement of Financial Position represents the Company's maximum exposure to risk. The credit risk on financial assets is the carrying amount, net of any provisions for doubtful debts. No collateral is held by the Company. The Company has not granted any financial guarantees.

The Company's investing activities are restricted to government bonds and deposits with banks, i.e. within highly regulated markets which considerably reduces the Company's exposure to credit risk. Also refer to Note 5 Financial Risk Management.

Credit Quality Table	2012 rating	2011 rating	2012 $	2011 $
Cash at bank and short term bank deposits	AA-	AA- to AA	9,301,098	9,527,388
Trade & other receivables	Not rated	Not rated	757,137	1,736,176
Other financial asset - intercompany loan	Not rated	Not rated	1,455,000	-
Reinsurance recoveries	A-	A-	5,164,587	5,665,123
Government bond New Zealand	AA	AAA	427,598	420,213
Accrued interest	AA-	AA- to AA	124,687	95,677

Aging Table	Not past Due $	Past Due but not impaired $	Impaired $	2012 $
Trade & other receivables	752,014	-	5,303	757,137
Other financial asset - intercompany loan	1,455,000	-	-	1,455,000
Reinsurance recoveries	5,164,587	-	-	5,164,587
Government bond NZ	427,598	-	-	427,598
Accrued interest	124,687	-	-	124,687

Aging Table	Not past Due $	Past Due but not impaired $	Impaired $	2011 $
Trade & other receivables	1,736,176	-	-	1,736,176
Reinsurance recoveries	5,665,123	-	-	5,665,123
Government bond NZ	420,213	-	-	420,213
Accrued interest	95,677	-	-	95,677

(c) Liquidity risk

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

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

Note 18 Financial instruments (continued)

The only financial liabilities that exist are trade and sundry payables, outstanding claims and provisions. These liabilities have the following maturity pattern

Maturity Profile Table	1 year or less $	1 to 3 years $	2012 $
Other Payables	938,491	-	**938,491**
Outstanding claims	1,959,285	4,765,664	**6,724,949**
Provisions	275,173	59,837	**355,010**

Maturity Profile Table	1 year or less $	1 to 3 years $	2011 $
Other Payables	-	-	**-**
Outstanding claims	2,228,876	5,020,844	**7,249,720**
Provisions	216,354	44,182	**260,536**

(d) Derivative instruments

The Company is not party to any derivative financial instruments in the normal course of business.

(e) 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(g), investments are measured at fair value at balance date.

		Fixed interest maturing in:				
2012	**Note**	**1 year or less $**	**Over 1 to 5 years $**	**Variable Rate $**	**Non interest bearing $**	**Total $**
Financial assets						
Cash	10	7,787,452	630,000	883,646	-	**9,301,098**
Receivables	11&13	-	1,455,000	-	931,752	**2,386,752**
Investments	13	-	427,517	-	81	**427,598**
Total		**7,787,452**	**2,512,517**	**883,646**	**931,833**	**12,115,448**
Weighted average interest rate		4.97%	5.38%	Variable		
Financial Liabilities						
Accounts payable	16	-	-	-	938,491	**938,491**
Total		**-**	**-**	**-**	**938,491**	**938,491**
Weighted average interest rate		n/a	n/a	n/a		
Net Financial Assets		**7,787,452**	**2,512,517**	**883,646**	**(6,658)**	**11,176,957**
Non-Financial Assets						**5,993,185**
Non-Financial Liabilities						**7,074,434**
Net Assets						**10,095,708**

Note 18 Financial instruments (continued)

		Fixed interest maturing in:				
2011	**Note**	**1 year or less $**	**Over 1 to 5 years $**	**Variable Rate $**	**Non interest bearing $**	**Total $**
Financial assets						
Cash	10	8,141,228	630,000	756,160	-	**9,527,388**
Receivables	11	-	-	-	1,736,176	**1,736,176**
Investments	13	-	420,213	-	81	**420,294**
Total		**8,141,228**	**1,050,213**	**756,160**	**1,736,257**	**11,683,858**
Weighted average interest rate		4.97%	5.37%	Variable		
Financial Liabilities						
Accounts payable	16	-	-	-	1,193,969	**1,193,969**
Total		**-**	**-**	**-**	**1,193,969**	**1,193,969**
Weighted average interest rate		n/a	n/a	n/a		
Net Financial Assets		**8,141,228**	**1,050,213**	**756,160**	**542,288**	**10,489,889**
Non-Financial Assets						**6,423,284**
Non-Financial Liabilities						**7,395,556**
Net Assets						**9,517,617**

Note 19 Employee benefits provisions

	2012 $	2011 $
Current		
Employee benefits	289,648	216,354
Non- Current		
Employee benefits	59,837	44,182
	349,485	**260,536**
Opening balance	260,536	223,064
Movement	88,949	37,472
Closing balance	**349,485**	**260,536**

Note 20 Dividends

The Directors do not recommend a payment of dividend in the current year (2011: $Nil).

Note 21 Capital adequacy

	2012 $	2011 $
Tier 1 Capital		
Contributed equity	15,573,346	15,573,346
Foreign exchange translation reserve	(290,015)	(461,376)
Accumulated losses at beginning of the year	(5,596,982)	(6,125,124)
Gain/(Loss) for the year	409,359	528,142
Less intangibles	(769,670)	(700,399)
Total capital base	**9,326,038**	**8,814,589**
Minimum capital requirement	**5,000,000**	**5,000,000**
Capital adequacy multiple	**1.87**	**1.76**

Note 22 Contributed equity and reserves

(a) Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

At 31 December 2012 there were 15,573,346 $1 ordinary shares issued and fully paid (2011: 15,573,346).

(b) The foreign currency reserve arises from the revaluation of New Zealand balances included in the financial statements.

Note 23 Directors' remuneration

(a) Directors

The following persons were Directors of First American Title Insurance Company of Australia Pty Limited during the financial year up to the date of this report:

(i) Executive Director
Mr Christopher Tyler

(ii) Non-executive Directors
Mr Jonathan Flaws
Mr Thomas Grifferty
Mr Kenneth David DeGiorgio

(iii) Independent Directors
Mr Eric Richard Dodd
Mr Anthony Peter Gill
Mr Richard Gerald Nott

(b) Remuneration of directors

	Short-term benefits $	Post-employment Benefits $	Other long-term benefits $	Termination benefits $	Share-based Payments $	Total $
2012	428,486	25,964	-	-	-	454,450
2011	376,230	74,250	-	-	-	450,480

Note 24 Director-related transactions

Effective 1 November 2007, the companies related to Jonathan Flaws known as First Mortgage Services Limited (FMS) and its subsidiaries First Title Pacific Limited, FMS Administration Services Limited, First Mortgage Services Pty Limited in Australia and Sanderson Weir Pty Limited in Australia, were acquired by the First American Group. Transactions since this date have continued to be based on normal commercial terms and conditions.

Jonathan Flaws was a Director and shareholder of First Mortgages Services Pty Limited. The Company has an agency agreement with First Mortgages Services Pty Limited for the transacting of title insurance in Australia. The contract was based on normal commercial terms and conditions.

Jonathan Flaws was a Director and shareholder of First Title Pacific Limited until 1 November 2007. The Company had an agency agreement with First Title Pacific Limited for the transacting of title insurance in New Zealand. The contract was based on normal commercial terms and conditions.

Other than the above the Company did not enter into any transactions with directors or director related entities.

Note 25 Auditor's remuneration

	2012 $	2011 $
During the year the auditor of the Company and its related practices earned the following remuneration;		
BDO East Coast Partnership		
Audit of the financial report and regulatory returns	74,000	77,500
Total remuneration	**74,000**	**77,500**

Note 26 Contingent liabilities

	2012 $	2011 $
Bank guarantees	184,065	184,065
Total contingent liabilities	**184,065**	**184,065**

Note 27 Commitments for expenditure

	2012 $	2011 $
Operating leases commitments		
Payable no later than one year	-	151,641
Payable later than one, no later than two years	-	-
Payable later than two, no later than five years	-	-
Total operating lease liability	-	**151,641**
Representing:		
Non-cancellable operating leases	-	**151,641**

In 2012 the company has not engaged with any leases of various equipment and office space under non-cancellable operating leases.

Note 28 Employee benefits

	2012 $	2011 $
Provision for employee entitlements	328,395	260,536
Aggregate employee entitlement liability	**328,395**	**260,536**

Employee numbers
The number of full time employees at the end of the financial year was 26 (2011: 24)

Remuneration commitments
The Company contributes to accumulation superannuation funds to provide retirement and superannuation benefits for employees. Contributions are made by the Company and employees based on various percentages of employees' gross salaries. The Company is under no legal obligation to make up any shortfall in the funds' assets.

Employer contributions payable to the plans at balance date were $Nil (2011: $Nil).

Note 29 Related parties

Controlling entities
The immediate parent entity is FAF International Insurance Holdings BV incorporated in the Netherlands. The ultimate parent entity is the First American Financial Corporation incorporated in the United States of America.

Other related parties
First American Financial Corporation, Delaware, is the ultimate parent entity within the group which includes First American Title Insurance Company, Santa Ana, California and its controlled entities, First American Title Insurance Company of Australia Pty Limited. First American Financial Corporation prepares consolidated accounts which are available for public viewing.

The Company paid commission fees for services utilised to other entities within the group during the period. Additionally, it received funds from the other entities within the group. These transactions were on normal commercial terms.

First American Title Insurance Company of Australia's board approved a $1,455,000 loan to a related entity FAF International Property Services of Australia Pty Ltd in July 2012. This is an interest bearing 5 year loan facility with principle repayments commencing April 2013.

Amounts receivable from and payable to entities within the group

	2012 $	2011 $
Aggregate amounts receivable at balance date from:		
Current		
First American Title Insurance Company	362,283	232,227
Other commonly controlled entity	687,172	829,668
Intercompany loan – FAF International Property Services	146,960	-
Non-current		
First American Title Insurance Company	-	-
Intercompany loan – FAF International Property Services	1,308,040	-

Amounts charged to and received from entities within the group

	2012 $	2011 $
Reimbursement of other expenses from ordinary activities by commonly controlled entity	72,284	2,705
Outward reinsurance premium expense paid and payable to First American Title Insurance Company	(200,657)	(180,886)
Outward reinsurance recoveries from First American Title Insurance Company	982,325	1,543,609
IT fee income from related parties within the group	479,164	411,886

Note 30 Events occurring after reporting date

There has not arisen in the interval between the end of the financial year and the date of these financial statements any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Note 31 Segment information

The Company operates in the general insurance industry, its revenue being derived from underwriting of a single product i.e. title insurance. The Company operates in Australia and New Zealand.

The Company has identified its operating segments based on internal reports that are reviewed and used by the chief operating decision makers in assessing performance and in determining the allocation of resources.

(a) Primary Reporting - Geographical Segments

2012	**Australia $**	**New Zealand $**	**Total $**
Total segment revenue	5,358,599	90,623	**5,449,222**
Total segment interest revenue	350,414	166,595	**517,009**
Total segment staff costs	(3,065,480)	-	**(3,065,480)**
Segment profit	74,079	362,464	**436,543**
Loss from ordinary activities before Income tax expense			**436,543**
Income tax expense			**(27,184)**
Net profit			**409,359**
Total segment assets	13,787,997	4,320,636	**18,108,633**
Total segment liabilities	(7,555,675)	(457,250)	**(8,012,925)**
Investment in associates	-	-	**-**
Acquisition of property plant & equipment, intangibles and other non-current segment assets	557,139	-	**557,139**
Depreciation and amortisation expense	486,678	-	**486,678**
Other non-cash expenses	-	-	**-**
Net cash inflow from operating activities	1,218,987	546,388	**1,765,375**

Note 31 Segment information (continued)

2011	Australia $	New Zealand $	Total $
Total segment revenue	5,296,569	270,156	**5,566,725**
Total segment interest revenue	376,559	163,191	**539,750**
Total segment staff costs	(2,633,188)	-	**(2,633,188)**
Segment profit	177,132	378,390	**555,522**
Loss from ordinary activities before Income tax expense			**555,522**
Income tax expense			**(27,380)**
Net profit			**528,142**
Total segment assets	14,160,649	3,911,902	**18,072,551**
Total segment liabilities	(8,067,604)	(487,330)	**(8,554,934)**
Investment in associates	-	-	**-**
Acquisition of property plant & equipment, intangibles and other non-current segment assets	450,959	-	**450,959**
Depreciation and amortisation expense	478,875	-	**478,875**
Other non-cash expenses	-	-	**-**
Net cash inflow from operating activities	778,505	208,651	**987,156**

(b) Secondary Reporting - Business Segments

The company carries on business in single business segment the provision of title insurance.

Note 32 Reconciliation of profit from ordinary activities to net cash inflow from operating activities

	2012 $	2011 $
Profit after income tax expense for the year	409,359	528,142
Adjustments		
Depreciation and amortisation	486,678	478,875
Net foreign exchange fluctuation	(163,576)	(32,101)
Net loss on sale of non-current assets	23	-
Change in operating assets and liabilities		
Increase/(decrease) in receivables	206,349	(271,525)
(Increase)/decrease in other assets	1,242,783	507,585
(Decrease)/ increase in payables	19,580	151,924
Decrease in provisions	(435,821)	(375,744)
Net cash flows from operating activities	**1,765,375**	**987,156**

First American Title Insurance Company of Australia Pty Limited

Directors' Declaration
31 December 2012

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Director

22nd April 2013
Sydney

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 10, 1 Margaret St
Sydney NSW 2000

Australia

INDEPENDENT AUDITOR'S REPORT

To the Members of First American Title Insurance Company of Australia Pty Limited

Report on the Financial Report

We have audited the accompanying financial report of First American Title Insurance Company of Australia Pty Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of First American Title Insurance Company of Australia Pty Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of First American Title Insurance Company of Australia Pty Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 1.

BDO East Coast Partnership

BDO

Arthur Milner

Partner

Sydney, 22 April 2013

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

Financial Statements
31 December 2012

CONTENTS

FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LTD (NZ BRANCH)

BUSINESS PROFILE
As at 31st December 2012

DATE OF NZ REGISTRATION:	6th April 2000
NATURE OF BUSINESS:	Insurance
DIRECTORS:	Mr Eric Richard Dodd Mr Jonathan Flaws Mr Anthony Peter Gill Mr Thomas Grifferty Mr Richard Gerald Nott Mr Christopher Tyler Mr Kenneth David DeGiorgio
REGISTERED OFFICE:	Jonathan Flaws Level 13, 99 Albert Street Auckland
BANKERS:	ANZ Banking Group (NZ) Ltd PO Box 62 Auckland
SOLICITORS:	Bell Gully Solicitors Level 21, Bureau Centre 40 Shortland Street Auckland
COMPANY NUMBER:	AKOS 1022212
IRD NUMBER:	76-345-783
SHAREHOLDERS:	First American Title Insurance Company 100%

FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LTD (NZ BRANCH)

ANNUAL REPORT
For the Year Ended 31st December 2012

The Board of Directors presents its annual report including financial statements of First American Title Insurance Company of Australia Pty Ltd NZ Branch (the Company) for the year ended 31 December 2012.

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 $581,027 (2011: $595,128) for services performed in Australia. Remuneration paid is as follows:

	Short-term benefits	Post-employment benefits	Other long-term benefits	Share-based payments	Total
	NZ$	NZ$	NZ$	NZ$	NZ$
2012	547,832	33,196	-	-	581,027
2011	498,184	96,944	-	-	595,128

- 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 at balance date.
  Mr Eric Richard Dodd
  Mr Jonathan Flaws
  Mr Anthony Peter Gill
  Mr Thomas Grifferty
  Mr Richard Gerald Nott
  Mr Christopher Tyler
  Mr Kenneth David DeGiorgio

- Effective 1 November 2007, the companies related to Jonathan Flaws known as First Mortgage Services Limited (FMS) and its subsidiaries First Title Pacific Limited, FMS Administration Services Limited, First Mortgage Services Pty Limited in Australia and Sanderson Weir Pty Limited in Australia, were acquired by the First American Group. Transactions since this date have continued to be based on normal commercial terms and conditions.

  Jonathan Flaws was a director and shareholder of First Mortgages Services Pty Limited. The Company had an agency agreement with First Mortgages Services Pty

Limited for the transacting of title insurance in Australia. The contract was based on normal commercial terms and conditions.

Jonathan Flaws was a director and shareholder of First Title Pacific Limited until 1 November 2007. The Company had an agency agreement with First Title Pacific Limited for the transacting of title insurance in New Zealand. 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

.... 22nd April 2013

Director

.... 22nd April 2013

Director

FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LTD (NZ BRANCH)

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December 2012

	NOTES	2012 NZ$	2011 NZ$
Premium revenue		303,539	244,994
Outwards reinsurance premium expense		(3,511)	(873)
Net premium revenue		**300,028**	**244,121**
Claims expense		9,575	137,916
Reinsurance and other recoveries		(8,900)	(101,520)
Net claims incurred		**675**	**36,396**
Acquisition costs		(49,143)	(2,048)
Underwriting expenses		**(49,143)**	**(2,048)**
Underwriting result		**251,560**	**278,469**
(Loss) / gain on investments		(9,915)	(14,743)
Interest income		227,273	212,871
Accountancy fees		(3,015)	(818)
General expenses		-	(23)
Professional consulting expenses		(3,486)	(3,888)
		210,857	**193,399**
Profit before income tax expense		**462,417**	**471,868**
Income tax expense	6	(34,538)	(36,006)
Profit after income tax expense attributable to the owners of the parent		**427,879**	**435,862**
Other comprehensive income		-	-
Total comprehensive income attributable to owners of the parent		**427,879**	**435,862**

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

FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LTD (NZ BRANCH)

STATEMENT OF FINANCIAL POSITION

As at 31st December 2012

	NOTES	2012 NZ$	2011 NZ$
ASSETS			
Current Assets			
Cash and cash equivalents	5	4,608,243	3,920,654
Trade & other accounts receivable	8	83,864	150,785
Accrued interest		58,856	44,121
Amount due from related entities	8	-	17,262
Reinsurance & other recoveries	9	120,755	118,850
		4,871,718	4,251,672
Non-Current Assets			
Investments	7	537,999	547,914
Reinsurance & other recoveries	9	211,280	227,681
		749,279	775,595
TOTAL ASSETS		**5,620,997**	**5,027,267**
LESS LIABILITIES:			
Current Liabilities			
Payables		22,271	24,971
Amount due to related entities	11	183,804	-
Outstanding claims	10	136,660	148,935
GST payable		8,058	8,197
Provision for tax	6	14,303	14,303
		365,096	196,406
Non-Current Liabilities			
Outstanding claims	10	331,808	334,647
		331,808	334,647
TOTAL LIABILITIES		**696,904**	**531,053**
NET ASSETS		**4,924,093**	**4,496,214**

REPRESENTED BY:	NOTES	2012 NZ$	2011 NZ$
Reserves			
Retained Earnings		4,924,093	4,496,214
		4,924,093	**4,496,214**

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 and the Auditors' Report.

FIRST AMERICAN TITLE INSURANCE COMPANY
OF AUSTRALIA PTY LTD (NZ BRANCH)
STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31st December 2012

	Share Capital	**Retained earnings**	**Total equity**
	NZ$	**NZ$**	**NZ$**
Balance at 1 January 2012	-	4,496,214	4,496,214
Total Comprehensive income for the year			
Profit for the year	-	427,879	427,879
Total other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	427,879	427,879
Transactions with owners of the Company in their capacity as owners			
Total transactions with owners of the company	-	-	-
Balance at 31 December 2012	-	4,924,093	4,924,093

FIRST AMERICAN TITLE INSURANCE COMPANY
OF AUSTRALIA PTY LTD (NZ BRANCH)
STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31st December 2011

	Share Capital	Retained earnings	Total equity
	NZ$	NZ$	NZ$
Balance at 1 January 2011	-	4,060,352	4,060,352
Total Comprehensive income for the year			
Profit for the year	-	435,862	435,862
Total other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	435,862	435,862
Transactions with owners of the Company in their capacity as owners			
Total transactions with owners of the company	-	-	-
Balance at 31 December 2011	-	4,496,214	4,496,214

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 and the Auditors' Report.

FIRST AMERICAN TITLE INSURANCE COMPANY OF AUSTRALIA PTY LTD (NZ BRANCH)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended 31st December 2012

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 and is a reporting entity for the purposes of the Financial Reporting Act 1993 due to operating a branch in New Zealand.

BASIS OF PREPARATION

The financial statements were authorised for issue by the Board of Directors on 22nd April 2013.

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice, the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards and other applicable financial reporting standards as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

The company qualifies for differential reporting exemptions based on the following criteria:

- it is not publicly accountable; and
- the entity is not large.

The company has adopted all available differential reporting exemptions except for the following:

- The exemption available in NZ IAS 18 Revenue that permits qualifying entities to recognize revenue and expenses on a GST inclusive basis
- The exemption available in NZ IAS 7 that permits qualifying entities to not prepare a cash flow
- The exemptions available in NZ IFRS 7

NEW ACCOUNTING STANDARDS

The IASB has issued amendments to International Accounting Standards. These standards have been issued by the IASB although do not come into effect until the operative date.

These amendments are not effective for the annual reporting period ending 31 December 2012 and have not been applied in preparing the Company's financial statements. The nature of the impact of the application of these standards is disclosure only. The company will apply these standards for the annual reporting period on or after the operative date.

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) STATEMENT OF ACCOUNTING POLICIES (continued)

1.2 Particular Accounting Policies

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

Premium revenue
Premium revenue comprises amounts charged to the policyholders excluding GST.

The Company 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 Company 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.

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.

Gross ultimate costs for each policy year are projected to exceed the aggregate reinsurance deductible of A$500,000. The aggregate includes claims from the controlling company First American Title Insurance Company of Australia. For each of those years, net ultimate cost is estimated as A$500,000 and this cannot increase even if the gross ultimate costs exceed current estimates. The maximum exposure for any policy year will be A$500,000. It is therefore impractical to disclose actual claims with previous estimates for New Zealand claims.

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.

1) STATEMENT OF ACCOUNTING POLICIES

1.2 Particular Accounting Policies (continued)

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.

Taxation
The income tax expense recognised for the year is calculated using the tax payable method and is determined using tax rules. Under the taxes payable method, income tax expense in respect of the current period is equal to the income tax payable for the same period.

Investments

Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. 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 recorded at amounts 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 Company 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 Company 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.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision 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.

Payables
Payables are stated at the estimated amount payable and include obligations which can be reliably estimated. Current liabilities include the amounts payable in the next financial period.

1) STATEMENT OF ACCOUNTING POLICIES

1.2 Particular Accounting Policies (continued)

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.

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

1.3 Changes in Accounting Policies

There have been no changes in accounting policies.

2) CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Company 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.

2.1 The ultimate liability arising from claims made under insurance contracts

The company operates in a specialised line of business (title insurance) with few competitors, resulting in a lack of comparable data relating to assumptions.

Unemployment levels are expected to rise and this is expected to increase the rates of mortgage default over the next couple of years. This may lead to the emergence of title insurance claims at higher volumes than in recent years.

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 Company 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 Company, 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. The main difficulty in providing for title insurance IBNR claims is the

2) CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

2.1 The ultimate liability arising from claims made under insurance contracts (continued)

lack of experience within the Australian market. In calculating the estimated cost of unpaid claims the Company 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:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- technological developments.

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 Company 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 Company 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.

2.2 Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance reflects the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

3) ACTUARIAL ASSUMPTIONS AND METHODS

The Company writes one class of business only. The cost of claims notified to the Company 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.

	2012	**2011**
Average weighted term to settlement from claim reported date	2.96 years	2.91 years
Expense rate	6%	6%
Discount rate	2.80%	3.3%
Inflation	0%	0%

3.2 Process to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Average weighted term to settlement
The average weighted term to settlement is calculated 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.

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 Government bond yield curve at balance date.

3) ACTUARIAL ASSUMPTIONS AND METHODS (continued)

3.3 Foreign currency transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences arising on their translation are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

4) INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Company 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 Company's policies and procedures in respect of managing these risks are set out below.

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

The Company 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 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. 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:

- The maintenance and use of sophisticated management information systems, which provide up-to-date, reliable data on the risks to which the business is exposed at any time.
- 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.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Company's exposure to large single claims and cap the aggregate exposure of the Company in any one underwriting year.
- The assets in which the Company invests are selected to ensure that the Company can meet its 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 Company. 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 Company 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 Company'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 Company's obligations at the end of a contract period. It is impractical for the Company to prepare the information about claims development under NZ IFRS 4.

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 Company 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

	2012 NZ$	2011 NZ$
Cash at bank	202,602	67,296
Short term deposit	4,405,641	3,853,358
	4,608,243	**3,920,654**

Deposits at call

The deposits are bearing floating interest rates between 1.65% and 4.85% (2011: between 1.25% and 4.75%).

Account Type	Interest rate	Term	Maturity date
Term Deposit			
ANZ Bank	4.85%	12 months	28-Mar-13
Bank of New Zealand	4.50%	12 months	26-Oct-13
ANZ Bank	4.75%	4 months	28-Jul-13
ANZ Bank	4.50%	182 days	6-May-13
Cash Management Account			
ANZ Bank	3.00%	N/A	N/A

	2012 NZ$	2011 NZ$

6) TAXATION

Income Tax

	2012 NZ$	2011 NZ$
Net profit per statement of comprehensive income	**462,417**	**471,868**
Taxation expense	34,539	36,006
Tax account opening balance	14,303	14,303
Refund received	-	-
	48,842	**50,309**
Less:		
Non resident insurance withholding tax	(34,539)	(36,006)
	(34,539)	**(36,006)**
Tax Payable as per Balance Sheet	**14,303**	**14,303**

7) INVESTMENTS

	2012 NZ$	2011 NZ$
NZ government security	537,999	547,914
	537,999	**547,914**

Investment	Interest rate	Term	Maturity date
NZ Government Bond	6.00%	42 months	15-Apr-15

8) TRADE AND OTHER ACCOUNTS RECEIVABLE

	2012 NZ$	2011 NZ$
Trade and other receivables	83,864	150,785
Amount due from related party	-	17,262
	83,864	**168,047**

Trade receivables are shown amounting to $83,864 (2011: $150,785). This total amount of receivable includes a portion of receivables that are past due but not impaired – refer to note 11. Trade receivables generally have terms of 45 days and are interest free. Trade receivables of a short-term duration are not discounted.

Amounts due from related party represent intercompany trading accounts with First American Title Insurance Company of Australia Pty Limited.

9) REINSURANCE AND OTHER RECOVERIES

	2012 NZ$	2011 NZ$
Undiscounted expected future recoveries	354,042	372,594
Discount to present value	(22,007)	(26,063)
Reinsurance and other recoveries	**332,035**	**346,531**
Reinsurance and other recoveries - current	120,755	118,850
Reinsurance and other recoveries – non current	211,280	227,681
	332,035	**346,531**

10) OUTSTANDING CLAIMS

	2012 NZ$	2011 NZ$
Undiscounted expected future claim payments	428,177	445,302
Central estimate	20,512	23,801
Risk margin	25,693	25,312
Handling costs	25,095	25,988
	499,477	**520,403**
Discount to present value	(31,009)	(36,821)
Liability for outstanding claims	**468,468**	**483,582**
Current	136,660	148,935
Non-Current	331,808	334,647
	468,468	**483,582**

11) AMOUNT DUE TO RELATED ENTITIES

	2012 NZ$	2011 NZ$
Amount due to related party	183,804	-
	183,804	**-**

Amounts due to related party represent intercompany trading accounts with First American Title Insurance Company of Australia Pty Limited.

12) FINANCIAL INSTRUMENTS (continued)

12.1 Market risk

Interest rate risk

The Company's main interest rate risk arises from borrowings or trade liability from a commonly controlled entity.

There are no interest rates derivatives open at reporting date.

At 31 December 2012, 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 $46,082 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 2011. The analysis assumes that all other variables remain constant.

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

		Interest rate risk			
		-1%		1%	
31-Dec-12	**Carrying amount NZ$**	**Profit NZ$**	**Equity NZ$**	**Profit NZ$**	**Equity NZ$**
Financial assets					
Cash, cash equivalents and investments	4,608,243	(46,082)	(46,082)	46,082	46,082
Total increase/ (decrease)		(46,082)	(46,082)	46,082	46,082

		Interest rate risk			
		-1%		1%	
31-Dec-11	**Carrying amount NZ$**	**Profit NZ$**	**Equity NZ$**	**Profit NZ$**	**Equity NZ$**
Financial assets					
Cash, cash equivalents and investments	3,920,654	(39,207)	(39,207)	39,207	39,207
Total increase/ (decrease)		(39,207)	(39,207)	39,207	39,207

12) FINANCIAL INSTRUMENTS (continued)

12.2 Credit risk

Credit risk arises when there is the possibility of the Company's debtors defaulting on their contractual obligations, resulting in a financial loss to the Company. Credit risk arises from the financial assets of the Company including cash, receivables and investments. The carrying amount of financial assets in the Company's balance sheet represents the Company's maximum exposure to risk. No collateral is held by the Company. The Company 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	2012 rating	2011 rating	2012 NZ$	2011 NZ$
Cash at bank, short term bank deposits and investments	AA-	AA	**4,608,243**	**3,920,654**
Trade & Other Receivables	Not rated	Not rated	**83,864**	**150,785**
Reinsurance Recoveries	A-	A-	**332,035**	**346,531**
Accrued interest	AA-	AA	**58,856**	**44,121**
Government bond New Zealand	AA	AAA	**537,999**	**547,914**

Aging Table	Not past Due	Past Due but not impaired	Impaired	2012 NZ$
Trade & Other Receivables	22,209	61,655	-	**83,864**
Reinsurance Recoveries	332,035	-	-	**332,035**
Accrued interest	58,856	-	-	**58,856**
Government bond NZ	537,999	-	-	**537,999**

Aging Table	Not past Due	Past Due but not impaired	Impaired	2011 NZ$
Trade & Other Receivables	30,396	120,389	-	**150,785**
Reinsurance Recoveries	346,531	-	-	**346,531**
Accrued interest	44,121	-	-	**44,121**
Government bond NZ	547,914	-	-	**547,914**

12) FINANCIAL INSTRUMENTS (continued)

12.3 Liquidity risk

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

No assets have been pledged as collateral. The Company'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	2012 NZ$
Payables	22,271	-	**22,271**
Outstanding claims	136,660	331,808	**468,468**
GST payable	8,058	-	**8,058**
Provision for tax	14,303	-	**14,303**

Maturity Profile Table	1 year or less	1 to 3 years	2011 NZ$
Payables	24,971	-	**24,971**
Outstanding claims	148,935	334,647	**483,582**
GST payable	8,197	-	**8,197**
Provision for tax	14,303	-	**14,303**

12) FINANCIAL INSTRUMENTS (continued)

12.4 Financial instruments by category of financial instruments

2012	**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	-	537,999	-	-	**537,999**
Trade and other receivables	83,864	-	-	-	**83,864**
Cash and cash equivalents	-	4,608,243	-	-	**4,608,243**
Total	**83,864**	**5,146,242**	**-**	**-**	**5,230,106**

2011	**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	-	547,914	-	-	**547,914**
Trade and other receivables	150,785	-	-	-	**150,785**
Cash and cash equivalents	-	3,920,654	-	-	**3,920,654**
Total	**150,785**	**4,468,568**	**-**	**-**	**4,619,353**

13) AUDITOR'S REMUNERATION

	2012 NZ$	2011 NZ$
During the year the auditor of the Company and its related practices earned the following remuneration		
BDO East Coast Partnership		
Audit of the financial report	-	-
Deposits Act Return	-	-
	-	-

Audit fees were paid by a related entity.

14) TAX AGENT's REMUNERATION

	2012 NZ$	2011 NZ$
During the year the tax agent of the Company and its related practices earned the following remuneration		
BVO – New Zealand firm		
Preparation and review of tax returns and advice	**3,015**	**818**

15) COMMITMENTS

There were no capitals or any other commitments as at 31 December 2012 (2011: $Nil).

16) CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2012 (2011: $Nil).

17) SUBSEQUENT EVENTS

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

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 10, 1 Margaret St
Sydney NSW 2000

Australia

INDEPENDENT AUDITOR'S REPORT

To the Members of First American Title Insurance Company of Australia Pty Limited – New Zealand Branch

We have audited the financial statements of First American Title Insurance Company of Australia Pty Limited – New Zealand Branch on page 5 to 23, which comprise the statement of financial position as at 31 December 2012, the statement of changes in equity and the statement of comprehensive income for the year then ended, a summary of significant accounting policies and other explanatory information. This information is stated in accordance with the accounting polices set out on pages 9 to 12.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and the presentation of financial statements in accordance with generally accepted accounting practice in New Zealand and 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall 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.

Other than in our capacity as auditor, we have no relationship with, or interests in First American Title Insurance Company of Australia Pty Limited – New Zealand Branch.

Opinion

In our opinion, the financial statements on pages 5 to 23:

- Comply with generally accepted accounting practice in New Zealand
- Give a true and fair view of the financial position of First American Title Insurance Company of Australia Pty Limited – New Zealand Branch as at 31 December 2012, and its financial performance for the year ended on that date.

BDO East Coast Partnership

BDO

Arthur Milner

Partner

Sydney, 22 April 2013