

**First American Title Insurance Company of Australia Pty Limited  
(A.B.N. 64 075 279 908)**

**Annual Financial Report  
31 December 2018**

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**First American Title Insurance Company of Australia Pty Limited**  
**Directors' Report**  
**31 December 2018**

The directors present their report together with the financial statements, of First American Title Insurance Company of Australia Pty Limited (the Company) for the year ended 31 December 2018 and the auditor's report thereon.

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

Level 10, 309 George St  
 Sydney, NSW 2000

**Directors**

The following persons were directors of the Company during the whole of the financial year and up to the date of this report unless otherwise stated:

- Eric Richard Dodd
- Anthony Peter Gill
- Patti Hui-Ting Evers
- David John Ryan
- George Stone Livermore

**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 (2017: \$Nil).

**Review of operations**

A summary of results is set out below:

	2018	2017
	\$	\$
Underwriting operations	7,490,773	5,765,521
Investment operations	432,638	446,556
Other operations	(4,474,798)	(5,090,438)
Income tax expense	(17,042)	(47,647)
<b>Net Profit</b>	<b>3,431,571</b>	<b>1,073,992</b>

**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.

**Directors' benefits**

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.

**First American Title Insurance Company of Australia Pty Limited**  
**Directors' Report**  
**31 December 2018**

**Proceedings on behalf of the 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**

KPMG are the appointed Auditors in accordance with section 327 of the Corporations Act 2001.

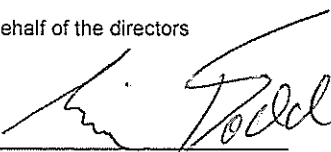
A copy of the Lead Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

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

**Rounding off**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest dollar, unless otherwise stated.

On behalf of the directors



Eric Richard Dodd  
Director  
Sydney  
Date: 19 March 2019



Patti Hui-Ting Evers  
Director  
Sydney  
Date: 19 March 2019



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

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

I declare that, to the best of my knowledge and belief, in relation to the audit of for the  
financial year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the  
*Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to  
the audit.

**KPMG**

KPMG

A handwritten signature in black ink, appearing to read 'A.R.', followed by a horizontal line.

Andrew Reeves  
Partner

Sydney  
19 March 2019

**First American Title Insurance Company of Australia Pty Limited**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 31 December 2018**

	Note	2018 \$	2017 \$
Premium revenue		8,410,020	6,810,832
Outwards reinsurance premium expense		(449,189)	(353,067)
<b>Net premium revenue</b>		<b>7,960,831</b>	<b>6,457,765</b>
Claims expense and other recoveries		840,817	3,689,520
Reinsurance recoveries		(422,558)	(3,078,996)
<b>Net claims incurred</b>	5	<b>418,259</b>	<b>610,524</b>
Acquisition costs		51,799	81,720
<b>Acquisition costs</b>	7(b)	<b>51,799</b>	<b>81,720</b>
<b>Underwriting result</b>		<b>7,490,773</b>	<b>5,765,521</b>
Investment income	6	432,638	446,556
Other income	7(a)	1,466,096	997,526
Administration expenses	7(b)	(5,940,894)	(6,087,964)
		<b>(4,042,160)</b>	<b>(4,643,882)</b>
<b>Profit before tax expense</b>		<b>3,448,613</b>	<b>1,121,639</b>
Income tax expense	8	(17,042)	(47,647)
<b>Profit after income tax expense for the year</b>		<b>3,431,571</b>	<b>1,073,992</b>
Exchange difference on translating foreign operations net of tax effects		209,085	(255,852)
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>3,640,656</b>	<b>818,140</b>

*The above Statement of Profit or Loss and Other 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 2018**

	Notes	2018 \$	2017 \$
<b>Current Assets</b>			
Cash and cash equivalents	9(a)	4,665,982	9,226,749
Term deposits	9(b)	13,451,879	5,347,138
Trade and other receivables	10	2,440,224	2,217,452
Reinsurance and other recoveries	11	1,629,281	2,090,914
Other financial assets	12	440,000	440,000
Other assets	10	178,588	120,660
<b>Total current assets</b>		<b>22,805,954</b>	<b>19,442,913</b>
<b>Non-Current Assets</b>			
Reinsurance and other recoveries	11	5,290,655	5,836,724
Other financial assets	12	880,000	1,320,000
Property, plant and equipment	13	779	2,191
Deferred tax asset	8	1,200,000	1,200,000
Intangible assets	14	44,930	176,091
<b>Total non-current assets</b>		<b>7,416,364</b>	<b>8,535,006</b>
<b>Total Assets</b>		<b>30,222,318</b>	<b>27,977,919</b>
<b>Current Liabilities</b>			
Trade and other payables	15	965,335	1,057,279
Outstanding claims	16	2,486,073	3,131,532
Provision for taxation		43,128	42,642
Employee benefit provisions	18	41,533	136,691
<b>Total current liabilities</b>		<b>3,536,069</b>	<b>4,368,144</b>
<b>Non-Current Liabilities</b>			
Employee benefit provisions	18	4,978	14,602
Outstanding claims	16	6,008,178	6,562,736
<b>Total non-current liabilities</b>		<b>6,013,156</b>	<b>6,577,338</b>
<b>Total Liabilities</b>		<b>9,549,225</b>	<b>10,945,482</b>
<b>Net Assets</b>		<b>20,673,093</b>	<b>17,032,437</b>
<b>Shareholders' Equity</b>			
Contributed equity	20	15,573,346	15,573,346
Reserves	20	473,573	264,488
Retained earnings		4,626,174	1,194,603
<b>Total Equity</b>		<b>20,673,093</b>	<b>17,032,437</b>

*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 2018

	Share Capital \$	Foreign Exchange Reserve \$	Retained Earnings \$	Total \$
Balance at 1 January 2017	15,573,346	520,340	120,611	16,214,297
Profit after income tax expense for the year	-	-	1,073,992	1,073,992
Other comprehensive income for the year, net of tax	-	(255,852)	-	(255,852)
Total comprehensive income for the year attributable to equity holders	-	(255,852)	1,073,992	818,140
Balance at 31 December 2017	15,573,346	264,488	1,194,603	17,032,437
Profit after income tax expense for the year	-	-	3,431,571	3,431,571
Other comprehensive income for the year, net of tax	-	209,085	-	209,085
Total comprehensive income for the year attributable to equity holders	-	209,085	3,431,571	3,640,656
Balance at 31 December 2018	15,573,346	473,573	4,626,174	20,673,093

*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 2018**

	Notes	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Premiums received		8,823,999	6,698,550
Outwards reinsurance paid		(449,189)	(353,067)
Claims paid		(2,091,228)	(1,856,449)
Reinsurance and other recoveries received		843,903	757,478
Acquisition costs paid		(51,799)	(81,720)
Interest received		419,539	467,020
Management fees and other revenue received		1,426,096	957,526
Other expenses paid		(5,889,486)	(5,768,502)
Income taxes paid		(16,554)	(31,054)
<b>Net cash inflow from operating activities</b>	26	<b>3,015,281</b>	<b>789,782</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(913)	(13)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(913)</b>	<b>(13)</b>
<b>Cash flows from financing activities</b>			
Net Intercompany loan received		440,000	1,089,562
<b>Net cash inflow from financing activities</b>		<b>440,000</b>	<b>1,089,562</b>
<b>Net increase in cash held</b>		<b>3,454,368</b>	<b>1,879,331</b>
Cash at the beginning of the financial year		14,573,887	12,813,782
Effects of exchange rate changes on cash		89,606	(119,226)
<b>Cash at the end of the financial year</b>		<b>18,117,861</b>	<b>14,573,887</b>

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

**First American Title Insurance Company of Australia Pty Limited**  
**Notes to the financial statements**  
**31 December 2018**

**Note 1 Summary of significant accounting policies**

**(a) Basis of preparation**

This financial report covers First American Title Insurance Company of Australia Pty Limited (the Company). The financial report is presented in Australian dollars, which is also the functional currency.

First American Title Insurance Company of Australia Pty Limited is a Company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:  
Level 10, 309 George Street  
Sydney  
NSW 2000

The financial statements were authorised for issue by the Board of Directors on 19 March 2019.

The Company and its controlled entities are for-profit entities. The ultimate parent is First American Financial Corporation, a Company incorporated in the United States of America.

**(i) Statement of compliance**

The financial report has been drawn up as a general purpose financial report for the purpose of fulfilling the requirements of the Corporation Act 2001, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

**(ii) Use of estimates and judgements**

The preparation of the financial report requires the use of management judgement, estimates and assumptions that affect reported amounts in the application of policies. The estimates and associated assumptions are based on expertise, experience and various other factors that are believed to be reasonable. Such estimates may require review in future periods. Estimates significantly impact goodwill and other intangibles acquired. The determination of fair values of acquired identifiable intangibles is based on an assessment of future cash flows.

**(iii) New accounting standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for:

- AASB 9 Financial Instruments, which addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements. The Company is predominantly connected with insurance and meets the requirements in AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts. It is applying the temporary exemption to continue AASB 139 Financial Instruments: Recognition and Measurement rather than AASB 9 until initial application of AASB 17 Insurance Contracts. The Company has yet to determine the extent of the impact.

- AASB 15 Revenue from Contracts with Customers, which becomes mandatory for the Company's 2018 financial statements, requires that companies should identify performance obligations and allocate price over the performance obligations as and when these obligations are fulfilled. AASB 15 does not apply to insurance contracts and financial instruments. Hence the majority of the Company's revenue is not impacted by this change.

- AASB 17 Insurance Contracts, which becomes mandatory for the Company's 2021 financial statements will significantly change the principles for the recognition, measurement, presentation and disclosure of insurance contracts from the current accounting standards (AASB 4 Insurance Contracts and AASB 1023 General Insurance Contracts). The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

**First American Title Insurance Company of Australia Pty Limited**  
**Notes to the financial statements**  
**31 December 2018**

**Note 1 Summary of significant accounting policies (continued)**

**(b) Income tax**

Income tax expense comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and Other Comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(c) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

**(d) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(e) Trade receivables**

All trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful receivables. Trade receivables, generally settled within 30 days (depending on terms agreed), are carried at amounts due.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful 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 receivables. The amount of the provision is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

An amount is to be provided for 50% of debtors between 6 and 12 months old (less any specific amounts provided against and debts in relation to time payers). In addition, a general provision is to be made for 100% of trade debtors over 12 months old.

**(f) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

**(g) Employee benefits**

*(i) Wages, salaries and annual leave*

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions (current liabilities) 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.

*(ii) 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 in accordance with (i) above. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(h) Foreign currency translation**

Foreign currency transactions are initially translated into Australian dollars in effect at the date of the transaction or at rates approximating them. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

**First American Title Insurance Company of Australia Pty Limited**  
**Notes to the financial statements**  
**31 December 2018**

**Note 1 Summary of significant accounting policies (continued)**

**(i) Acquisition of assets**

The cost method of accounting is used for all acquisition of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition.

**(j) Leased non-current assets**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal components and the interest expense. The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the Company will obtain ownership of the asset, the life of the asset.

Operating lease payments are charged to the profit and loss account in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

**(k) Maintenance and repairs**

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

**(l) Depreciation of property, plant and equipment**

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Company. Estimates of remaining useful lives are made on a regular basis for all assets with annual reassessments for major items.

The expected useful lives for current and comparative periods are as follows:

Furniture & fittings	2 - 13 years
Computer and Office Equipment	3 - 5 years

**(m) Impairment of non-financial assets**

The carrying amounts of the entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of assets in the CGU (group of CGUs) on a pro rata basis.

**(n) Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings.

**(o) Revenue recognition**

Sales of services are recognised in the accounting period in which the services are provided to customers.

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
31 December 2018

**Note 1 Summary of significant accounting policies (continued)**

**(p) Intangible assets and goodwill**

*(i) Other intangible assets*

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

*(iii) Amortisation*

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

Software - 3 years

Other intangibles - 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(q) 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.

**(r) 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.

**(s) 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 not expected to exceed the aggregate reinsurance deductible a risk margin is brought to account (refer Note 16).

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
31 December 2018

**Note 1 Summary of significant accounting policies (continued)**

**(t) Reinsurance and other recoveries**

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

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

**(u) Acquisition of insurance contracts**

Acquisition costs incurred in obtaining insurance contracts are recognised as an expense. Costs are fully expensed at the date of attachment of the policy.

**(v) 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 (t). 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 Profit or Loss and Other Comprehensive Income.

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 Profit or Loss and Other Comprehensive Income.

## 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. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analysis 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; 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 4.

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**Note 2 Critical accounting judgements and estimates (continued)**

**(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.

**(c) Deferred Tax**

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



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**Note 3 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:

- 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.

**(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 16 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.

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**Note 4 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.

	2018	2017
Average weighted term to settlement from claim reported date	0.87 years	0.89 years
Claims handling expense rate	6%	6%
Discount rate	1.9% pa	2.0% pa
Inflation	n/a	n/a
Prudential risk margin	40%	40%

**Process to determine assumptions**

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

*Average weighted term to settlement*

The estimated average weighted term to settlement is 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 4 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*

	Movement in Variable	Profit/(Loss) Impact	
		Gross of Reinsurance \$	Net of Reinsurance \$
IBNR factors	+20%	(1,276,408)	(95,891)
	-20%	1,276,408	97,437
Prior expected loss ratios	+10%	(2,400,799)	(194,343)
	-10%	2,401,584	197,715
Discount rate	+1% pa	202,449	22,077
	-1% pa	(213,149)	(23,000)
Claims handling expense rate	+50%	(283,948)	(283,948)
	-50%	283,948	283,948
XOL recoveries rates	+10%	4,033	16,145
	-10%	(4,033)	(15,052)

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**Note 5 Net claims incurred**

2018	Current Year \$	Prior Years \$	Total \$
<i>Gross incurred claims and related expenses</i>			
- Undiscounted including prudential margin	2,224,026	(1,450,166)	773,860
- Discounted	2,081,277	(1,240,460)	840,817
<i>Reinsurance recoveries</i>			
- Undiscounted	(1,585,932)	1,222,991	(362,941)
- Discounted	(1,476,967)	1,054,409	(422,558)
<b>Net incurred claims</b>	<b>604,310</b>	<b>(186,051)</b>	<b>418,259</b>

2017	Current Year \$	Prior Years \$	Total \$
<i>Gross incurred claims and related expenses</i>			
- Undiscounted including prudential margin	2,606,379	1,206,818	3,813,197
- Discounted	2,455,663	1,233,857	3,689,520
<i>Reinsurance recoveries</i>			
- Undiscounted	(1,946,856)	(1,247,522)	(3,194,378)
- Discounted	(1,819,634)	(1,259,362)	(3,078,996)
<b>Net incurred claims</b>	<b>636,029</b>	<b>(25,505)</b>	<b>610,524</b>

**Note 6 Investment income**

	2018 \$	2017 \$
Interest	432,638	446,556
<b>Total investment income</b>	<b>432,638</b>	<b>446,556</b>

**Note 7 Other income and expenses**

	2018 \$	2017 \$
<b>Note 7(a) Other Income</b>		
Service Fees	1,466,096	997,526
<b>Total other income</b>	<b>1,466,096</b>	<b>997,526</b>
<b>Note 7(b) Expenses</b>		
<b>(i) Expenses by function</b>		
Acquisition Costs	51,799	81,720
Administration expenses	5,940,894	6,087,964
<b>Total expenses</b>	<b>5,992,693</b>	<b>6,169,684</b>
<b>(ii) Expenses by nature</b>		
Employee benefit expense	2,996,431	3,006,843
Employee on costs	447,412	525,532
Occupancy costs	119,221	140,880
Depreciation, amortisation and impairment charges	133,486	159,761
Acquisition Costs	51,799	81,720
Professional fees	225,506	413,874
Outside search fees	335,225	288,423
IT related fees	86,340	107,760
Other expenses	1,597,273	1,444,891
<b>Total expenses</b>	<b>5,992,693</b>	<b>6,169,684</b>

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**Note 8 Income tax**

	2018 \$	2017 \$
Reconciliation between net profit before tax and tax expense		
Profit before income tax	3,448,613	1,121,639
Income tax at standard rate of 30% (2017: 30%)	1,034,584	336,492
Tax effect of permanent differences	10,517	(817,712)
Prima facie tax profit adjusted for differences	1,045,101	(481,220)
Benefit of tax losses not brought to account	(1,260,074)	90,020
Tax effect of timing differences not brought to account	214,973	391,200
New Zealand tax payable	17,042	47,647
Income tax expense	17,042	47,647
Deferred Tax Asset		
Opening Balance	1,200,000	1,200,000
Benefit brought to account current year	-	-
Income tax expense	17,042	47,647
Income tax (charge)/credit	17,042	47,647
Future benefit brought to account	-	-
Closing Balance	1,200,000	1,200,000

**Income tax benefit**

Future income tax benefits attributable to tax losses carried forward of \$1,200,000 (2017: \$1,200,000) have been brought to account because the directors 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 Company in realising the benefit from the deductions for the loss.

Deferred tax has not been recognised on tax losses brought forward of \$12,738,538 (2017: \$10,374,931)

**Note 9(a) Cash and Cash Equivalents**

Cash at bank	4,665,982	3,776,590
Short term deposit	-	5,450,159
	4,665,982	9,226,749

**Note 9(b) Term Deposits**

Term Deposits	13,451,879	5,347,138
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The term deposits are bearing interest rates between 2.00% and 3.50% (2017: between 1.90% and 3.60%).

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**Note 10 Trade and other receivables and other assets**

	Note	2018 \$	2017 \$
Trade and other receivables			
Current			
Premiums receivable		612,853	1,007,824
Less: Provision for doubtful debts		(22,161)	(3,153)
		<u>590,692</u>	<u>1,004,671</u>
Loans to related entities	24	1,849,532	1,212,781
		<u>2,440,224</u>	<u>2,217,452</u>
Other Assets			
Current			
Accrued interest		115,276	102,177
Prepayments		63,312	18,483
		<u>178,588</u>	<u>120,660</u>

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

**Note 11 Reinsurance and other recoveries**

Undiscounted expected future recoveries			
- on claims paid		-	-
- on outstanding claims		7,309,691	8,377,009
		<u>7,309,691</u>	<u>8,377,009</u>
Discount to present value		(389,755)	(449,371)
Reinsurance and other recoveries		<u>6,919,936</u>	<u>7,927,638</u>
Reinsurance and other recoveries - current		1,629,281	2,090,914
Reinsurance and other recoveries - non-current		5,290,655	5,836,724
		<u>6,919,936</u>	<u>7,927,638</u>

Refer to note 16 for a reconciliation of the movement in reinsurance and other recoveries on incurred claims.

**Note 12 Other financial assets**

Financial assets	Year of maturity	2018 \$	2017 \$
Current investments			
Intercompany loan	2021	440,000	440,000
Non-current investments			
Intercompany loan	2021	880,000	1,320,000
		<u>1,320,000</u>	<u>1,760,000</u>

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Note 13 Property, plant and equipment

At Cost	Furniture and Fittings \$	2018 Computer and Office Equipment \$	Total \$
At 1 January 2018	72,365	582,019	654,384
Additions	-	913	913
At 31 December 2018	<u>72,365</u>	<u>582,932</u>	<u>655,297</u>
<b>Accumulated depreciation</b>			
At 1 January 2018	(72,093)	(580,100)	(652,193)
Depreciation for the year	(150)	(2,175)	(2,325)
At 31 December 2018	<u>(72,243)</u>	<u>(582,275)</u>	<u>(654,518)</u>
<b>Carrying amount</b>			
At 1 January 2018	<u>272</u>	<u>1,919</u>	<u>2,191</u>
At 31 December 2018	<u>122</u>	<u>657</u>	<u>779</u>
At Cost	Furniture and Fittings \$	2017 Computer and Office Equipment \$	Total \$
At 1 January 2017	72,365	582,006	654,371
Additions	-	13	13
At 31 December 2017	<u>72,365</u>	<u>582,019</u>	<u>654,384</u>
<b>Accumulated depreciation</b>			
At 1 January 2017	(71,903)	(580,105)	(652,008)
Disposals	-	6	6
Depreciation for the year	(190)	(1)	(191)
At 31 December 2017	<u>(72,093)</u>	<u>(580,100)</u>	<u>(652,193)</u>
<b>Carrying amount</b>			
At 1 January 2017	<u>462</u>	<u>1,901</u>	<u>2,363</u>
At 31 December 2017	<u>272</u>	<u>1,919</u>	<u>2,191</u>

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**Note 14 Intangible assets**

	2018 \$	2017 \$
<b>At Cost</b>		
At 1 January 2018	4,341,827	4,341,827
Additions	-	-
Disposals	-	-
At 31 December 2018	<u>4,341,827</u>	<u>4,341,827</u>
<b>Accumulated amortisation</b>		
At 1 January 2018	(4,165,736)	(4,006,044)
Amortisation for the year	(131,161)	(159,692)
At 31 December 2018	<u>(4,296,897)</u>	<u>(4,165,736)</u>
<b>Carrying amount</b>		
At 1 January 2018	<u>176,091</u>	<u>335,783</u>
At 31 December 2018	<u>44,930</u>	<u>176,091</u>

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

**Note 15 Trade and other payables**

	2018 \$	2017 \$
<b>Current</b>		
Other creditors	172,184	231,334
Salary related accrual	335,430	174,208
Sundry creditors and accruals	271,910	478,326
GST payable	185,811	173,411
	<u>965,335</u>	<u>1,057,279</u>



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Note 16 Outstanding claims

	2018 \$	2017 \$
<b>(a) Outstanding claims liability</b>		
Central estimate	8,293,196	9,481,146
Risk margin	139,300	147,047
Handling costs	497,592	568,869
	<u>8,930,088</u>	<u>10,197,062</u>
Discount to present value	(435,837)	(502,794)
Liability for outstanding claims	<u>8,494,251</u>	<u>9,694,268</u>
Current	2,486,073	3,131,532
Non-Current	<u>6,008,178</u>	<u>6,562,736</u>
	<u>8,494,251</u>	<u>9,694,268</u>

**(b) Risk margin**

Process for determining the risk margin

Risk margin of 40% added to Net Outstanding claims for 2008-2010 policy years. For 2011 a 13% margin is added which brings the liability to \$500,000.

*Risk margin applied*

The discounted risk margin applied for 2018 is \$133,572 (2017: \$140,470).

**(c) Reconciliation of discounted outstanding claims liability**

	Gross \$	Recoveries \$	Net \$
<b>2018</b>			
Outstanding claims liability brought forward	9,694,268	(7,927,638)	1,766,630
Incurred claims per the Statement of Profit or Loss and Other Comprehensive Income	899,846	(481,587)	418,259
Less claims (paid)/recovered	(2,099,863)	1,489,289	(610,574)
Total outstanding claims liability carried forward	<u>8,494,251</u>	<u>(6,919,936)</u>	<u>1,574,315</u>
<b>2017</b>			
Outstanding claims liability brought forward	7,581,585	(5,949,598)	1,631,987
Incurred claims per the Statement of Profit or Loss and Other Comprehensive Income	3,969,058	(3,358,535)	610,523
Less claims (paid)/recovered	(1,856,375)	1,380,495	(475,880)
Total outstanding claims liability carried forward	<u>9,694,268</u>	<u>(7,927,638)</u>	<u>1,766,630</u>

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Note 16 Outstanding claims (continued)

(d) Claims development table

(i) Gross

Policy Year	Prior years	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	Total \$
Estimate of ultimate claims cost:							
At end of policy year		1,679,265	2,129,879	2,015,615	2,436,733	2,076,344	
One year later		1,969,853	2,238,481	1,757,560	1,841,491		
Two years later		2,105,972	2,072,092	1,646,375			
Three years later		1,881,111	1,875,071				
Four years later		1,771,882					
Current estimate of cumulative claims costs							
	34,739,896	1,771,882	1,875,071	1,646,375	1,841,491	2,076,344	43,951,058
Cumulative payments	32,744,271	1,083,952	881,317	485,822	437,300	25,200	35,657,862
Outstanding claims - undiscounted		1,995,625	687,930	993,754	1,160,553	1,404,191	8,293,196
Discount		(73,972)	(24,908)	(41,211)	(54,545)	(77,966)	(405,764)
Outstanding claims - discounted		1,921,653	663,022	952,543	1,106,008	1,326,225	7,887,433
Claims handling expense (disc)		115,299	39,781	57,153	66,360	79,573	473,246
Risk margin (disc)							133,572
Total gross outstanding claims							8,494,251

(ii) Net

Accident Year	Prior years	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	Total \$
Estimate of ultimate claims cost:							
At end of accident year		500,000	500,000	500,000	500,000	500,000	
One year later		500,000	500,000	500,000	500,000		
Two years later		500,000	500,000	500,000			
Three years later		500,000	500,000				
Four years later		500,000					
Current estimate of cumulative claims costs							
	5,354,412	500,000	500,000	500,000	500,000	500,000	7,854,412
Cumulative payments	5,146,970	500,000	500,000	355,934	342,802	25,200	6,870,907
Outstanding claims - undiscounted		207,443	-	144,066	157,198	474,800	983,506
Discount		(4,577)	-	(1,358)	(1,482)	(8,591)	(16,009)
Outstanding claims - discounted		202,866	-	142,707	155,715	466,208	967,497
Claims handling expense (disc)		115,299	39,781	57,153	66,360	79,573	473,246
Risk margin (disc)							133,572
Total net outstanding claims							1,574,315

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**Note 17 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. 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 the identification and control of financial risks rests with 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 2018, 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 \$234,311 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 3 (e) Insurance Contracts – interest rate risk.

At 31 December 2018, 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 \$181,179 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 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 2017. 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.

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Note 17 Financial instruments (continued)

Interest rate risk

31-Dec-18	Carrying amount \$	Interest rate risk		Interest rate risk	
		-1%		+1%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	4,665,982	(46,660)	(46,660)	46,660	46,660
Term deposits	13,451,879	(134,519)	(134,519)	134,519	134,519
Reinsurance recoveries	6,919,936	-	-	-	-
Total increase/ (decrease)	25,037,797	(181,179)	(181,179)	181,179	181,179

31-Dec-17	Carrying amount \$	Interest rate risk		Interest rate risk	
		-1%		+1%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	9,226,749	(92,267)	(92,267)	92,267	92,267
Term deposits	5,347,138	(53,471)	(53,471)	53,471	53,471
Reinsurance recoveries	7,927,638	-	-	-	-
Total increase/ (decrease)	22,501,525	(145,738)	(145,738)	145,738	145,738

Foreign exchange risk

31-Dec-18	Carrying amount \$	Foreign exchange risk			
		-10%		+10%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	1,004,378	100,438	100,438	(100,438)	(100,438)
Term deposits	1,249,196	124,920	124,920	(124,920)	(124,920)
Reinsurance recoveries	89,527	8,953	8,953	(8,953)	(8,953)
Total increase/ (decrease)	2,343,101	234,311	234,311	(234,311)	(234,311)

31-Dec-17	Carrying amount \$	Foreign exchange risk			
		-10%		+10%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	826,998	82,700	82,700	(82,700)	(82,700)
Term deposits	1,164,419	116,442	116,442	(116,442)	(116,442)
Reinsurance recoveries	101,105	10,111	10,111	(10,111)	(10,111)
Total increase/ (decrease)	2,092,522	209,253	209,253	(209,253)	(209,253)

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
31 December 2018

Note 17 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.

Credit Quality Table	2018 rating	2017 rating	2018 \$	2017 \$
Trade & other receivables	Not rated	Not rated	2,440,224	2,217,452
Other financial asset - intercompany loan	Not rated	Not rated	1,320,000	1,760,000
Reinsurance recoveries	A-	A-	6,919,936	7,927,638
Accrued interest	AA-	AA-	115,276	102,177

Aging Table 2018	Not past Due \$	Past Due but not impaired \$	Past Due \$	2018 \$
Trade & other receivables	2,440,224	-	-	2,440,224
Other financial asset - intercompany loan	1,320,000	-	-	1,320,000
Reinsurance recoveries	6,919,936	-	-	6,919,936
Accrued interest	115,276	-	-	115,276

Aging Table 2017	Not past Due \$	Past Due but not impaired \$	Past Due \$	2017 \$
Trade & other receivables	2,217,452	-	-	2,217,452
Other financial asset - intercompany loan	1,760,000	-	-	1,760,000
Reinsurance recoveries	7,927,638	-	-	7,927,638
Accrued interest	102,177	-	-	102,177

(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. 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 \$	2018 \$
Other payables	965,335	-	965,335
Outstanding claims	2,486,073	6,008,178	8,494,251
Provisions	-	4,978	4,978

Maturity Profile Table	1 year or less \$	1 to 3 years \$	2017 \$
Other payables	1,057,279	-	1,057,279
Outstanding claims	3,131,532	6,562,736	9,694,268
Provisions	-	14,602	14,602

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
31 December 2018

Note 17 Financial instruments (continued)

(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 the accounting policy, investments are measured at fair value at balance date.

2018	Note	Fixed interest maturing in:				Total
		1 year or less	Over 1 to 5 years	Variable rate	Non interest bearing	
		\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	9	-	-	4,665,982	-	4,665,982
Receivables	10&12	-	1,320,000	-	2,618,812	3,938,812
Investments	9	13,451,879	-	-	-	13,451,879
<b>Total</b>		<b>13,451,879</b>	<b>1,320,000</b>	<b>4,665,982</b>	<b>2,618,812</b>	<b>22,056,673</b>
Weighted average interest rate		2.80%	6.07%	Variable		
<b>Financial Liabilities</b>						
Accounts payable	15	-	-	-	965,335	965,335
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>965,335</b>	<b>965,335</b>
Weighted average interest rate		-	-	-		
<b>Net Financial Assets</b>		<b>13,451,879</b>	<b>1,320,000</b>	<b>4,665,982</b>	<b>1,653,477</b>	<b>21,091,338</b>
<b>Non-Financial Assets</b>						<b>8,165,645</b>
<b>Non-Financial Liabilities</b>						<b>8,583,890</b>
<b>Net Assets</b>						<b>20,673,093</b>

2017	Note	Fixed interest maturing in:				Total
		1 year or less	Over 1 to 5 years	Variable rate	Non interest bearing	
		\$	\$	\$	\$	\$
<b>Financial assets</b>						
Cash	9	-	-	3,776,590	-	3,776,590
Receivables	10&12	-	1,760,000	-	2,338,112	4,098,112
Investments	9	10,797,297	-	-	-	10,797,297
<b>Total</b>		<b>10,797,297</b>	<b>1,760,000</b>	<b>3,776,590</b>	<b>2,338,112</b>	<b>18,671,999</b>
Weighted average interest rate		2.77%	8.35%	Variable		
<b>Financial Liabilities</b>						
Accounts payable	15	-	-	-	1,057,279	1,057,279
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1,057,279</b>	<b>1,057,279</b>
Weighted average interest rate		-	-	-		
<b>Net Financial Assets</b>		<b>10,797,297</b>	<b>1,760,000</b>	<b>3,776,590</b>	<b>1,280,833</b>	<b>17,614,720</b>
<b>Non-Financial Assets</b>						<b>9,305,920</b>
<b>Non-Financial Liabilities</b>						<b>9,888,203</b>
<b>Net Assets</b>						<b>17,032,437</b>

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
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**Note 17 Financial instruments (continued)**

**(f) Fair value of financial instruments**

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

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

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

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

2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Assets</i>				
Cash and cash equivalents	4,665,982	-	-	4,665,982
Term deposits	13,451,879	-	-	13,451,879
Total assets	<u>18,117,861</u>	<u>-</u>	<u>-</u>	<u>18,117,861</u>

**2017**

<i>Assets</i>				
Cash and cash equivalents	9,226,749	-	-	9,226,749
Term deposits	5,347,138	-	-	5,347,138
Total assets	<u>14,573,887</u>	<u>-</u>	<u>-</u>	<u>14,573,887</u>

There were no transfers between levels during the financial year.

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
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**Note 18 Employee benefit provisions**

	2018	2017
	\$	\$
<b>Current</b>		
Employee benefits	41,533	136,691
<b>Non- Current</b>		
Employee benefits	4,978	14,602
	<u>46,511</u>	<u>151,293</u>
Opening balance	151,293	183,704
Movement	(104,782)	(32,411)
Closing balance	<u>46,511</u>	<u>151,293</u>

**Note 19 Capital adequacy**

	2018	2017
	\$	\$
<b>Tier 1 Capital</b>		
Contributed equity	15,573,346	15,573,346
Foreign exchange translation reserve	473,573	264,488
Accumulated losses at beginning of the year	1,194,603	120,611
Gain for the year	3,431,571	1,073,992
Less intangibles	(1,244,930)	(1,376,091)
Total capital base	<u>19,428,163</u>	<u>15,656,346</u>
Minimum capital requirement	<u>5,000,000</u>	<u>5,000,000</u>
Capital adequacy multiple	<u>3.89</u>	<u>3.13</u>

**Note 20 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 2018 there were 15,573,346 \$1 par value ordinary shares issued and fully paid (2017: 15,573,346).

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

**Note 21 Auditor's remuneration**

During the year the auditor of the Company and its related practices earned the following remuneration:

	2018	2017
	\$	\$
<b>KPMG</b>		
Audit services - KPMG	63,500	62,000
Non Audit services	42,250	10,000
Total remuneration	<u>105,750</u>	<u>72,000</u>

**Note 22 Commitments for expenditure**

The company has not engaged with any leases under non-cancellable operating leases.



**First American Title Insurance Company of Australia Pty Limited**  
**Notes to the financial statements**  
**31 December 2018**

**Note 23 Related parties**

**Controlling entities**

The immediate parent entity is FAF International Holdings GmbH incorporated in Switzerland. 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.

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.

**Amounts receivable from and payable to entities within the group**

	2018	2017
	\$	\$
<b>Aggregate amounts receivable at balance date from:</b>		
<b>Current</b>		
Other commonly controlled entity	1,849,532	1,212,781
Intercompany loan – FAF International Property Services (Australia) Pty Ltd	440,000	440,000

*The other commonly controlled entity includes a reinsurance receivable balance of \$933,906*

<b>Non-current</b>		
Intercompany loan – FAF International Property Services (Australia) Pty Ltd	880,000	1,320,000

**Amounts charged to and received from entities within the group**

Reimbursement of other expenses from ordinary activities (to)/from commonly controlled	(128,831)	70,979
Outward reinsurance premium expense paid to First American Title Insurance Company	(449,189)	(353,067)
Outward reinsurance recoveries from First American Title Insurance Company	422,558	1,104,238
IT fee income from related parties within the group	40,000	40,000
Interest received on intercompany loan	93,500	145,849

**Key management personnel compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

The directors and other members of key management personnel of First American Title Insurance Company of Australia Pty Limited during the year were:

- Eric Richard Dodd (Non-executive Director, Chairman)
- Anthony Peter Gill (Non-executive Director)
- Patti Hui-Ting Evers (Director, Chief Executive Officer)
- David John Ryan (Non-executive Director)
- George Stone Livemore (Non-executive Director)
- Daniel Cane (Chief Operating Officer)
- Scott Diprose (General Manager - Culture & Customer Experience)
- Christopher Evans (General Manager - Sales & Relationships)
- Shellie Hess (Chief Financial Officer)
- Frances Russell-Matthews (General Manager - Legal, Risk & Compliance)
- Laurie Shaw (General Manager - Projects & IT)

The Company has received key management personnel services from a related entity. The amount incurred for the service fee is disclosed below.

The compensation of key management personnel paid by the Company is set out below:

Service fees charged by a related entity	686,258	578,630
Directors fees	207,747	139,750
<b>Total compensation</b>	<b>894,005</b>	<b>718,380</b>

**First American Title Insurance Company of Australia Pty Limited**  
**Notes to the financial statements**  
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**Note 24 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 25 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**

2018	Australia	New Zealand	Total
	\$	\$	\$
Total segment revenue	8,256,943	153,077	8,410,020
Total segment interest revenue	387,897	44,741	432,638
Total segment staff costs	(3,443,843)	-	(3,443,843)
Segment profit	3,312,020	136,593	3,448,613
Profit from ordinary activities before tax			3,448,613
Income tax expense			(17,042)
Net profit			3,431,571
Total segment assets	27,190,980	3,031,338	30,222,318
Total segment liabilities	(9,376,394)	(172,834)	(9,549,228)
Investment in associates	-	-	-
Acquisition of property plant & equipment, intangibles and other non-current segment assets	-	-	-
Depreciation and amortisation expense	133,486	-	133,486
Net cash inflow from operating activities	2,852,397	162,884	3,015,281

First American Title Insurance Company of Australia Pty Limited  
Notes to the financial statements  
31 December 2018

Note 25 Segment information (continued)

2017	Australia	New Zealand	Total
	\$	\$	\$
Total segment revenue	6,677,677	133,155	6,810,832
Total segment interest revenue	400,729	45,827	446,556
Total segment staff costs	(3,532,375)	-	(3,532,375)
Segment profit	967,923	153,716	1,121,639
Profit from ordinary activities before tax			1,121,639
Income tax expense			(47,647)
Net profit			1,073,992
Total segment assets	25,203,223	2,774,696	27,977,919
Total segment liabilities	(10,782,251)	(163,231)	(10,945,482)
Investment in associates	-	-	-
Acquisition of property plant & equipment, intangibles and other non-current segment assets			
Depreciation and amortisation expense	159,883	-	159,883
Net cash inflow from operating activities	555,135	234,647	789,782

(b) Secondary Reporting - Business Segments

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

Note 26 Reconciliation of profit from ordinary activities to net cash inflow from operating activities

	2018	2017
	\$	\$
Profit after income tax expense for the year	3,431,571	1,073,992
<i>Adjustments</i>		
Depreciation, amortisation and impairment charges	133,486	159,761
Net exchange differences	119,479	(136,554)
<i>Change in operating assets and liabilities</i>		
Decrease/(increase) in receivables	413,979	(112,282)
Decrease/(increase) in other assets	949,773	(1,902,624)
(Decrease)/increase in related party loans	(636,751)	(623,016)
Increase in tax payable	488	16,593
(Decrease)/increase in payables	(91,944)	233,713
(Decrease)/increase in provisions	(1,200,017)	2,112,610
Decrease in employee benefits provision	(104,783)	(32,411)
Net cash flows from operating activities	3,015,281	789,782

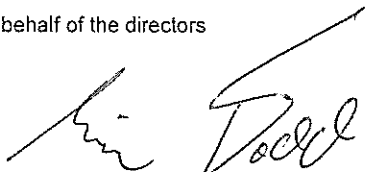
**First American Title Insurance Company of Australia Pty Limited**  
**Directors' Declaration**  
**31 December 2018**

In the directors' opinion:


- a) the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) 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; and
- c) the attached financial statements and notes thereto give a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
- d) 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(A) of the Corporations Act 2001.

On behalf of the directors



Eric Richard Dodd  
Director  
Sydney  
Date: 19 March 2019



Patti Hui-Ting Evers  
Director  
Sydney  
Date: 19 March 2019



## Independent Auditor's Report

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

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of First American Title Insurance Company of Australia Pty Limited ("the Company").

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2018 of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 31 December 2018
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



### Other Information

Other Information is financial and non-financial information in First American Title Insurance Company of Australia Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.



A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our Auditor's Report.

The KPMG logo, featuring the letters 'KPMG' in a bold, sans-serif font, with a stylized graphic of four squares above the 'P' and 'M'.

KPMG

A handwritten signature in black ink, appearing to read 'A. Reeves'.

Andrew Reeves  
*Partner*

Sydney  
19 March 2019