

Fidelity National Financial, Inc.  
Form 10-Q  
October 26, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-32630  
FIDELITY NATIONAL FINANCIAL, INC.

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(Exact name of registrant as specified in its charter)  
Delaware 16-1725106  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
  
601 Riverside Avenue, Jacksonville, Florida 32204  
(Address of principal executive offices) (Zip Code)  
(904) 854-8100

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(Registrant's telephone number, including area code)  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO   
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit files). YES  NO   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company   
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO   
The number of shares outstanding of the Registrant's common stock as of September 30, 2018 were:  
FNF Common Stock 275,224,747



FORM 10-Q  
QUARTERLY REPORT  
Quarter Ended September 30, 2018  
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## Part I: FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share data)

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Investments:   |                       |                      |
| Fixed maturity securities available for sale, at fair value, at September 30, 2018 and December 31, 2017 includes pledged fixed maturity securities of \$420 and \$364, respectively, related to secured trust deposits                                    | \$ 1,856              | \$ 1,816             |
| Preferred securities, at fair value  | 308                   | 319                  |
| Equity securities, at fair value   | 689                   | 681                  |
| Investments in unconsolidated affiliates   | 152                   | 150                  |
| Other long-term investments  | 138                   | 110                  |
| Short-term investments, at December 31, 2017 includes short-term investments of \$3 related to secured trust deposits  | 280                   | 295                  |
| Total investments  | 3,423                 | 3,371                |
| Cash and cash equivalents, at September 30, 2018 and December 31, 2017 includes \$431 and \$475, respectively, of pledged cash related to secured trust deposits   | 1,422                 | 1,110                |
| Trade and notes receivables, net of allowance of \$19 and \$18 at September 30, 2018 and December 31, 2017, respectively   | 314                   | 317                  |
| Goodwill   | 2,719                 | 2,746                |
| Prepaid expenses and other assets  | 409                   | 398                  |
| Other intangible assets, net   | 515                   | 618                  |
| Title plants   | 405                   | 398                  |
| Property and equipment, net  | 164                   | 193                  |
| Total assets   | \$ 9,371              | \$ 9,151             |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| Liabilities:   |                       |                      |
| Accounts payable and accrued liabilities   | \$ 893                | \$ 955               |
| Notes payable  | 836                   | 759                  |
| Reserve for title claim losses   | 1,491                 | 1,490                |
| Secured trust deposits   | 835                   | 830                  |
| Income taxes payable   | 44                    | 137                  |
| Deferred tax liability   | 240                   | 169                  |
| Total liabilities  | 4,339                 | 4,340                |
| Commitments and Contingencies:   |                       |                      |
| Redeemable non-controlling interest by 21% minority holder of ServiceLink Holdings, LLC  | 344                   | 344                  |
| Equity:  |                       |                      |
| FNF common stock, \$0.0001 par value; authorized 487,000,000 shares as of September 30, 2018 and December 31, 2017; outstanding of 275,224,747 and 274,431,737 as of September 30, 2018 and December 31, 2017, respectively, and issued of 288,514,249 and | —                     | —                    |

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287,718,304 as of September 30, 2018 and December 31, 2017, respectively

|   |          |          |   |
|---|----------|----------|---|
| Preferred stock, \$0.0001 par value; authorized 50,000,000 shares; issued and outstanding, none                                     | —        | —        |   |
| Additional paid-in capital  | 4,488    | 4,587    |   |
| Retained earnings   | 681      | 217      |   |
| Accumulated other comprehensive (loss) earnings   | (12      | ) 111    |   |
| Less: Treasury stock, 13,289,502 shares and 13,286,567 shares as of September 30, 2018 and December 31, 2017, respectively, at cost | (468     | ) (468   | ) |
| Total Fidelity National Financial, Inc. shareholders' equity  | 4,689    | 4,447    |   |
| Non-controlling interests   | (1       | ) 20     |   |
| Total equity  | 4,688    | 4,467    |   |
| Total liabilities, redeemable non-controlling interest and equity   | \$ 9,371 | \$ 9,151 |   |
| See Notes to Condensed Consolidated Financial Statements  |          |          |   |

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in millions, except per share data)

|   | Three months ended |          | Nine months ended |         |
|---|--------------------|----------|-------------------|---------|
|   | September 30,      |          | September 30,     |         |
|   | 2018               | 2017     | 2018              | 2017    |
|   | (Unaudited)        |          | (Unaudited)       |         |
| Revenues:   |                    |          |                   |         |
| Direct title insurance premiums   | \$574              | \$558    | \$1,645           | \$1,598 |
| Agency title insurance premiums   | 722                | 719      | 2,018             | 2,028   |
| Escrow, title-related and other fees  | 691                | 678      | 2,072             | 1,969   |
| Interest and investment income  | 48                 | 32       | 131               | 93      |
| Realized gains and losses, net  | 50                 | (1)      | 35                | —       |
| Total revenues  | 2,085              | 1,986    | 5,901             | 5,688   |
| Expenses:   |                    |          |                   |         |
| Personnel costs   | 654                | 627      | 1,926             | 1,822   |
| Agent commissions   | 554                | 553      | 1,546             | 1,557   |
| Other operating expenses  | 477                | 444      | 1,406             | 1,312   |
| Depreciation and amortization   | 46                 | 46       | 138               | 133     |
| Provision for title claim losses  | 58                 | 64       | 165               | 181     |
| Interest expense  | 9                  | 10       | 31                | 39      |
| Total expenses  | 1,798              | 1,744    | 5,212             | 5,044   |
| Earnings from continuing operations before income taxes and equity in earnings of unconsolidated affiliates | 287                | 242      | 689               | 644     |
| Income tax expense  | 51                 | 88       | 104               | 258     |
| Earnings from continuing operations before equity in earnings of unconsolidated affiliates                  | 236                | 154      | 585               | 386     |
| Equity in earnings of unconsolidated affiliates   | 1                  | 3        | 4                 | 7       |
| Net earnings from continuing operations   | 237                | 157      | 589               | 393     |
| Net earnings from discontinued operations, net of tax   | —                  | 18       | —                 | 165     |
| Net earnings  | 237                | 175      | 589               | 558     |
| Less: Net earnings attributable to non-controlling interests  | 1                  | 10       | 5                 | 25      |
| Net earnings attributable to Fidelity National Financial, Inc. common shareholders                          | \$236              | \$165    | \$584             | \$533   |
| Amounts attributable to Fidelity National Financial, Inc. common shareholders                               |                    |          |                   |         |
| Net earnings from continuing operations attributable to FNF common shareholders                             | \$236              | \$156    | \$584             | \$393   |
| Net earnings from discontinued operations attributable to FNF common shareholders                           | —                  | 14       | —                 | 23      |
| Net earnings attributable to FNF common shareholders  | \$236              | \$170    | \$584             | \$416   |
| Net (loss) earnings from discontinued operations attributable to FNFV Group common shareholders             |                    | \$(5)    |                   | \$117   |
| Earnings per share  |                    |          |                   |         |
| Basic   |                    |          |                   |         |
| Net earnings from continuing operations attributable to FNF common shareholders                             | \$0.86             | \$0.58   | \$2.14            | \$1.46  |
| Net earnings from discontinued operations attributable to FNF common shareholders                           | —                  | 0.05     | —                 | 0.08    |
| Net earnings per share attributable to FNF common shareholders  | \$0.86             | \$0.63   | \$2.14            | \$1.54  |
| Net (loss) earnings per share from discontinued operations attributable to FNFV Group common shareholders   |                    | \$(0.08) |                   | \$1.80  |
| Diluted   |                    |          |                   |         |

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|   |        |          |        |        |
|---|--------|----------|--------|--------|
| Net earnings from continuing operations attributable to FNF common shareholders                           | \$0.85 | \$0.57   | \$2.09 | \$1.42 |
| Net earnings from discontinued operations attributable to FNF common shareholders                         | —      | 0.05     | —      | 0.08   |
| Net earnings per share attributable to FNF common shareholders  | \$0.85 | \$0.62   | \$2.09 | \$1.50 |
| Net (loss) earnings per share from discontinued operations attributable to FNFV Group common shareholders |        | \$(0.08) |        | \$1.75 |
| Weighted average shares outstanding FNF common stock, basic basis   | 273    | 272      | 273    | 271    |
| Weighted average shares outstanding FNF common stock, diluted basis                                       | 278    | 276      | 279    | 277    |
| Weighted average shares outstanding FNFV Group common stock, basic basis                                  |        | 65       |        | 65     |
| Weighted average shares outstanding FNFV Group common stock, diluted basis                                |        | 65       |        | 67     |
| See Notes to Condensed Consolidated Financial Statements  |        |          |        |        |

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FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS  
 (In millions)

|   | Three months<br>ended<br>September<br>30, |             | Nine<br>months<br>ended<br>September<br>30, |             |
|---|---|-------------|---|-------------|
|   | 2018                                      | 2017        | 2018  | 2017        |
|   | (Unaudited)                               | (Unaudited) | (Unaudited)                                 | (Unaudited) |
| Net earnings  | \$237                                     | \$175       | \$589                                       | \$558       |
| Other comprehensive earnings (loss):  |   |             |   |             |
| Unrealized gain (loss) on investments and other financial instruments, net (excluding investments in unconsolidated affiliates) (1) | 2   | 8           | (13 )                                       | 33          |
| Unrealized gain on investments in unconsolidated affiliates (2)   | —   | 4           | 4   | 16          |
| Unrealized (loss) gain on foreign currency translation (3)  | (2 )                                      | 3           | (4 )  | 8           |
| Reclassification adjustments for change in unrealized gains and losses included in net earnings (4)                                 | —   | —           | (1 )  | 2           |
| Other comprehensive earnings (loss)   | —   | 15          | (14 )                                       | 59          |
| Comprehensive earnings  | 237                                       | 190         | 575   | 617         |
| Less: Comprehensive earnings attributable to non-controlling interests  | 1   | 11          | 5   | 27          |
| Comprehensive earnings attributable to Fidelity National Financial, Inc. common shareholders  | \$236                                     | \$179       | \$570                                       | \$590       |
| Comprehensive earnings attributable to FNF common shareholders  | \$236                                     | \$182       | \$570                                       | \$471       |
| Comprehensive (loss) earnings attributable to FNFV Group common shareholders  |   | \$(3 )      |   | \$119       |

Net of income tax expense (benefit) of \$1 million and \$5 million for the three-month periods ended September 30, (1) 2018 and 2017, respectively, and \$(4) million and \$20 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

(2) Net of income tax expense of \$3 million for the three-month period ended September 30, 2017, and \$1 million and \$10 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

Net of income tax (benefit) expense of less than \$(1) million and \$2 million for the three-month periods ended (3) September 30, 2018 and 2017, respectively, and \$(1) million and \$5 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

(4) Net of income tax (benefit) expense less than \$(1) million and \$1 million for the nine-month periods ended September 30, 2018 and 2017.

See Notes to Condensed Consolidated Financial Statements



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CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In millions, except per share data)

(Unaudited)

|   | Fidelity National Financial, Inc. Common Shareholders |            |            |          |               |             |             |          |             |             |            |
|---|---|------------|------------|----------|---------------|-------------|-------------|----------|-------------|-------------|------------|
|   | FNF Group   | FNFV Group | Additional |          |               | Accumulated |             | Treasury | Non-        | Total       | Redeemable |
|   | Common  | Common     | Paid-in    | Retained | Comprehensive | Stock       | controlling | Equity   | Non-        |             |            |
|   | Stock   | Stock      | Capital    | Earnings | Earnings      | Shares      | Interests   |          | controlling | controlling |            |
|   | Shares  | Shares     |            |          | (Loss)        |             |             |          | Interests   | Interests   |            |
| Balance, December 31, 2016  | 285   | \$-81      | \$-4,848   | \$1,784  | \$ (13 )      | 27          | \$(623)     | \$ 902   | \$6,898     | \$ 344      |            |
| Exercise of stock options   | 1   | —          | 24         | —        | —             | —           | —           | 24       | —           | —           |            |
| Treasury stock repurchased  | —   | —          | —          | —        | —             | 2           | (23 )       | —        | (23 )       | —           |            |
| Spin-off of Black Knight, Inc.  | —   | —          | —          | (823 )   | —             | —           | —           | (801 )   | (1,624 )    | —           |            |
| Other comprehensive earnings — unrealized gain on investments and other financial instruments   | —   | —          | —          | —        | 33            | —           | —           | 2        | 35          | —           |            |
| Other comprehensive earnings — unrealized gain on investments in unconsolidated affiliates      | —   | —          | —          | —        | 16            | —           | —           | —        | 16          | —           |            |
| Other comprehensive earnings — unrealized gain on foreign currency translation                  | —   | —          | —          | —        | 8             | —           | —           | —        | 8           | —           |            |
| Reclassification adjustments for change in unrealized gains and losses included in net earnings | —   | —          | —          | —        | 2             | —           | —           | —        | 2           | —           |            |
| Equity portion of debt conversions settled in cash  | —   | —          | (317 )     | —        | —             | —           | —           | —        | (317 )      | —           |            |
| Black Knight repurchases of BKFS stock  | —   | —          | —          | —        | —             | —           | —           | (47 )    | (47 )       | —           |            |
| Stock-based compensation  | —   | —          | 26         | —        | —             | —           | —           | 11       | 37          | —           |            |
| Shares withheld for taxes and in treasury   | —   | —          | —          | —        | —             | —           | (1 )        | —        | (1 )        | —           |            |
| Dividends declared, \$0.75 per common share   | —   | —          | —          | (205 )   | —             | —           | —           | —        | (205 )      | —           |            |
| Purchase of additional share in consolidated subsidiaries                                       | —   | —          | 1          | —        | —             | —           | —           | (1 )     | —           | —           |            |
| Sale of OneDigital  | —   | —          | —          | —        | —             | —           | —           | (6 )     | (6 )        | —           |            |
| Acquisitions of non-controlling interests   | —   | —          | —          | —        | —             | —           | —           | 21       | 21          | —           |            |
| Subsidiary dividends declared to non-controlling interests                                      | —   | —          | —          | —        | —             | —           | —           | (7 )     | (7 )        | —           |            |
| Net earnings  | —   | —          | —          | 533      | —             | —           | —           | 25       | 558         | —           |            |
| Balance, September 30, 2017   | 286   | \$-81      | \$-4,582   | \$1,289  | \$ 46         | 29          | \$(647)     | \$ 99    | \$5,369     | \$ 344      |            |

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|   |     |     |           |        |          |    |         |        |         |        |
|---|-----|-----|-----------|--------|----------|----|---------|--------|---------|--------|
| Balance, December 31, 2017  | 288 | \$— | \$ -4,587 | \$217  | \$ 111   | 13 | \$(468) | \$ 20  | \$4,467 | \$ 344 |
| Adjustment for cumulative effect for adoption of ASU 2016-01                                    | —   | —   | —         | 128    | (109 )   | —  | —       | —      | 19      | —      |
| Exercise of stock options   | 1   | —   | — 15      | —      | —        | —  | —       | —      | 15      | —      |
| Other comprehensive earnings — unrealized losses on investments and other financial instruments | —   | —   | —         | —      | (13 )    | —  | —       | —      | (13 )   | —      |
| Other comprehensive earnings — unrealized gain on investments in unconsolidated affiliates      | —   | —   | —         | —      | 4        | —  | —       | —      | 4       | —      |
| Other comprehensive earnings — unrealized losses on foreign currency translation                | —   | —   | —         | —      | (4 )     | —  | —       | —      | (4 )    | —      |
| Reclassification adjustments for change in unrealized gains and losses included in net earnings | —   | —   | —         | —      | (1 )     | —  | —       | —      | (1 )    | —      |
| Stock-based compensation  | —   | —   | — 22      | —      | —        | —  | —       | —      | 22      | —      |
| Dilution resulting from subsidiary equity issuance  | —   | —   | — (1 )    | —      | —        | —  | —       | 5      | 4       | —      |
| Dividends declared, \$0.90 per common share   | —   | —   | —         | (248 ) | —        | —  | —       | —      | (248 )  | —      |
| Subsidiary equity repurchase  | —   | —   | —         | —      | —        | —  | —       | (1 )   | (1 )    | —      |
| Acquisitions of noncontrolling interests  | —   | —   | —         | —      | —        | —  | —       | 2      | 2       | —      |
| Equity portion of debt conversions settled in cash  | —   | —   | — (135 )  | —      | —        | —  | —       | —      | (135 )  | —      |
| Pacific Union Sale  | —   | —   | —         | —      | —        | —  | —       | (25 )  | (25 )   | —      |
| Subsidiary dividends declared to non-controlling interests                                      | —   | —   | —         | —      | —        | —  | —       | (7 )   | (7 )    | —      |
| Net earnings  | —   | —   | —         | 584    | —        | —  | —       | 5      | 589     | —      |
| Balance, September 30, 2018   | 289 | \$— | \$ -4,488 | \$681  | \$ (12 ) | 13 | \$(468) | \$(1 ) | \$4,688 | \$ 344 |

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

|   | For the nine<br>months ended<br>September 30,<br>2018 2017<br>(Unaudited) |          |
|---|---|----------|
| Cash flows from operating activities:   |   |          |
| Net earnings  | \$589   | \$558    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |   |          |
| Depreciation and amortization   | 138   | 331      |
| Equity in (earnings) losses of unconsolidated affiliates                            | (4  | ) 7      |
| (Gain) loss on sales of investments and other assets, net                           | (4  | ) 17     |
| Gain on sale of subsidiaries  | (10   | ) (276 ) |
| Distributions from unconsolidated affiliates, return on investment                  | 4   | —        |
| Stock-based compensation cost   | 22  | 37       |
| Change in valuation of equity and preferred securities available for sale, net      | (21   | ) —      |
| Changes in assets and liabilities, net of effects from acquisitions:                |   |          |
| Net decrease (increase) in trade receivables  | 8   | (6 )     |
| Net increase in prepaid expenses and other assets                                   | (14   | ) (50 )  |
| Net decrease in accounts payable, accrued liabilities, deferred revenue and other   | (16   | ) (93 )  |
| Net increase in reserve for title claim losses                                      | 1   | 8        |
| Net change in income taxes  | (22   | ) 30     |
| Net cash provided by operating activities   | 671   | 563      |
| Cash flows from investing activities:   |   |          |
| Proceeds from sales of investment securities  | 422   | 220      |
| Proceeds from calls and maturities of investment securities                         | 401   | 432      |
| Proceeds from sales of property and equipment                                       | 21  | 2        |
| Proceeds from the sale of cost method and other investments                         | —   | 19       |
| Additions to property and equipment and capitalized software                        | (56   | ) (132 ) |
| Purchases of investment securities  | (871  | ) (313 ) |
| Net proceeds from (purchases of) short-term investment securities                   | 15  | (156 )   |
| Purchases of other long-term investments  | —   | (8 )     |
| Additional investments in unconsolidated affiliates                                 | (62   | ) (52 )  |
| Distributions from unconsolidated affiliates, return of investment                  | 60  | 76       |
| Net other investing activities  | (2  | ) (5 )   |
| Acquisition of Title Guaranty of Hawaii, net of cash acquired                       | —   | (93 )    |
| Proceeds from the sale of OneDigital  | —   | 325      |
| Proceeds from Pacific Union Sale, net of cash transferred                           | 39  | —        |
| Other acquisitions/disposals of businesses, net of cash acquired                    | (9  | ) (137 ) |
| Net cash (used in) provided by investing activities                                 | (42   | ) 178    |
| Cash flows from financing activities:   |   |          |
| Borrowings  | 442   | 776      |
| Debt service payments   | (370  | ) (994 ) |
| Black Knight treasury stock repurchases of BKFS stock                               | —   | (47 )    |
| Equity portion of debt conversions paid in cash                                     | (142  | ) (317 ) |

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|   |         |         |
|---|---------|---------|
| Dividends paid  | (246 )  | (204 )  |
| Subsidiary dividends paid to non-controlling interest shareholders  | (7 )    | (7 )    |
| Exercise of stock options   | 15      | 24      |
| Subsidiary equity repurchase  | (1 )    | —       |
| Net change in secured trust deposits  | 5       | 63      |
| Cash transferred in Black Knight spin-off   | —       | (87 )   |
| Payment of contingent consideration for prior period acquisitions   | (13 )   | (15 )   |
| Payment for withholding taxes on stock-based compensation for shares withheld from participants and in treasury | —       | (1 )    |
| Purchases of treasury stock   | —       | (23 )   |
| Net cash used in financing activities   | (317 )  | (832 )  |
| Net increase (decrease) in cash and cash equivalents  | 312     | (91 )   |
| Cash and cash equivalents at beginning of period  | 1,110   | 1,323   |
| Cash and cash equivalents at end of period  | \$1,422 | \$1,232 |
| See Notes to Condensed Consolidated Financial Statements  |         |         |

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FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A — Basis of Financial Statements

The financial information in this report presented for interim periods is unaudited and includes the accounts of Fidelity National Financial, Inc. and its subsidiaries (collectively, “we,” “us,” “our,” or “FNF”) prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All adjustments made were of a normal, recurring nature. This report should be read in conjunction with our Annual Report on Form 10-K (our “Annual Report”) for the year ended December 31, 2017.

Certain reclassifications have been made in the 2017 Condensed Consolidated Financial Statements to conform to classifications used in 2018. See the Recent Accounting Pronouncements section below and Note K. Discontinued Operations for material reclassifications.

Description of the Business

We are a leading provider of (i) title insurance, escrow and other title-related services, including trust activities, trustee sales guarantees and home warranty products and (ii) technology and transaction services to the real estate and mortgage industries. FNF is one of the nation’s largest title insurance companies and operates through its title insurance underwriters - Fidelity National Title Insurance Company (“FNTIC”), Chicago Title Insurance Company (“Chicago Title”), Commonwealth Land Title Insurance Company (“Commonwealth Title”), Alamo Title Insurance and National Title Insurance of New York Inc. - which collectively issue more title insurance policies than any other title company in the United States. Through our subsidiary, ServiceLink Holdings, LLC (“ServiceLink”), we provide mortgage transaction services, including title-related services and facilitation of production and management of mortgage loans.

For information about our reportable segments refer to Note H Segment Information.

Recent Developments

Pending Acquisition of Stewart

On March 18, 2018, we signed a merger agreement (the “Merger Agreement”) to acquire Stewart Information Services Corporation (“Stewart”) (NYSE: STC) (the “Stewart Merger”), pursuant to which each share of Stewart common stock issued and outstanding immediately prior to the effective time of the Stewart Merger (other than shares owned by Stewart, its subsidiaries, FNF or the wholly-owned subsidiaries of FNF party to the Merger Agreement and shares in respect of which appraisal rights have been properly exercised and perfected under Delaware law), will be converted into the right to receive, at the election of the holder of such share, (i) \$50.00 in cash, (ii) 1.2850 shares of FNF common stock, or (iii) \$25.00 in cash and 0.6425 shares of FNF common stock, subject to potential adjustment (as described below) and proration to the extent the option to receive cash or the option to receive stock is oversubscribed.

FNF currently intends to fund the \$1.2 billion purchase price through a combination of cash on hand at FNF, the issuance of FNF common stock to Stewart stockholders, and borrowings under the revolving credit facility, if necessary, and will be paid 50% in cash and 50% in FNF common stock. Including the assumption of \$109 million of Stewart debt, our pro forma debt to total capital ratio is expected to be no more than approximately 20% at the close of the transaction.

Under the terms of the Merger Agreement, if the combined company is required to divest assets or businesses for which 2017 annual revenues exceed \$75 million, up to a cap of \$225 million, in order to receive required regulatory approvals, the purchase price will be adjusted down on a pro-rata basis to a minimum purchase price of \$45.50 per share of common stock of Stewart. If the Stewart Merger is not completed for failure to obtain the required regulatory approvals, we are required to pay a reverse break-up fee of \$50 million to Stewart.

On May 30, 2018, we filed a preliminary registration statement on Form S-4 with the U.S. Securities and Exchange Commission (the “SEC”).

On May 31, 2018, we received a request for additional information and documentary material, often referred to as a “Second Request,” from the United States Federal Trade Commission (the “FTC”) in connection with the FTC’s Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), regulatory review of the Stewart Merger.

The special meeting of Stewart stockholders to vote on the Stewart Merger was held on September 5, 2018 and a majority of the Stewart stockholders voted to approve the Stewart Merger. More than 99% of the votes cast, representing approximately 79% of the outstanding shares of Stewart common stock as of July 10, 2018, the record date for the special meeting, were cast in favor of adopting the Merger Agreement.

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FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

On August 21, 2018, we received a “no-action letter” from the Canadian Competition Bureau (the “Bureau”), indicating that the Bureau does not intend to oppose completion of the Stewart Merger.

We continue to work through the regulatory process for the Stewart Merger and are currently engaged in the Second Request related to the FTC's HSR Act regulatory review of the transaction. Responses to nearly all the FTC's requests for information and documentation have been submitted. The Form A filings with the states of Texas and New York are being reviewed by those states.

The closing of the Stewart Merger is subject to certain closing conditions, including federal and state regulatory approvals and the satisfaction of other customary closing conditions. Closing of the Stewart Merger is expected in the first or second quarter of 2019.

Other Developments

On September 24, 2018, we closed on the sale of all of our 62% equity interest in, and notes outstanding from, Pacific Union International, Inc. ("Pacific Union"), a luxury real estate broker based in California, and its subsidiaries to Urban Compass, Inc. ("Compass") for \$43 million in cash and up to \$21 million in potential earnout payments (the "Pacific Union Sale"). The potential earnout payments range in value from \$0 to \$21 million, are based on certain gross profit and earnings targets for Pacific Union and are payable in approximately 60% cash and 40% Compass stock annually over the course of the next three years. Compass was not a related party prior to, and is not a related party subsequent to, the Pacific Union Sale.

On August 13, 2018, we completed an offering of \$450 million in aggregate principal amount of notes due August 2028 with stated interest of 4.50%. See Note E. Notes Payable for further details.

Earnings Per Share

Basic earnings per share, as presented on the Condensed Consolidated Statement of Earnings, is computed by dividing net earnings available to common shareholders in a given period by the weighted average number of common shares outstanding during such period. In periods when earnings are positive, diluted earnings per share is calculated by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding plus the impact of assumed conversions of potentially dilutive securities. For periods when we recognize a net loss, diluted earnings per share is equal to basic earnings per share as the impact of assumed conversions of potentially dilutive securities is considered to be antidilutive. We have granted certain stock options, shares of restricted stock, convertible debt instruments and certain other convertible share based payments which have been treated as common share equivalents for purposes of calculating diluted earnings per share for periods in which positive earnings have been reported.

Options or other instruments which provide the ability to purchase shares of our common stock that are antidilutive are excluded from the computation of diluted earnings per share. There were no antidilutive options outstanding during the three- or nine-month periods ended September 30, 2018 or September 30, 2017.

Income Tax

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Reform Act”). Among other provisions, the Tax Reform Act reduced the federal statutory corporate income tax rate from 35% to 21% and limited or eliminated certain deductions. Our effective tax rate was 17.8% and 36.4% in the three months ended September 30, 2018 and 2017, respectively, and 15.1% and 40.1% in the nine months ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate in both periods is primarily attributable to the decreased federal tax rate associated with the passage of the Tax Reform Act. The decrease in the three-month period is also attributable to an \$8 million reversal of certain tax contingencies in the period and for certain return-to-provision adjustments. The decrease in the nine-month period was also attributable to a \$45 million change in tax estimate in the three-month period ended June 30, 2018 regarding the timing of payments for, and tax rate applicable to, our tax liability resulting from the decrease in our statutory premium reserves associated with the redomestication of certain of our title insurance underwriters in 2017 and increased tax expense of \$21 million in the 2017 period resulting from a change in judgment of the tax deductibility of legal settlements finalized in the period.

SEC Staff Accounting Bulletin No. 118 ("SAB 118"), has provided guidance for companies that have not completed their accounting for the income tax effects of the Tax Reform Act in the period of enactment, allowing for a measurement period of up to one year after the enactment date to finalize the recording of the related tax impacts. As of September 30, 2018, we have not completed our accounting for the tax effects of the enactment of the Tax Reform Act; however, we have made a reasonable estimate of the effects on our deferred tax balances. In other cases, we have not been able to make a reasonable estimate and will continue to analyze the Tax Reform Act in order to finalize any related impacts within the measurement period. Areas of continued analysis with respect to the Tax Reform Act include the tax deductibility of certain executive compensation, applicable foreign and state tax rates, and final tax return to provision adjustments.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

Discontinued Operations

On November 17, 2017, we completed our previously announced split-off (the “FNFV Split-Off”) of our former wholly-owned subsidiary Cannae Holdings, Inc. (“Cannae”) which consisted of the businesses, assets and liabilities formerly attributed to our FNF Ventures (“FNFV”) Group including Ceridian Holding, LLC, American Blue Ribbon Holdings, LLC and T-System Holding LLC. The FNFV Split-Off was accomplished by the Company's redemption (the “Redemption”) of all of the outstanding shares of FNFV Group common stock, par value \$0.0001 per share (“FNFV common stock”) for outstanding shares of common stock of Cannae, par value \$0.0001 per share (“Cannae common stock”), amounting to a redemption of each outstanding share of FNFV common stock for one share of Cannae common stock, as of November 17, 2017. As a result of the FNFV Split-Off, Cannae became a separate, publicly-traded company (NYSE: CNNE) as of November 20, 2017. All of the Company’s core title insurance, real estate, technology and mortgage related businesses, assets and liabilities currently attributed to the Company’s FNF common stock that are not held by Cannae remain with the Company. As a result of the FNFV Split-Off, the financial results of FNFV Group have been reclassified to discontinued operations for the three and nine months ended September 30, 2017.

On September 29, 2017 we completed our tax-free distribution to FNF shareholders of all 83.3 million shares of New BKH Corp. (“New BKH”) common stock that we previously owned (the “BK Distribution”). Immediately following the BK Distribution, New BKH and Black Knight Financial Services, Inc. (“Black Knight”) engaged in a series of transactions resulting in the formation of a new publicly traded holding company, Black Knight, Inc. (“New Black Knight”). Holders of FNF common stock received approximately 0.30663 shares of New Black Knight common stock for every one share of FNF common stock held at the close of business on September 20, 2017, the record date for the BK Distribution. New Black Knight's common stock is now listed under the symbol “BKI” on the New York Stock Exchange. The BK Distribution was generally tax-free to FNF shareholders for U.S. federal income tax purposes, except to the extent of any cash received in lieu of New Black Knight's fractional shares. As a result of the BK Distribution, the financial results of Black Knight have been reclassified to discontinued operations for the three and nine months ended September 30, 2017.

See Note K. Discontinued Operations for further details of the results and financial position of FNFV and Black Knight.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU provides a new comprehensive revenue recognition model that requires companies to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update permits the use of either the retrospective or cumulative effect transition method. ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations was issued by FASB in March 2016 to clarify the principal versus agent considerations within ASU 2014-09. ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing was issued by the FASB in April 2016 to clarify how to determine whether goods and services are separately identifiable and thus accounted for as separate performance obligations. ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients was issued by the FASB in May 2016 to clarify certain terms from the aforementioned updates and to add practical expedients for contracts at various stages of completion. ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, was issued by the FASB in December 2016 which includes thirteen technical corrections and improvements affecting narrow aspects of the guidance issued in ASU 2014-09.

We adopted these revenue standards on January 1, 2018 using the modified retrospective approach. As there was no material impact to our historical revenue recognition, we did not record a cumulative-effect adjustment to the opening

balance of retained earnings in the current year. See Note J. Revenue Recognition for further discussion of our revenue.

Other Adopted Pronouncements

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The primary amendments required by the ASU include: requiring equity investments with readily determinable fair values to be measured at fair value through net income rather than through other comprehensive income; allowing entities with equity investments without readily determinable fair values to report the investments at cost, adjusted for changes in observable prices, less impairment; requiring entities that elect the fair value option for financial liabilities to report the change in fair value attributable to instrument-specific credit risk in other comprehensive income; and clarifying that entities should assess the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with other deferred tax assets. The amendments in this ASU are effective for fiscal years beginning after

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

December 15, 2017, including interim periods within those fiscal years. The ASU requires a cumulative-effect adjustment of the balance sheet as of the beginning of the year of adoption. Early adoption of the ASU is not permitted, except for the provision related to financial liabilities for which the fair value option has been elected. We adopted this new guidance on January 1, 2018, which resulted in the reclassification of our unrealized gains and losses on our equity and preferred securities available for sale previously included in accumulated other comprehensive income to beginning retained earnings. Changes in the fair value of our investments in equity and preferred securities subsequent to January 1, 2018 are now included in Realized gains and losses, net in our Condensed Consolidated Statements of Earnings. See Note D. Investments for further details. We reclassified a total of \$109 million from Accumulated other comprehensive income to beginning Retained earnings as of January 1, 2018. The total cumulative effect on opening equity, including an increase in Retained earnings of \$19 million attributable to an increase in value of certain Other long term investments resulting from recording at fair value, was an increase in Retained earnings of \$128 million and decrease in Accumulated other comprehensive income of \$109 million.

In November 2016, the FASB issued ASU No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. GAAP previously did not include specific guidance on the cash flow classification and presentation of changes in restricted cash. The Company previously excluded cash pledged related to secured trust deposits, which generally meets the definition of restricted cash, from the reconciliation of beginning-of-period to end-of-period total amounts shown on the statement of cash flows. This update is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The ASU requires retrospective application to all prior periods presented upon adoption.

We adopted this ASU on January 1, 2018. The adoption of this ASU resulted in the following retrospective changes to our Statement of Cash Flows for the nine months ended September 30, 2017: an increase in the net change in cash and cash equivalents of \$237 million due to the inclusion of the change in our cash pledged against secured trust deposits, an increase in investing cash inflow of \$177 million related to the movement of cash paid for investments pledged against secured trust deposits from operating to investing activities, and a decrease in financing cash outflow of \$63 million related to the movement of the change in secured trust deposits from operating to financing activities.

In February 2018, the FASB issued ASU No. 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from Tax Reform. We adopted this ASU on April 1, 2018. Adoption of this ASU resulted in no net reclassification from Accumulated other comprehensive loss to Retained earnings.

**Other Pronouncements Not Yet Adopted****Leases**

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842). The amendments in this ASU introduce broad changes to the accounting and reporting for leases by lessees. The main provisions of the new standard include: clarifications to the definitions of a lease, components of leases, and criteria for determining lease classification; requiring virtually all leased assets, including operating leases and related liabilities resulting from applying the fair value measurement, to be reflected on the lessee's balance sheet; and expanding and adding to the required disclosures for lessees. This update is effective for annual and interim periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the standard is permitted. The ASU allows for a modified retrospective approach to transitioning which allows for the use of practical expedients to effectively account for leases commenced prior to the effective date in accordance with previous GAAP. In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements which allows entities the option to adopt this standard prospectively with a cumulative-effect adjustment to opening equity and include required disclosures for prior periods.

We have identified a vendor with software suited to track and account for leases under the new standard and are in process of transitioning our lease accounting within the software. We anticipate this standard will have a material impact on our consolidated balance sheets. However, while we are still completing our analysis, we do not anticipate that adoption of this ASU will have a material impact on our consolidated statements of earnings. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting for leased office space. We plan to prospectively adopt this standard on January 1, 2019 and to use the package of practical expedients available upon adoption.

Other

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments - Credit Losses: Measurement of Credit Losses on

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

Financial Instruments. The amendments in this ASU introduce broad changes to accounting for credit impairment of financial instruments. The primary updates include the introduction of a new current expected credit loss ("CECL") model that is based on expected rather than incurred losses and amendments to the accounting for impairment of fixed maturity securities available for sale. This update is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. We are still evaluating the effect this new guidance will have on our consolidated financial statements and related disclosures and have not yet concluded on its effects. We do not plan to early adopt the standard.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The guidance simplifies the measurement of goodwill impairment by removing step 2 of the goodwill impairment test, which requires the determination of the fair value of individual assets and liabilities of a reporting unit. The new guidance requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. The new standard is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We are currently evaluating the effect this new guidance will have on our consolidated financial statements and related disclosures and have not yet concluded on its effects.

## Note B — Summary of Reserve for Claim Losses

A summary of the reserve for claim losses follows:

|  | Nine months ended<br>September 30,<br>2018      2017 |         |
|--|--|---------|
|  | (Dollars in<br>millions)                             |         |
| Beginning balance  | \$1,490  | \$1,487 |
| Change in reinsurance recoverable  | 1  | (4 )    |
| Claim loss provision related to:   |  |         |
| Current year   | 165  | 174     |
| Prior years  | —  | 7       |
| Total title claim loss provision   | 165  | 181     |
| Claims paid, net of recoupments related to:  |  |         |
| Current year   | (3 )   | (4 )    |
| Prior years  | (162 )   | (164 )  |
| Total title claims paid, net of recoupments  | (165 )   | (168 )  |
| Ending balance of claim loss reserve for title insurance                               | \$1,491  | \$1,496 |
| Provision for title insurance claim losses as a percentage of title insurance premiums | 4.5  | % 5.0 % |

We continually update loss reserve estimates as new information becomes known, new loss patterns emerge, or as other contributing factors are considered and incorporated into the analysis of reserve for claim losses. Estimating future title loss payments is difficult because of the complex nature of title claims, the long periods of time over which claims are paid, significantly varying dollar amounts of individual claims and other factors.

Due to the uncertainty inherent in the process and to the judgment used by management, the ultimate liability may be greater or less than our current reserves. If actual claims loss development varies from what is currently expected and is not offset by other factors, it is possible that additional reserve adjustments may be required in future periods in order to maintain our recorded reserve within a reasonable range of our actuary's central estimate.



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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

## Note C — Fair Value Measurements

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, respectively:

|   | September 30, 2018 |         |         | Total    |
|---|--------------------|---------|---------|----------|
|   | Level 1            | Level 2 | Level 3 |          |
|   | (In millions)      |         |         |          |
| Fixed maturity securities available for sale: |                    |         |         |          |
| U.S. government and agencies                  | \$—                | \$232   | \$—     | \$232    |
| State and political subdivisions              | —                  | 185     | —       | 185      |
| Corporate debt securities                     | —                  | 1,316   | 13      | 1,329    |
| Mortgage-backed/asset-backed securities       | —                  | 48      | —       | 48       |
| Foreign government bonds                      | —                  | 62      | —       | 62       |
| Preferred securities                          | 26                 | 282     | —       | 308      |
| Equity securities                             | 688                | 1       | —       | 689      |
| Other long-term investment                    | —                  | —       | 104     | 104      |
| Total assets                                  | \$714              | \$2,126 | \$117   | \$2,957  |
|   | December 31, 2017  |         |         |          |
|   | Level 1            | Level 2 | Level 3 | Total    |
|   | (In millions)      |         |         |          |
| Fixed maturity securities available for sale: |                    |         |         |          |
| U.S. government and agencies                  | \$—                | \$195   | \$—     | —\$195   |
| State and political subdivisions              | —                  | 391     | —       | 391      |
| Corporate debt securities                     | —                  | 1,117   | —       | 1,117    |
| Mortgage-backed/asset-backed securities       | —                  | 56      | —       | 56       |
| Foreign government bonds                      | —                  | 57      | —       | 57       |
| Preferred securities                          | 23                 | 296     | —       | 319      |
| Equity securities                             | 681                | —       | —       | 681      |
| Total assets                                  | \$704              | \$2,112 | \$—     | —\$2,816 |

Our Level 2 fair value measures for preferred securities and fixed maturity securities available for sale are provided by a third-party pricing service. We utilize one firm for our preferred stock and our bond portfolios. The pricing service is a leading global provider of financial market data, analytics and related services to financial institutions. The inputs utilized in these pricing methodologies include observable measures such as benchmark yields, reported trades, broker dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. We review the pricing methodologies for all of our Level 2 securities by obtaining an understanding of the valuation models and assumptions used by the third-party as well as independently comparing the resulting prices to other publicly available measures of fair value and internally developed models. The pricing methodologies used by the relevant third-party pricing services are as follows:

• U.S. government and agencies: These securities are valued based on data obtained for similar securities in active markets and from inter-dealer brokers.

• State and political subdivisions: These securities are valued based on data obtained for similar securities in active markets and from inter-dealer brokers. Factors considered include relevant trade information, dealer quotes and other relevant market data.

• Corporate debt securities: These securities are valued based on dealer quotes and related market trading activity. Factors considered include the bond's yield, its terms and conditions, or any other feature which may influence its risk and thus marketability, as well as relative credit information and relevant sector news.

Foreign government bonds: These securities are valued based on a discounted cash flow model incorporating observable market inputs such as available broker quotes and yields of comparable securities.

Mortgage-backed/asset-backed securities: These securities are comprised of commercial mortgage-backed securities, agency mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities. They are valued



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FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

based on available trade information, dealer quotes, cash flows, relevant indices and market data for similar assets in active markets.

Preferred securities: Preferred securities are valued by calculating the appropriate spread over a comparable U.S.

Treasury security. Inputs include benchmark quotes and other relevant market data.

In conjunction with our adoption of ASU No. 2016-01, beginning January 1, 2018, we began recording certain equity investments included in other long term investments at fair value which were previously accounted for as cost method investments. See discussion of Recent Accounting Pronouncements in Note A. Basis of Financial Statements for further information on the impact of the adoption of ASU No. 2016-01.

Our Level 3 fair value measures for our other long term investment are provided by a third-party pricing service. We utilize one firm to value our Level 3 other long-term investment. The pricing service is a leading global provider of financial market data, analytics and related services to financial institutions. We utilize the income approach and a discounted cash flow analysis in determining the fair value of our Level 3 other long-term investment. The primary unobservable input utilized in this pricing methodology is the discount rate used which is determined based on underwriting yield, credit spreads, yields on benchmark indices, and comparable public company debt. The discount rate used in our determination of the fair value of our Level 3 other long-term investment as of September 30, 2018 was a range of 7.9% - 8.1% and a weighted-average of 8.0%. Based on the total fair value of our Level 3 other long-term investment as of September 30, 2018, changes in the discount rate utilized will not result in a fair value significantly different than the amount recorded.

The following table presents a summary of the changes in the fair values of Level 3 assets, measured on a recurring basis, for the three and nine months ended September 30, 2018.

|  | Three months ended<br>September 30, 2018    |                    |       | Nine months ended<br>September 30, 2018     |                    |       |
|--|---|--------------------|-------|---|--------------------|-------|
|  | Other Corporate<br>long-term<br>investments | debt<br>securities | Total | Other Corporate<br>long-term<br>investments | debt<br>securities | Total |
|  | (In millions)                               |                    |       |   |                    |       |
| Fair value, June 30, 2018  | \$102                                       | \$ 13              | \$115 | \$—   | \$ —               | \$—   |
| Paid-in-kind dividends (1)                                       | 2   | —                  | 2     | 100   | —                  | 100   |
| Fair value, September 30, 2018                                   | \$104                                       | \$ 13              | \$117 | —   | 13                 | 13    |
| Fair value, December 31, 2017                                    |   |                    |       | 5   | —                  | 5     |
| Fair value of assets associated with the adoption of ASU 2016-01 |   |                    |       | (1 )  | —                  | (1 )  |
| Transfers from Level 2   |   |                    |       | \$104                                       | \$ 13              | \$117 |
| Paid-in-kind dividends (1)                                       |   |                    |       |   |                    |       |
| Net valuation loss included in earnings (2)                      |   |                    |       |   |                    |       |
| Fair value, September 30, 2018                                   |   |                    |       |   |                    |       |

(1) Included in Interest and investment income on the Condensed Consolidated Statements of Earnings

(2) Included in Realized gains and losses, net on the Condensed Consolidated Statements of Earnings

Transfers into or out of the Level 3 fair value category occur when unobservable inputs become more or less significant to the fair value measurement or upon a change in valuation technique. For the nine months

ended September 30, 2018, transfers between Level 2 and Level 3 were based on changes in significance of unobservable inputs used associated with a change in the valuation technique used for certain of the Company's corporate debt securities and are not considered material to the Company's financial position or results of operations. There were no transfers between Level 2 and Level 3 in the three months ended September 30, 2018. The Company's policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

As of December 31, 2017 and September 30, 2017, we held no material assets or liabilities measured at fair value using Level 3 inputs.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

Substantially all of the unrealized gain (loss) on investments and other financial instruments, net (excluding investments in unconsolidated affiliates) on our Condensed Consolidated Statements of Comprehensive Income relate to fixed maturity securities, which are considered Level 2 fair value measures.

The carrying amounts of short-term investments, accounts receivable and notes receivable approximate fair value due to their short-term nature. Additional information regarding the fair value of our investment portfolio is included in Note D. Investments.

## Note D — Investments

The carrying amounts and fair values of our available for sale securities at September 30, 2018 and December 31, 2017 are as follows:

|   | September 30, 2018 |               |                     |                      |               |
|---|--------------------|---------------|---------------------|----------------------|---------------|
|   | Carrying<br>Value  | Cost<br>Basis | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|   | (In millions)      |               |                     |                      |               |
| Fixed maturity securities available for sale: |                    |               |                     |                      |               |
| U.S. government and agencies                  | \$232              | \$235         | \$ —                | \$ (3 )              | \$232         |
| State and political subdivisions              | 185                | 184           | 2                   | (1 )                 | 185           |
| Corporate debt securities                     | 1,329              | 1,336         | 4                   | (11 )                | 1,329         |
| Mortgage-backed/asset-backed securities       | 48                 | 49            | —                   | (1 )                 | 48            |
| Foreign government bonds                      | 62                 | 65            | —                   | (3 )                 | 62            |
| Total   | \$1,856            | \$1,869       | \$ 6                | \$ (19 )             | \$1,856       |
|   | December 31, 2017  |               |                     |                      |               |
|   | Carrying<br>Value  | Cost<br>Basis | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|   | (In millions)      |               |                     |                      |               |
| Fixed maturity securities available for sale: |                    |               |                     |                      |               |
| U.S. government and agencies                  | \$195              | \$196         | \$ —                | \$ (1 )              | \$195         |
| State and political subdivisions              | 391                | 387           | 4                   | —                    | 391           |
| Corporate debt securities                     | 1,117              | 1,110         | 11                  | (4 )                 | 1,117         |
| Mortgage-backed/asset-backed securities       | 56                 | 55            | 1                   | —                    | 56            |
| Foreign government bonds                      | 57                 | 58            | 1                   | (2 )                 | 57            |
| Preferred securities                          | 319                | 307           | 12                  | —                    | 319           |
| Equity securities                             | 681                | 517           | 172                 | (8 )                 | 681           |
| Total   | \$2,816            | \$2,630       | \$ 201              | \$ (15 )             | \$2,816       |

The cost basis of fixed maturity securities available for sale includes an adjustment for amortized premium or accreted discount since the date of purchase.

In conjunction with our adoption of ASU No. 2016-01, beginning January 1, 2018, unrealized gains and losses on equity and preferred securities are included in Realized gains and losses, net on the Condensed Consolidated Statement of Earnings. Accordingly, they are excluded from the table as of September 30, 2018 above. Refer to discussion under Recent Accounting Pronouncements included in Note A. Basis of Financial Statements for further discussion of the effects of the adoption of ASU 2016-01.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

The following table presents certain information regarding contractual maturities of our fixed maturity securities at September 30, 2018:

| Maturity                                | September 30, 2018    |            |            |            |
|---|-----------------------|------------|------------|------------|
|   | Amortized Cost        | % of Total | Fair Value | % of Total |
|   | (Dollars in millions) |            |            |            |
| One year or less                        | \$365                 | 20 %       | \$363      | 20 %       |
| After one year through five years       | 1,259                 | 67         | 1,250      | 67         |
| After five years through ten years      | 175                   | 9          | 175        | 9          |
| After ten years                         | 21                    | 1          | 20         | 1          |
| Mortgage-backed/asset-backed securities | 49                    | 3          | 48         | 3          |
| Total                                   | \$1,869               | 100 %      | \$1,856    | 100 %      |

Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Because of the potential for prepayment on mortgage-backed and asset-backed securities, they are not categorized by contractual maturity.

Net unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017, were as follows (in millions):

September 30, 2018

|   | Less than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government and agencies            | \$156               | \$ (2 )           | \$73                | \$ (1 )           | \$229      | \$ (3 )           |
| State and political subdivisions        | 22                  | (1 )              | —                   | —                 | \$22       | \$ (1 )           |
| Corporate debt securities               | 975                 | (9 )              | 82                  | (2 )              | 1,057      | (11 )             |
| Foreign government bonds                | 33                  | (2 )              | 11                  | (1 )              | 44         | (3 )              |
| Mortgage-backed/asset-backed securities | —                   | —                 | 16                  | (1 )              | 16         | (1 )              |
| Total temporarily impaired securities   | \$1,186             | \$ (14 )          | \$182               | \$ (5 )           | \$1,368    | \$ (19 )          |

December 31, 2017

|                                       | Less than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government and agencies          | \$149               | \$ (1 )           | \$—                 | \$ —              | \$149      | \$ (1 )           |
| Corporate debt securities             | 464                 | (3 )              | 51                  | (1 )              | 515        | (4 )              |
| Foreign government bonds              | —                   | —                 | 10                  | (2 )              | 10         | (2 )              |
| Equity securities                     | 121                 | (7 )              | 5                   | (1 )              | 126        | (8 )              |
| Total temporarily impaired securities | \$734               | \$ (11 )          | \$66                | \$ (4 )           | \$800      | \$ (15 )          |

We recorded no impairment charges relating to investments during the three-month periods ended September 30, 2018 or 2017. We recorded \$3 million and \$1 million of impairment charges relating to investments during the nine-month periods ended September 30, 2018 and 2017, respectively. Impairment in the nine-month periods relate to fixed maturity securities of investees entering Chapter 11 bankruptcy which exhibited decreasing fair market values and from which we are uncertain of our ability to recover our initial investment.

As of September 30, 2018, we held \$2 million of investment securities for which an other-than-temporary impairment had been previously recognized. As of December 31, 2017, we held no investment securities for which an other-than-temporary impairment had been previously recognized. It is possible that future events may lead us to

recognize impairment losses related

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

to our investment portfolio and that unanticipated future events may lead us to dispose of certain investment holdings and recognize the effects of any market movements in our condensed consolidated financial statements.

The following tables present realized gains and losses on investments and other assets and proceeds from the sale or maturity of investments and other assets for the three and nine-month periods ended September 30, 2018 and 2017, respectively:

|  | Three months ended September 30, 2018 |                             |                                   | Nine months ended September 30, 2018 |                             |                                   |
|--|---------------------------------------|-----------------------------|-----------------------------------|--------------------------------------|-----------------------------|-----------------------------------|
|  | Gross Realized Gains                  | Net Realized Gains (Losses) | Gross Proceeds from Sale/Maturity | Gross Realized Gains                 | Net Realized Gains (Losses) | Gross Proceeds from Sale/Maturity |
|  | (In millions)                         |                             |                                   | (In millions)                        |                             |                                   |
| Fixed maturity securities available for sale | \$ —                                  | \$ —                        | \$ 119                            | \$ 4                                 | \$ (3)                      | \$ 662                            |
| Preferred stock                              | —                                     | —                           | 6                                 | 1                                    | 1                           | 52                                |
| Equity securities                            | 2                                     | (2)                         | 89                                | 5                                    | (3)                         | 108                               |
| Valuation gain on equity securities          |                                       | 42                          | —                                 |                                      | 30                          | —                                 |
| Valuation loss on preferred securities       |                                       | —                           | —                                 |                                      | (8)                         | —                                 |
| Property and equipment                       |                                       | —                           | —                                 |                                      | 5                           | 21                                |
| Pacific Union Sale                           |                                       | 10                          | 53                                |                                      | 10                          | 53                                |
| Other realized gains and losses, net         |                                       | —                           | —                                 |                                      | (1)                         | —                                 |
| Total  |                                       | \$ 50                       | \$ 267                            |                                      | \$ 35                       | \$ 896                            |
|  | Three months ended September 30, 2017 |                             |                                   | Nine months ended September 30, 2017 |                             |                                   |
|  | Gross Realized Gains                  | Net Realized Gains (Losses) | Gross Proceeds from Sale/Maturity | Gross Realized Gains                 | Net Realized Gains (Losses) | Gross Proceeds from Sale/Maturity |
|  | (In millions)                         |                             |                                   | (In millions)                        |                             |                                   |
| Fixed maturity securities available for sale | \$ (1)                                | \$ (1)                      | \$ 170                            | \$ 5                                 | \$ (6)                      | \$ 610                            |
| Preferred stock available for sale           | —                                     | —                           | —                                 | —                                    | —                           | 10                                |
| Equity securities available for sale         | 1                                     | 1                           | —                                 | —                                    | —                           | —                                 |
| Other long-term investments                  |                                       | —                           | 5                                 |                                      | 8                           | 19                                |
| Loss on debt redemptions                     |                                       | (1)                         | —                                 |                                      | (6)                         | —                                 |
| Other assets                                 |                                       | —                           | —                                 |                                      | (1)                         | —                                 |
| Total  |                                       | \$ (1)                      | \$ 175                            |                                      | \$ —                        | \$ 639                            |

## Note E — Notes Payable

Notes payable consists of the following:

|  | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
|  | (In millions)      |                   |
| Unsecured notes, net of discount, interest payable semi-annually at 4.50%, due August 2028             | \$ 442             | \$ —              |
| Unsecured notes, net of discount, interest payable semi-annually at 5.50%, due September 2022          | 398                | 397               |
| Unsecured convertible notes, net of discount, interest payable semi-annually at 4.25%, due August 2018 | —                  | 65                |

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|  |        |   |        |
|--|--------|---|--------|
| Revolving Credit Facility, unsecured, unused portion of \$800, due April 2022 with interest payable monthly at LIBOR + 1.40% | (4     | ) | 295    |
| Other  | —      |   | 2      |
|  | \$ 836 |   | \$ 759 |

At September 30, 2018, the estimated fair value of our unsecured notes payable was approximately \$867 million, which was \$17 million higher than its carrying value, excluding \$14 million of net unamortized debt issuance costs and discount. The fair

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

values of our unsecured notes payable are based on established market prices for the securities on September 30, 2018 and are considered Level 2 financial liabilities.

On August 13, 2018, we completed an offering of \$450 million in aggregate principal amount of notes due August 2028 with stated interest of 4.50% per annum (the "4.50% Notes"), pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The 4.50% Notes were priced at 99.252% of par to yield 4.594% annual interest. The proceeds were used to settle the remaining balance of the Notes (defined below), payoff the outstanding borrowings under the Revolving Credit Facility (defined below), and for general corporate purposes. The 4.50% Notes will pay interest semi-annually on the 15th of February and August, beginning February 15, 2019. The 4.50% Notes contain customary covenants and events of default for investment grade public debt, which primarily relate to failure to make principal or interest payments.

On June 25, 2013, FNF entered into an agreement to amend and restate our existing \$800 million Second Amended and Restated Credit Agreement (the "Existing Credit Agreement"), dated as of April 16, 2012 with Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent") and the other agents party thereto (the "Revolving Credit Facility"). On April 27, 2017, the Existing Credit Agreement was amended (the "Restated Credit Agreement"). The material terms of the Revolving Credit Facility are set forth in our Annual Report for the year ended December 31, 2017. As of September 30, 2018, there was no principal outstanding, \$4 million of unamortized debt issuance costs, and \$800 million of remaining borrowing capacity under the Revolving Credit Facility.

On August 28, 2012, FNF completed an offering of \$400 million in aggregate principal amount of 5.50% notes due September 2022 (the "5.50% Notes"), pursuant to an effective registration statement previously filed with the SEC. The material terms of the 5.50% Notes are set forth in our Annual Report for the year ended December 31, 2017.

On August 2, 2011, FNF completed an offering of \$300 million in aggregate principal amount of 4.25% convertible senior notes due August 2018 (the "4.25% Notes") in an offering conducted in accordance with Rule 144A under the Securities Act of 1933, as amended. The material terms of the 4.25% Notes are set forth in our Annual Report for the year ended December 31, 2017. During the nine months ended September 30, 2018, we settled all of our remaining obligations under the 4.25% Notes for an aggregate of \$211 million.

Gross principal maturities of notes payable at September 30, 2018 are as follows (in millions):

|                  |       |
|------------------|-------|
| 2018 (remaining) | \$—   |
| 2019             | —     |
| 2020             | —     |
| 2021             | —     |
| 2022             | 400   |
| Thereafter       | 450   |
|                  | \$850 |

## Note F — Commitments and Contingencies

## Legal and Regulatory Contingencies

In the ordinary course of business, we are involved in various pending and threatened litigation matters related to our operations, some of which include claims for punitive or exemplary damages. With respect to our title insurance operations, this customary litigation includes but is not limited to a wide variety of cases arising out of or related to title and escrow claims, for which we make provisions through our loss reserves. Additionally, like other companies, our ordinary course litigation includes a number of class action and purported class action lawsuits, which make allegations related to aspects of our operations. We believe that no actions, other than the matters discussed below, if any, depart from customary litigation incidental to our business.

We review lawsuits and other legal and regulatory matters (collectively "legal proceedings") on an ongoing basis when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, management bases its decision on its assessment of the ultimate outcome assuming all appeals have been exhausted. For legal proceedings in which it has been determined that a loss is both probable and reasonably estimable, a liability based on known facts and which represents our best estimate has been recorded. Our accrual for legal and regulatory matters



was \$13 million and \$2 million as of September 30, 2018 and December 31, 2017, respectively. None of the amounts we have currently recorded are considered to be material to our financial condition individually or in the aggregate. Actual losses may materially differ from the amounts recorded and the ultimate

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

outcome of our pending legal proceedings is generally not yet determinable. While some of these matters could be material to our operating results or cash flows for any particular period if an unfavorable outcome results, at present we do not believe that the ultimate resolution of currently pending legal proceedings, either individually or in the aggregate, will have a material adverse effect on our financial condition.

In a class action captioned Patterson, et al. v. Fidelity National Title Insurance Company, et al., Case No. GD 03-021176, originally filed on October 27, 2003 and pending in the Court of Common Pleas of Allegheny County, Pennsylvania, plaintiffs allege the named Company underwriters violated Pennsylvania's Unfair Trade Practices and Consumer Protection Law ("UTPCPL") by failing to provide premium discounts in accordance with filed rates in refinancing transactions. Contrary to rulings in similar federal court cases that considered the rate rule and agreed with the Company's position, the court held that the rate rule should be interpreted such that an institutional mortgage in the public record is a "proxy" for prior title insurance entitling a consumer to a discount rate when refinancing when there is a mortgage of record within the number of years required by the rate rule. The rate rule requires sufficient evidence of a prior policy, and because not all institutional mortgages were insured, the Company's position is that a recorded first mortgage alone does not constitute sufficient evidence of an earlier policy entitling consumers to a discounted rate. The court certified the class refusing to follow prior Pennsylvania Supreme Court and appellate court decisions holding that the UTPCPL requires proof of reliance, an individual issue which precludes certification. After notice to the class, plaintiffs moved for partial summary judgment on liability, and defendants moved for summary judgment. On June 27, 2018, the court entered an order granting plaintiffs' motion for partial summary judgment on liability, and denying the Company's motion finding that the Company failed to advise its agents how to interpret the rate rule so that it would be uniformly applied, thereby having engaged in "deceptive conduct." The Company plans to seek interlocutory review of the summary judgment order. The court approved the parties' stipulation in which they agreed that before interlocutory review is appropriate, the court will first determine which party should bear the burden of ascertaining the class and calculating damages, and determine whether the damages should be trebled. Briefing on these issues is ongoing, with oral argument scheduled for December 3, 2018. There has been no determination as to the size of the class. It is unknown whether plaintiffs will seek statutory or actual damages, whether the judge will exercise discretion to award treble damages or award prejudgment interest, or what plaintiffs' counsel will seek as reasonable attorneys' fees. Accordingly, damages are not reasonably estimable at this time. We will continue to vigorously defend this matter, and we do not believe the result will have a material adverse effect on our financial condition.

From time to time we receive inquiries and requests for information from state insurance departments, attorneys general and other regulatory agencies about various matters relating to our business. Sometimes these take the form of civil investigative demands or subpoenas. We cooperate with all such inquiries and we have responded to or are currently responding to inquiries from multiple governmental agencies. Also, regulators and courts have been dealing with issues arising from foreclosures and related processes and documentation. Various governmental entities are studying the title insurance product, market, pricing, and business practices, and potential regulatory and legislative changes, which may materially affect our business and operations. From time to time, we are assessed fines for violations of regulations or other matters or enter into settlements with such authorities which may require us to pay fines or claims or take other actions.

## Operating Leases

Future minimum operating lease payments are as follows (in millions):

|                  |      |
|------------------|------|
| 2018 (remaining) | \$37 |
| 2019             | 139  |
| 2020             | 112  |
| 2021             | 86   |
| 2022             | 61   |
| Thereafter       | 59   |

Total future minimum operating lease payments \$494

Note G — Dividends

On October 24, 2018, our Board of Directors declared cash dividends of \$0.30 per share, payable on December 28, 2018, to FNF common shareholders of record as of December 14, 2018.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

## Note H — Segment Information

Summarized financial information concerning our reportable segments is shown in the following tables.

As of and for the three months ended September 30, 2018:

|   | Title         | Corporate<br>and<br>Other | Total    |
|---|---------------|---------------------------|----------|
|   | (In millions) |                           |          |
| Title premiums  | \$ 1,296      | \$ —                      | \$ 1,296 |
| Other revenues  | 566           | 125                       | 691      |
| Revenues from external customers  | 1,862         | 125                       | 1,987    |
| Interest and investment income, including realized gains and losses   | 86            | 12                        | 98       |
| Total revenues  | 1,948         | 137                       | 2,085    |
| Depreciation and amortization   | 38            | 8                         | 46       |
| Interest expense  | —             | 9                         | 9        |
| Earnings (loss) from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | 309           | (22 )                     | 287      |
| Income tax expense (benefit)  | 68            | (17 )                     | 51       |
| Earnings (loss) from continuing operations, before equity in earnings of unconsolidated affiliates                  | 241           | (5 )                      | 236      |
| Equity in earnings of unconsolidated affiliates   | 1             | —                         | 1        |
| Earnings (loss) from continuing operations  | \$ 242        | \$ (5 )                   | \$ 237   |
| Assets  | \$ 8,591      | \$ 780                    | \$ 9,371 |
| Goodwill  | 2,452         | 267                       | 2,719    |

As of and for the three months ended September 30, 2017:

|   | Title         | Corporate<br>and<br>Other | Total     |
|---|---------------|---------------------------|-----------|
|   | (In millions) |                           |           |
| Title premiums  | \$ 1,277      | \$ —                      | \$ 1,277  |
| Other revenues  | 563           | 115                       | 678       |
| Revenues from external customers  | 1,840         | 115                       | 1,955     |
| Interest and investment income, including realized gains and losses   | 32            | (1 )                      | 31        |
| Total revenues  | 1,872         | 114                       | 1,986     |
| Depreciation and amortization   | 40            | 6                         | 46        |
| Interest expense  | —             | 10                        | 10        |
| Earnings (loss) from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | 262           | (20 )                     | 242       |
| Income tax expense (benefit)  | 98            | (10 )                     | 88        |
| Earnings (loss) from continuing operations, before equity in earnings of unconsolidated affiliates                  | 164           | (10 )                     | 154       |
| Equity in earnings of unconsolidated affiliates   | 3             | —                         | 3         |
| Earnings (loss) from continuing operations  | \$ 167        | \$ (10 )                  | \$ 157    |
| Assets  | \$ 8,510      | \$ 1,991                  | \$ 10,501 |
| Goodwill  | 2,431         | 252                       | 2,683     |

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

As of and for the nine months ended September 30, 2018:

|   | Title         | Corporate<br>and<br>Other | Total   |
|---|---------------|---------------------------|---------|
|   | (In millions) |                           |         |
| Title premiums  | \$3,663       | \$ —                      | \$3,663 |
| Other revenues  | 1,684         | 388                       | 2,072   |
| Revenues from external customers  | 5,347         | 388                       | 5,735   |
| Interest and investment income, including realized gains and losses   | 153           | 13                        | 166     |
| Total revenues  | 5,500         | 401                       | 5,901   |
| Depreciation and amortization   | 116           | 22                        | 138     |
| Interest expense  | —             | 31                        | 31      |
| Earnings (loss) from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | 773           | (84 )                     | 689     |
| Income tax expense (benefit)  | 137           | (33 )                     | 104     |
| Earnings (loss) from continuing operations, before equity in earnings of unconsolidated affiliates                  | 636           | (51 )                     | 585     |
| Equity in earnings of unconsolidated affiliates   | 3             | 1                         | 4       |
| Earnings (loss) from continuing operations  | \$639         | \$ (50 )                  | \$589   |
| Assets  | \$8,591       | \$ 780                    | \$9,371 |
| Goodwill  | 2,452         | 267                       | 2,719   |

As of and for the nine months ended September 30, 2017:

|   | Title         | Corporate<br>and Other | Total    |
|---|---------------|------------------------|----------|
|   | (In millions) |                        |          |
| Title premiums  | \$3,626       | \$ —                   | \$3,626  |
| Other revenues  | 1,634         | 335                    | 1,969    |
| Revenues from external customers  | 5,260         | 335                    | 5,595    |
| Interest and investment income, including realized gains and losses   | 99            | (6 )                   | 93       |
| Total revenues  | 5,359         | 329                    | 5,688    |
| Depreciation and amortization   | 117           | 16                     | 133      |
| Interest expense  | —             | 39                     | 39       |
| Earnings (loss) from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | 707           | (63 )                  | 644      |
| Income tax expense (benefit)  | 290           | (32 )                  | 258      |
| Earnings (loss) from continuing operations, before equity in earnings of unconsolidated affiliates                  | 417           | (31 )                  | 386      |
| Equity in earnings of unconsolidated affiliates   | 7             | —                      | 7        |
| Earnings (loss) from continuing operations  | \$424         | \$ (31 )               | \$393    |
| Assets  | \$8,510       | \$ 1,991               | \$10,501 |
| Goodwill  | 2,431         | 252                    | 2,683    |

The activities in our segments include the following:

- Title. This segment consists of the operations of our title insurance underwriters and related businesses. This segment provides core title insurance and escrow and other title-related services including trust activities, trustee sales guarantees, and home warranty products. This segment also includes our transaction services business, which includes other title-related services used in the production and management of mortgage loans,

including mortgage loans that experience default.

Corporate and Other. This segment consists of the operations of the parent holding company, our real estate technology subsidiaries and our remaining real estate brokerage businesses. This segment includes the result of operations of Pacific Union through the date of the Pacific Union Sale. This segment also includes certain other unallocated corporate overhead expenses and eliminations of revenues and expenses between it and our Title segment, as well as the assets of discontinued operations of FNFV as of September 30, 2017.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

## Note I — Supplemental Cash Flow Information

The following supplemental cash flow information is provided with respect to certain cash payment and non-cash investing and financing activities.

|  | Nine<br>months<br>ended<br>September<br>30,<br>2018 2017 |       |
|--|--|-------|
| Cash paid for:   |  |       |
| Interest   | \$33   | \$99  |
| Income taxes   | 127  | 287   |
| Non-cash investing and financing activities:                                       |  |       |
| Investing activities:  |  |       |
| Change in proceeds of sales of investments available for sale receivable in period | \$1  | \$2   |
| Change in purchases of investments available for sale payable in period            | (5 )   | (10 ) |
| Receivable for non-cash earnout proceeds for the Pacific Union Sale                | 10   | —     |
| Financing activities:  |  |       |
| Change in accrual for unsettled debt service payments related to the Notes         | \$(4 )   | \$—   |
| Change in accrual for the equity portion of unsettled repurchases of the Notes     | (7 )   | —     |
| Debt extinguished through the sale of OneDigital                                   | —  | 151   |

## Note J — Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606 by applying the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

The adoption of ASC Topic 606 did not have an impact on the recognition of our primary sources of revenue, direct and agency title premiums, as those revenue streams are subject to the accounting and reporting requirements under ASC Topic 944. Timing of recognition of substantially all of our remaining revenue was also not impacted and we therefore did not record any cumulative effect adjustment to opening equity.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

## Disaggregation of Revenue

Our revenue consists of:

| Revenue Stream  | Income Statement Classification                                     | Segment             | Three months ended             |                    | Nine months ended  |                    |
|---|---|---------------------|--------------------------------|--------------------|--------------------|--------------------|
|   |   |                     | September 30, 2018             | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Revenue from insurance contracts:   |   |                     | Total Revenue<br>(in millions) |                    |                    |                    |
| Title insurance premiums  | Direct title insurance premiums;<br>Agency title insurance premiums | Title               | \$ 1,296                       | \$ 1,277           | \$ 3,663           | \$ 3,626           |
| Home warranty   | Escrow, title-related and other fees                                | Title               | 46                             | 47                 | 137                | 131                |
| Total revenue from insurance contracts                                    |   |                     | 1,342                          | 1,324              | 3,800              | 3,757              |
| Revenue from contracts with customers:                                    |   |                     |                                |                    |                    |                    |
| Escrow fees   | Escrow, title-related and other fees                                | Title               | 219                            | 216                | 637                | 610                |
| Other title-related fees and income                                       | Escrow, title-related and other fees                                | Title               | 154                            | 155                | 459                | 456                |
| Real estate brokerage   | Escrow, title-related and other fees                                | Corporate and other | 95                             | 99                 | 305                | 287                |
| ServiceLink, excluding title premiums, escrow fees, and subservicing fees | Escrow, title-related and other fees                                | Title               | 95                             | 99                 | 293                | 313                |
| Real estate technology  | Escrow, title-related and other fees                                | Corporate and other | 25                             | 18                 | 77                 | 49                 |
| Other   | Escrow, title-related and other fees                                | Corporate and other | 3                              | —                  | 4                  | —                  |
| Total revenue from contracts with customers                               |   |                     | 591                            | 587                | 1,775              | 1,715              |
| Other revenue:  |   |                     |                                |                    |                    |                    |
| Loan subservicing revenue   | Escrow, title-related and other fees                                | Title               | 54                             | 44                 | 160                | 123                |
| Interest and investment income  | Interest and investment income                                      | Various             | 48                             | 32                 | 131                | 93                 |
| Realized gains and losses, net  | Realized gains and losses, net                                      | Various             | 50                             | (1)                | 35                 | —                  |
| Total revenues  | Total revenues  |                     | 2,085                          | 1,986              | 5,901              | 5,688              |

Our Direct title insurance premiums are recognized as revenue at the time of closing of the underlying transaction as the earnings process is then considered complete. Regulation of title insurance rates varies by state. Premiums are charged to customers based on rates predetermined in coordination with each states' respective Department of Insurance. Cash associated with such revenue is typically collected at closing of the underlying real estate transaction. Premium revenues from agency title operations are recognized when the underlying title order and transaction closing, if applicable, are complete.

Revenues from our home warranty business are generated from contracts with customers to provide warranty for major home appliances. Substantially all of our home warranty contracts are one year in length and revenue is



recognized ratably over the term of the contract.

Escrow fees and Other title-related fees and income in our Title segment are closely related to Direct title insurance premiums and are primarily associated with managing the closing of real estate transactions including the processing of funds on behalf of the transaction participants, gathering and recording the required closing documents, providing notary and home inspection services, and other real estate or title-related activities. Revenue is primarily recognized upon closing of the underlying real estate transaction or completion of services. Cash associated with such revenue is typically collected at closing.

Revenues from ServiceLink, excluding its title premiums, escrow fees, and loan subservicing fees primarily include revenues from real estate appraisal services and foreclosure processing and facilitation services. Revenues from real estate appraisal services are recognized when all appraisal work is complete, a final report is issued to the client and the client is billed. Revenues from foreclosure processing and facilitation services are primarily recognized upon completion of the services and when billing to the client is complete.

Real estate brokerage revenues are primarily comprised of commission revenues earned in association with the facilitation of real estate transactions and are recognized upon closing of the sale of the underlying real estate transaction.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

Real estate technology revenues are primarily comprised of subscription fees for use of software provided to real estate professionals. Subscriptions are only offered on a month-by-month basis and fees are billed monthly. Revenue is recognized in the month services are provided.

Loan subservicing revenues are generated by certain subsidiaries of ServiceLink and are associated with the servicing of mortgage loans on behalf of its customers. Revenue is recognized when the underlying work is performed and billed. Loan subservicing revenues are subject to the recognition requirements of ASC Topic 860.

Interest and investment income consists primarily of interest payments received on fixed maturity security holdings and dividends received on equity and preferred security holdings.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, primarily related to revenue from our home warranty business, and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

**Contract Balances**

The following table provides information about trade receivables and deferred revenue:

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
|   | (In millions)         |                      |
| Trade receivables                       | \$ 292                | \$ 292               |
| Deferred revenue (contract liabilities) | 112                   | 107                  |

Deferred revenue is recorded primarily for our home warranty contracts. Revenues from home warranty products are recognized over the life of the policy, which is primarily one year. The unrecognized portion is recorded as deferred revenue in accounts payable and other accrued liabilities in the Condensed Consolidated Balance Sheets. During the three months ended September 30, 2018, we recognized \$43 million of revenue which was included in deferred revenue at the beginning of the period.

**Note K — Discontinued Operations****Black Knight**

As a result of the BK Distribution, we have reclassified the financial results of Black Knight to discontinued operations in our Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2017. We retained no ownership in Black Knight. Subsequent to the BK Distribution, Black Knight is considered a related party to FNF.

We have various agreements with Black Knight to provide technology, data and analytics services, as well as corporate shared services and information technology. We are also a party to certain other agreements under which we incur other expenses or receive revenues from Black Knight. We expect to continue utilizing Black Knight to provide technology and data and analytics services for the foreseeable future. The cash inflows and outflows from and to Black Knight as well as revenues and expenses included in continuing operations in the nine months ended September 30, 2018 which were previously eliminated in our condensed consolidated financial statements as intra-entity transactions are not material to our results of operations.

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

A summary of the operations of Black Knight included in discontinued operations is shown below (in millions):

|  | Three<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) | Nine<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) |
|--|---|--|
| Revenues:  |   |  |
| Escrow, title-related and other fees   | \$250   | \$ 745   |
| Realized gains and losses, net   | 6   | (13 )  |
| Total revenues   | 256   | 732  |
| Expenses:  |   |  |
| Personnel costs  | 94  | 292  |
| Other operating expenses   | 49  | 145  |
| Depreciation and amortization  | 51  | 154  |
| Interest expense   | 14  | 42   |
| Total expenses   | 208   | 633  |
| Earnings from discontinued operations before income taxes                          | 48  | 99   |
| Income tax expense   | 17  | 40   |
| Net earnings from discontinued operations  | 31  | 59   |
| Less: Net earnings attributable to non-controlling interests                       | 17  | 36   |
| Net earnings attributable to Fidelity National Financial, Inc. common shareholders | \$ 14   | \$ 23  |
| Cash flow from discontinued operations data:                                       |   |  |
| Net cash provided by operations  | \$116   | \$ 240   |
| Net cash used in investing activities  | (16 )   | (46 )  |
| FNFV   |   |  |

As a result of the FNFV Split-Off we have reclassified the financial results of FNFV Group to discontinued operations for the three and nine months ended September 30, 2017 in our Condensed Consolidated Statements of Earnings. Subsequent to the FNFV Split-Off, Cannae is considered a related party to FNF. The cash inflows and outflows from and to Cannae as well as revenues and expenses included in continuing operations in the nine months ended September 30, 2017 which were previously eliminated in our condensed consolidated financial statements as intra-entity transactions, are not material to our results of operations.

In conjunction with the FNFV Split-Off, FNTIC, Chicago Title, and Commonwealth Title contributed an aggregate of \$100 million to Cannae in exchange for 5,706,134 shares of Cannae common stock. As of September 30, 2018, we own approximately 7.9% of Cannae's outstanding common equity. In addition, we issued to Cannae a revolver note (the "Cannae Revolver") in the aggregate principal amount of up to \$100 million, which accrues interest at LIBOR plus 450 basis points and matures on the five-year anniversary of the date of the Cannae Revolver. The maturity date is automatically extended for additional five-year terms unless notice of non-renewal is otherwise provided by either FNF or Cannae, in their sole discretion. As of September 30, 2018, there is no outstanding balance under the Cannae Revolver.

In connection with the FNFV Split-Off, the following material agreements were entered into by and between the Company and Cannae (the "Split-Off Agreements"):

- a Reorganization Agreement, dated as of November 17, 2017, by and between the Company and Cannae, which provides for, among other things, the principal corporate transactions required to effect the Split-Off, certain conditions to the Split-Off and provisions governing the relationship between the Company and Cannae with respect to and resulting from the Split-Off;

- a Tax Matters Agreement, dated as of November 17, 2017, by and between the Company and Cannae, which governs the Company's and Cannae's respective rights, responsibilities and obligations with respect to taxes and tax benefits, the filing of tax returns, the control of audits and other tax matters; and
- a Voting Agreement, dated as of November 17, 2017, by and between the Company and Cannae, pursuant to which the Company agrees to appear or cause all shares of Cannae common stock that the Company or its subsidiaries, as applicable, own after the Split-Off to be counted as present at any meeting of the stockholders of Cannae for the purpose of establishing a quorum, and agrees to vote all of such shares of Cannae common stock (or cause them to be voted) in

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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

the same manner as, and in the same proportion to, all shares voted by holders of Cannae common stock (other than the Company and its subsidiaries).

A summary of the operations of FNFV included in discontinued operations is shown below (in millions):

|   | Three<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) | Nine<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) |
|---|---|--|
| Revenues:   |   |  |
| Escrow, title-related and other fees  | \$11  | \$ 102   |
| Restaurant revenue  | 269   | 830  |
| Interest and investment income  | 2   | 4  |
| Realized gains and losses, net  | (3  | ) 277  |
| Total revenues  | 279   | 1,213  |
| Expenses:   |   |  |
| Personnel costs   | 19  | 136  |
| Other operating expenses  | 25  | 80   |
| Cost of restaurant revenue  | 243   | 728  |
| Depreciation and amortization   | 12  | 44   |
| Interest expense  | 1   | 8  |
| Total expenses  | 300   | 996  |
| (Loss) earnings from discontinued operations before income taxes                                | (21   | ) 217  |
| Income tax (benefit) expense  | (14   | ) 97   |
| (Loss) earnings from continuing operations before equity in losses of unconsolidated affiliates | (7  | ) 120  |
| Equity in losses of unconsolidated affiliates   | (6  | ) (14  |
| Net (loss) earnings from discontinued operations  | (13   | ) 106  |
| Less: Net loss attributable to non-controlling interests  | (8  | ) (11  |
| Net (loss) earnings attributable to Fidelity National Financial, Inc. common shareholders       | \$(5  | ) \$ 117   |
| Cash flow from discontinued operations data:  |   |  |
| Net cash used in operations   | \$(27)  | \$ (125  |
| Net cash provided by investing activities   | 11  | 109  |

## Reconciliation to Condensed Consolidated Financial Statements

A reconciliation of the net earnings of Black Knight and FNFV to the Condensed Consolidated Statements of Earnings is shown below:

|  | Three<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) | Nine<br>months<br>ended<br>September<br>30,<br>2017<br>(Unaudited) |
|--|---|--|
| Earnings from discontinued operations attributable to Black Knight | \$31  | \$ 59  |
| (Loss) earnings from discontinued operations attributable to FNFV  | (13   | ) 106  |
| Net earnings from discontinued operations, net of tax              | \$18  | \$ 165   |



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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

## Note L. Goodwill

Goodwill consists of the following:

|  | Title         | Corporate<br>and Other | Total   |
|--|---------------|------------------------|---------|
|  | (In millions) |                        |         |
| Balance, December 31, 2017             | \$2,432       | \$ 314                 | \$2,746 |
| Goodwill acquired during the year      | 8             | 1                      | 9       |
| Adjustments to prior year acquisitions | 12            | 4                      | 16      |
| Pacific Union Sale (1)                 | —             | (52 )                  | (52 )   |
| Balance, September 30, 2018            | \$2,452       | \$ 267                 | \$2,719 |

(1) See Note A for further discussion of the Pacific Union Sale.

## Note M — Acquisitions

## Title Guaranty of Hawaii

On August 31, 2017, we completed our acquisition of 90% of the membership interest of Title Guaranty of Hawaii ("Title Guaranty") for \$98 million. Title Guaranty was previously an unaffiliated agent and will continue to be closely aligned with Chicago Title as part of the FNF title company family.

We paid total consideration, net of cash received, of \$93 million in exchange for 90% of the equity interests of Title Guaranty. The total cash consideration paid was as follows (in millions):

|                              |      |
|------------------------------|------|
| Cash paid                    | \$98 |
| Less: Cash Acquired          | (5 ) |
| Total net consideration paid | \$93 |

The purchase price has been allocated to Title Guaranty's assets acquired and liabilities assumed based on our best estimates of their fair values as of the acquisition date. Goodwill has been recorded based on the amount that the purchase price exceeds the fair value of the net assets acquired. The goodwill recorded is expected to be deductible for tax purposes.

The following table summarizes the total purchase price consideration and the fair value amounts recognized for the assets acquired and liabilities assumed as of the acquisition date (dollars in millions):

|  |               |
|--|---------------|
|  | Fair<br>Value |
| Accounts receivable                      | \$ 1          |
| Property and equipment                   | 4             |
| Other intangible assets                  | 49            |
| Goodwill                                 | 41            |
| Title plant                              | 11            |
| Prepaid expenses and other               | 2             |
| Total assets acquired                    | 108           |
| Accounts payable and accrued liabilities | 5             |
| Total liabilities assumed                | 5             |
| Non-controlling interests assumed        | 10            |
| Total liabilities and equity assumed     | 15            |
| Net assets acquired                      | \$ 93         |





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## FIDELITY NATIONAL FINANCIAL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — continued

The gross carrying value and weighted average estimated useful lives of Property and equipment and Other intangible assets acquired in the Title Guaranty acquisition consist of the following (dollars in millions):

|                               | Gross<br>Carrying<br>Value | Weighted Average<br>Estimated Useful Life<br>(in years) |
|-------------------------------|----------------------------|---|
| Property and equipment        | \$ 4                       | 5   |
| Other intangible assets:      |                            |   |
| Customer relationships        | 43                         | 10  |
| Tradename                     | 5                          | 10  |
| Software                      | 1                          | 2   |
| Total Other intangible assets | 49                         |   |
| Total                         | \$ 53                      |   |

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results could vary materially from those forward-looking statements contained herein due to many factors, including, but not limited to: changes in general economic, business and political conditions, including changes in the financial markets; continued weakness or adverse changes in the level of real estate activity, which may be caused by, among other things, high or increasing interest rates, a limited supply of mortgage funding or a weak U.S. economy; our potential inability to find suitable acquisition candidates, acquisitions in lines of business that will not necessarily be limited to our traditional areas of focus, or difficulties in integrating acquisitions; our dependence on distributions from our title insurance underwriters as our main source of cash flow; significant competition that our operating subsidiaries face; compliance with extensive government regulation of our operating subsidiaries; the risk that the necessary regulatory approvals for the Stewart Merger may not be obtained or may be obtained subject to conditions that are not anticipated; risks that any of the closing conditions to the proposed Stewart Merger may not be satisfied in a timely manner; the risk that our and Stewart's businesses will not be integrated successfully, that such integration may be more difficult, time-consuming or more costly than expected or that the expected benefits of the Stewart Merger will not be realized; and other risks detailed in the "Statement Regarding Forward-Looking Information," "Risk Factors" and other sections of our Annual Report on Form 10-K (our "Annual Report") for the year ended December 31, 2017 and other filings with the SEC.

The following discussion should be read in conjunction with our Annual Report for the year ended December 31, 2017.

## Overview

For a description of our business, including descriptions of segments and recent business developments, see the discussion under Basis of Financial Statements in Note A to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Report, which is incorporated by reference into this Part I, Item 2.

## Business Trends and Conditions

## Title

Our Title segment revenue is closely related to the level of real estate activity which includes sales, mortgage financing and mortgage refinancing. Declines in the level of real estate activity or the average price of real estate sales will adversely affect our title insurance revenues.

We have found that residential real estate activity is generally dependent on the following factors:

- mortgage interest rates;
- mortgage funding supply;
- housing inventory and home prices; and
- the strength of the United States economy, including employment levels.

As of October 16, 2018, the Mortgage Bankers Association ("MBA") estimated (actual for fiscal year 2017) the size of the U.S. mortgage originations market as shown in the following table for 2017 - 2021 in its "Mortgage Finance Forecast" (in trillions):

|   | 2021   | 2020   | 2019   | 2018   | 2017   |
|---|--------|--------|--------|--------|--------|
| Purchase transactions                     | \$ 1.3 | \$ 1.3 | \$ 1.2 | \$ 1.2 | \$ 1.1 |
| Refinance transactions                    | 0.4    | 0.4    | 0.4    | 0.4    | 0.6    |
| Total U.S. mortgage originations forecast | \$ 1.7 | \$ 1.7 | \$ 1.6 | \$ 1.6 | \$ 1.7 |

In 2017, total originations were reflective of a generally improving residential real estate market driven by increasing home prices and historically low mortgage interest rates. Mortgage interest rates increased slightly in 2017 from 2016, but remained low compared to historical rates. Through the nine months ended September 30, 2018, average interest rates on 30 year fixed-rate mortgages have risen approximately 15% according to rates published by mortgage buyer

FreddieMac. Refinance transactions decreased in 2017 and through the nine months ended September 30, 2018 from the historically high levels experienced in preceding years. Existing home sales increased through 2017 and began leveling out and decreasing through the nine months ended September 30, 2018. Over the same time period, there has been a consistent decline in total housing inventory and increase in average home prices. The combination of reduced housing inventory, increasing mortgage interest rates and increasing home prices has led the MBA to lower mortgage origination forecasts in recent months.

In the remainder of 2018 and beyond, increasing mortgage interest rates driven by gradual increases in the target federal funds rate are expected to adversely impact mortgage originations. In a rising interest rate environment, refinance transactions are expected

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to continue to decline. The MBA predicts overall mortgage originations in 2018 through 2020 will remain relatively flat compared to the 2017 period driven by a decrease in refinance transactions, offset by a gradual increase in purchase transactions. Purchase transactions involve the issuance of both a lender's policy and an owner's policy, resulting in higher title premiums, whereas refinance transactions only require a lender's policy, resulting in lower title premiums.

While projected increases in mortgage interest rates present a potential headwind for mortgage originations, other economic indicators used to measure the health of the United States economy, including the unemployment rate and consumer confidence, have improved in recent years. According to the United States Department of Labor's Bureau of Labor, the unemployment rate has dropped from 7.4% in 2013 to a historically low 3.7% in September 2018.

Additionally, the Conference Board's monthly Consumer Confidence Index has remained at historically high levels through 2018. We believe continued strong readings in both of these economic indicators, among other indicators that support a generally strong United States economy, present potential tailwinds for mortgage originations.

We cannot be certain how the positive effects of a change in mix of purchase to refinance transactions and of a generally strong United States economy and the negative effects of stagnant levels of mortgage originations and increases in interest rates will impact our future results of operations. We continually monitor mortgage origination trends and believe that, based on our ability to produce industry leading operating margins through all economic cycles, we are well positioned to adjust our operations for adverse changes in real estate activity.

Because commercial real estate transactions tend to be generally driven by supply and demand for commercial space and occupancy rates in a particular area rather than by interest rate fluctuations, we believe that our commercial real estate title insurance business is less dependent on the industry cycles discussed above than our residential real estate title business. Commercial real estate transaction volume is also often linked to the availability of financing. Over the last few years, we have continued to experience strong demand in commercial real estate markets. In 2015 through 2017, the volume and fee-per-file of our commercial transactions were at historical highs. Through the nine months ended September 30, 2018, we have continued to see strong demand for commercial transactions.

Seasonality. Historically, real estate transactions have produced seasonal revenue fluctuations in the real estate industry. The first calendar quarter is typically the weakest quarter in terms of revenue due to the generally low volume of home sales during January and February. The second and third calendar quarters are typically the strongest quarters in terms of revenue, primarily due to a higher volume of residential transactions in the spring and summer months. The fourth quarter is typically also strong due to the desire of commercial entities to complete transactions by year-end. We have noted short-term fluctuations through recent years in resale and refinance transactions as a result of changes in interest rates.

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## Results of Operations

## Consolidated Results of Operations

Net Earnings. The following table presents certain financial data for the periods indicated:

|   | Three<br>months<br>ended<br>September<br>30,<br>2018 |       | Nine<br>months<br>ended<br>September<br>30,<br>2017 |       |
|---|--|-------|---|-------|
|   | 2018   | 2017  | 2018  | 2017  |
|   | (In millions)  |       |   |       |
| Revenues:   |  |       |   |       |
| Direct title insurance premiums   | \$574  | \$558 | 1,645   | 1,598 |
| Agency title insurance premiums   | 722  | 719   | 2,018   | 2,028 |
| Escrow, title-related and other fees  | 691  | 678   | 2,072   | 1,969 |
| Interest and investment income  | 48   | 32    | 131   | 93    |
| Realized gains and losses, net  | 50   | (1)   | 35  | —     |
| Total revenues  | 2,085  | 1,986 | 5,901   | 5,688 |
| Expenses:   |  |       |   |       |
| Personnel costs   | 654  | 627   | 1,926   | 1,822 |
| Agent commissions   | 554  | 553   | 1,546   | 1,557 |
| Other operating expenses  | 477  | 444   | 1,406   | 1,312 |
| Depreciation and amortization   | 46   | 46    | 138   | 133   |
| Provision for title claim losses  | 58   | 64    | 165   | 181   |
| Interest expense  | 9  | 10    | 31  | 39    |
| Total expenses  | 1,798  | 1,744 | 5,212   | 5,044 |
| Earnings from continuing operations before income taxes and equity in earnings of unconsolidated affiliates | 287  | 242   | 689   | 644   |
| Income tax expense  | 51   | 88    | 104   | 258   |
| Equity in earnings of unconsolidated affiliates   | 1  | 3     | 4   | 7     |
| Net earnings from continuing operations   | \$237  | \$157 | \$589   | \$393 |

## Revenues.

Total revenues increased by \$99 million in the three months ended September 30, 2018 and increased by \$213 million in the nine months ended September 30, 2018, compared to the corresponding periods in 2017.

Net earnings from continuing operations increased by \$80 million in the three months ended September 30, 2018 and increased by \$196 million in the nine months ended September 30, 2018, compared to the corresponding periods in 2017.

The change in revenue and net earnings from our reportable segments is discussed in further detail at the segment level below.

## Expenses.

Our operating expenses consist primarily of Personnel costs; Other operating expenses, which in our title business are incurred as orders are received and processed; and Agent commissions, which are incurred as title agency revenue is recognized. Title insurance premiums, escrow and title-related fees are generally recognized as income at the time the underlying transaction closes or other service is provided. Direct title operations revenue often lags approximately 45-60 days behind expenses and therefore gross margins may fluctuate. The changes in the market environment, mix of business between direct and agency operations and the contributions from our various business units have historically impacted margins and net earnings. We have implemented programs and have taken necessary actions to maintain expense levels consistent with revenue streams. However, a short-term lag exists in reducing controllable fixed costs and certain fixed costs are incurred regardless of revenue levels.

Personnel costs include base salaries, commissions, benefits, stock-based compensation and bonuses paid to employees, and are one of our most significant operating expenses.

Agent commissions represent the portion of premiums retained by our third-party agents pursuant to the terms of their respective agency contracts.

Other operating expenses consist primarily of facilities expenses, title plant maintenance, premium taxes (which insurance underwriters are required to pay on title premiums in lieu of franchise and other state taxes), appraisal fees and other cost of sales

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on ServiceLink product offerings and other title-related products, postage and courier services, computer services, professional services, travel expenses, general insurance, and bad debt expense on our trade and notes receivable. The Provision for title claim losses includes an estimate of anticipated title and title-related claims, and escrow losses. The change in expenses attributable to our reportable segments is discussed in further detail at the segment level below.

Income tax expense was \$51 million and \$88 million in the three-month periods ended September 30, 2018 and 2017, respectively, and \$104 million and \$258 million in the nine-month periods ended September 30, 2018 and 2017, respectively. Income tax expense as a percentage of earnings before income taxes was 17.8% and 36.4% for the three-month periods ended September 30, 2018 and 2017, respectively, and 15.1% and 40.1% for the nine-month periods ended September 30, 2018 and 2017, respectively. Income tax expense as a percentage of earnings before income taxes fluctuates depending on our estimate of ultimate income tax liability and changes in the characteristics of net earnings, such as the weighting of operating income versus investment income. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act"). Among other provisions, the Tax Reform Act reduced the Federal statutory corporate income tax rate from 35% to 21% and limited or eliminated certain deductions. The decrease in the effective tax rate in the 2018 periods from the comparative 2017 periods is primarily attributable to the decreased federal tax rate associated with the passage of the Tax Reform Act. The decrease in the three month period is also attributable to an \$8 million reversal of certain tax contingencies in the period and for certain return-to-provision adjustments. The decrease in the nine month period was also attributable to a \$45 million change in tax estimate in the three-month period ended June 30, 2018 regarding the timing of payments for, and tax rate applicable to, our tax liability resulting from the decrease in our statutory premium reserves associated with the redomestication of certain of our title insurance underwriters in 2017 and increased tax expense of \$21 million in the 2017 period resulting from a change in judgment of the tax deductibility of legal settlements finalized in the period.

Equity in earnings of unconsolidated affiliates was \$1 million and \$3 million for the three-month periods ended September 30, 2018 and 2017, respectively, and \$4 million and \$7 million for the nine-month periods ended September 30, 2018 and 2017, respectively. The equity in earnings in 2018 and 2017 are attributable to various individually immaterial unconsolidated affiliates.

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## Title

The following table presents the results from operations of our Title segment:

|  | Three months ended |         | Nine months ended |         |
|--|--------------------|---------|-------------------|---------|
|  | September 30,      |         | September 30,     |         |
|  | 2018               | 2017    | 2018              | 2017    |
|  | (In millions)      |         |                   |         |
| Revenues:  |                    |         |                   |         |
| Direct title insurance premiums  | \$574              | \$558   | \$1,645           | \$1,598 |
| Agency title insurance premiums  | 722                | 719     | 2,018             | 2,028   |
| Escrow, title-related and other fees   | 566                | 563     | 1,684             | 1,634   |
| Interest and investment income   | 46                 | 32      | 128               | 93      |
| Realized gains and losses, net   | 40                 | —       | 25                | 6       |
| Total revenues   | 1,948              | 1,872   | 5,500             | 5,359   |
| Expenses:  |                    |         |                   |         |
| Personnel costs  | 624                | 605     | 1,838             | 1,755   |
| Agent commissions  | 554                | 553     | 1,546             | 1,557   |
| Other operating expenses   | 365                | 348     | 1,062             | 1,042   |
| Depreciation and amortization  | 38                 | 40      | 116               | 117     |
| Provision for title claim losses   | 58                 | 64      | 165               | 181     |
| Total expenses   | 1,639              | 1,610   | 4,727             | 4,652   |
| Earnings from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | \$309              | \$262   | \$773             | \$707   |
| Orders opened by direct title operations (in thousands)  | 456                | 501     | 1,439             | 1,497   |
| Orders closed by direct title operations (in thousands)  | 339                | 367     | 1,014             | 1,071   |
| Fee per file   | \$2,623            | \$2,368 | \$2,521           | \$2,320 |

Total revenues for the Title segment increased by \$76 million, or 4%, in the three months ended September 30, 2018 and increased by \$141 million, or 3%, in the nine months ended September 30, 2018, from the corresponding periods in 2017.

The following table presents the percentages of title insurance premiums generated by our direct and agency operations:

|                                       | Three months ended    |       |         | Nine months ended |         |       |         |       |
|---------------------------------------|-----------------------|-------|---------|-------------------|---------|-------|---------|-------|
|                                       | September 30,         |       |         | September 30,     |         |       |         |       |
|                                       | % of                  |       | % of    | % of              |         | % of  |         |       |
|                                       | 2018                  | Total | 2017    | Total             | 2018    | Total | 2017    |       |
|                                       | (Dollars in millions) |       |         |                   |         |       |         |       |
| Title premiums from direct operations | \$574                 | 44 %  | \$558   | 44 %              | \$1,645 | 45 %  | \$1,598 | 44 %  |
| Title premiums from agency operations | 722                   | 56    | 719     | 56                | 2,018   | 55    | 2,028   | 56    |
| Total title premiums                  | \$1,296               | 100 % | \$1,277 | 100 %             | \$3,663 | 100 % | \$3,626 | 100 % |

Title premiums increased by 1% in the three months ended September 30, 2018 as compared to the corresponding period in 2017. The increase is comprised of an increase in Title premiums from direct operations of \$16 million, or 3%, and an increase in Title premiums from agency operations of \$3 million, or less than 1%, in the three months ended September 30, 2018.

Title premiums increased by 1% in the nine months ended September 30, 2018 as compared to the corresponding period in 2017. The increase is comprised of an increase in Title premiums from direct operations of \$47 million, or 3%, partially offset by a decrease in Title premiums from agency operations of \$10 million, or less than 1%, in the



nine months ended September 30, 2018.

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The following table presents the percentages of opened and closed title insurance orders generated by purchase and refinance transactions by our direct operations:

|   | Three months ended |        | Nine months ended  |        |
|---|--------------------|--------|--------------------|--------|
|   | September 30, 2018 |        | September 30, 2017 |        |
| Opened title insurance orders from purchase transactions (1)  | 69.5 %             | 62.1 % | 68.8 %             | 64.0 % |
| Opened title insurance orders from refinance transactions (1) | 30.5               | 37.9   | 31.2               | 36.0   |
|   | 100.0%             | 100.0% | 100.0%             | 100.0% |
| Closed title insurance orders from purchase transactions (1)  | 70.7 %             | 64.7 % | 68.1 %             | 63.5 % |
| Closed title insurance orders from refinance transactions (1) | 29.3               | 35.3   | 31.9               | 36.5   |
|   | 100.0%             | 100.0% | 100.0%             | 100.0% |

(1) Percentages exclude consideration of an immaterial number of non-purchase and non-refinance orders.

Title premiums from direct operations increased in the three and nine months ended September 30, 2018 as compared to the corresponding period in 2017. The increase is primarily attributable to an increase in the fee per file driven by a favorable change in the mix of closed orders from purchase and refinance transactions, partially offset by a decrease in overall closed order volume. We experienced flat closed title insurance order volumes from purchase transactions and a decrease in closed title insurance order volumes from refinance transactions in the three and nine months ended September 30, 2018 as compared to the corresponding periods in 2017. Total closed order volumes were 339,000 in the three months ended September 30, 2018 compared with 367,000 in the three months ended September 30, 2017 and 1,014,000 in the nine months ended September 30, 2018 compared with 1,071,000 in the nine months ended September 30, 2017. This represented an overall decrease of 8% and 5%, respectively. Opened title order volumes trended directionally consistent with closed order volumes.

The average fee per file in our direct operations was \$2,623 and \$2,521 in the three and nine months ended September 30, 2018, respectively, compared to \$2,368 and \$2,320 in the three and nine months ended September 30, 2017, respectively. The increase in average fee per file reflects the favorable change in mix of closed orders from purchase and refinance transactions. The fee per file tends to change as the mix of refinance and purchase transactions changes, because purchase transactions involve the issuance of both a lender's policy and an owner's policy, resulting in higher fees, whereas refinance transactions only require a lender's policy, resulting in lower fees.

Title premiums from agency operations increased \$3 million, or less than 1%, in the three months ended September 30, 2018 and decreased \$10 million, or less than 1%, in the nine months ended September 30, 2018 as compared to the corresponding period in 2017.

Escrow, title-related and other fees increased by \$3 million, or 1%, in the three months ended September 30, 2018 and increased by \$50 million, or 3%, in the nine months ended September 30, 2018 from the corresponding periods in 2017. Escrow fees, which are more closely related to our direct operations, increased by \$1 million, or less than 1%, in the three months ended September 30, 2018 and increased by \$25 million, or 4%, in the nine months ended September 30, 2018 compared to the corresponding periods in 2017. The increase is consistent with the trend in title premiums from direct operations. Other fees in the Title segment, excluding escrow fees, increased \$2 million, or less than 1%, in the three months ended September 30, 2018 and increased \$25 million, or 2%, in the nine months ended September 30, 2018, from the corresponding periods in 2017. The increase in the nine-month period is primarily attributable to revenue growth associated with our home warranty businesses, increased subservicing revenue at ServiceLink and acquisitions, partially offset by decreases in revenue at FNF Canada and at certain other ServiceLink subsidiaries.

Interest and investment income levels are primarily a function of securities markets, interest rates and the amount of cash available for investment. Interest and investment income increased by \$14 million in the three months ended

September 30, 2018 and increased \$35 million in the nine months ended September 30, 2018, compared to the corresponding periods in 2017. The increase is primarily driven by increased interest rates earned in our tax-deferred property exchange business, interest earned on short-term investments, and increased interest on our fixed maturity holdings and other long-term investments, partially offset by a decrease in our fixed maturity holdings period over period.

Realized gains and losses, net increased \$40 million in the three months ended September 30, 2018 and increased \$19 million in the nine months ended September 30, 2018 from the comparable periods in 2017. The increase is primarily attributable to the inclusion of non-cash valuation gains on our equity security holdings in the 2018 periods associated with the adoption of ASU 2016-01 on January 1, 2018. The increase in the nine months ended September 30, 2018 from the comparable 2017 period was partially offset by the inclusion of gains of \$8 million on sales of other long term investments in the 2017 period.

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Personnel costs include base salaries, commissions, benefits, stock-based compensation and bonuses paid to employees, and are one of our most significant operating expenses. Personnel costs increased \$19 million, or 3%, in the three months ended September 30, 2018 and increased \$83 million, or 5%, in the nine months ended September 30, 2018, compared to the corresponding periods in 2017. The increase in the 2018 period is primarily attributable to higher commissions and bonuses and to increased salaries. Personnel costs as a percentage of total revenues from direct title premiums and escrow, title-related and other fees were 55% and 54% for the three-month periods ended September 30, 2018 and 2017, respectively, and 55% and 54% for the nine-month periods ended September 30, 2018 and 2017, respectively. Average employee count in the Title segment was 23,511 and 23,671 in the three-month periods ended September 30, 2018 and 2017, respectively, and 23,289 and 23,129 in the nine-month periods ended September 30, 2018 and 2017, respectively.

Other operating expenses increased by \$17 million, or 5% in the three months ended September 30, 2018 and increased by \$20 million, or 2%, in the nine months ended September 30, 2018, from the corresponding periods in 2017. Other operating expenses as a percentage of total revenue excluding agency premiums, interest and investment income, and realized gains and losses increased 1% in the three months ended September 30, 2018 and remained flat in the nine months ended September 30, 2018 compared to the comparable periods in 2017. The increase as a percentage of revenue in the three-month period was primarily attributable to a state sales tax contingency recorded in the 2018 period.

Agent commissions represent the portion of premiums retained by agents pursuant to the terms of their respective agency contracts. Agent commissions and the resulting percentage of agent premiums that we retain vary according to regional differences in real estate closing practices and state regulations.

The following table illustrates the relationship of agent premiums and agent commissions, which have remained relatively consistent since 2017:

|                             | Three months ended    |      | Nine months ended |      |         |      |         |      |
|-----------------------------|-----------------------|------|-------------------|------|---------|------|---------|------|
|                             | September 30,         |      | September 30,     |      |         |      |         |      |
|                             | 2018                  | 2017 | 2018              | 2017 | 2018    | 2017 |         |      |
|                             | %                     | %    | %                 | %    | %       | %    |         |      |
|                             | (Dollars in millions) |      |                   |      |         |      |         |      |
| Agent premiums              | 722                   | 100% | 719               | 100% | \$2,018 | 100% | \$2,028 | 100% |
| Agent commissions           | 554                   | 77 % | 553               | 77 % | 1,546   | 77 % | 1,557   | 77 % |
| Net retained agent premiums | \$168                 | 23 % | \$166             | 23 % | \$472   | 23 % | \$471   | 23 % |

The claim loss provision for title insurance was \$58 million and \$64 million for the three-month periods ended September 30, 2018 and 2017, respectively, and reflects an average provision rate of 4.5% and 5.0% of title premiums, respectively. The claim loss provision for title insurance was \$165 million and \$181 million for the nine-month periods ended September 30, 2018 and 2017, respectively, and reflects an average provision rate of 4.5% and 5.0% of title premiums, respectively. We continually monitor and evaluate our loss provision level, actual claims paid, and the loss reserve position each quarter. This loss provision rate is set to provide for losses on current year policies, but due to development of prior years and our long claim duration, it periodically includes amounts of estimated adverse or positive development on prior years' policies.

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## Corporate and Other

The Corporate and Other segment consists of the operations of the parent holding company, our various real estate brokerage businesses, and our real estate technology subsidiaries. This segment also includes certain other unallocated corporate overhead expenses and eliminations of revenues and expenses between it and our Title segment.

On September 24, 2018, we closed on the Pacific Union Sale. Refer to Note A. Basis of Financial Statements included in Item 1 of Part 1 of this Quarterly Report for further information. The results of operations of Pacific Union are included through the date of sale.

The following table presents the results from operations of our Corporate and Other segment:

|  | Three months ended |         | Nine months ended |         |
|--|--------------------|---------|-------------------|---------|
|  | September 30,      |         | September 30,     |         |
|  | 2018               | 2017    | 2018              | 2017    |
|  | (In millions)      |         |                   |         |
| Revenues:  |                    |         |                   |         |
| Escrow, title-related and other fees   | \$125              | \$115   | \$388             | \$335   |
| Interest and investment income   | 2                  | —       | 3                 | —       |
| Realized gains and losses, net   | 10                 | (1 )    | 10                | (6 )    |
| Total revenues   | 137                | 114     | 401               | 329     |
| Expenses:  |                    |         |                   |         |
| Personnel costs  | 30                 | 22      | 88                | 67      |
| Other operating expenses   | 112                | 96      | 344               | 270     |
| Depreciation and amortization  | 8                  | 6       | 22                | 16      |
| Interest expense   | 9                  | 10      | 31                | 39      |
| Total expenses   | 159                | 134     | 485               | 392     |
| Loss from continuing operations, before income taxes and equity in earnings of unconsolidated affiliates | \$(22 )            | \$(20 ) | \$(84 )           | \$(63 ) |

The revenue in the Corporate and Other segment for all periods represents revenue generated by our real estate brokerage and technology subsidiaries offset by the elimination of certain revenues between segments. See Note J. Revenue Recognition included in Item 1 of Part 1 of this Quarterly Report for further discussion and disaggregation of our revenue.

Total revenues in the Corporate and Other segment increased \$23 million, or 20%, in the three-month period ended September 30, 2018 and increased \$72 million, or 22%, in the nine-month period ended September 30, 2018, from the comparative periods in 2017. The increase is partially attributable to growth and acquisitions in our real estate technology businesses resulting in increased revenue of \$8 million and \$28 million in the three- and nine-month periods ended September 30, 2018 respectively, from the comparable 2017 periods. The segment includes revenues of \$81 million and \$84 million in the three-month periods ended September 30, 2018 and 2017, respectively, and \$264 million and \$243 million in the nine month periods ended September 30, 2018 and 2017, respectively, for Pacific Union and its subsidiaries.

Realized gains and losses, net increased \$11 million in the three months ended September 30, 2018 and increased \$16 million in the nine months ended September 30, 2018 from the comparable periods in 2017. The increase was primarily attributable to the gain on the Pacific Union Sale.

Personnel costs in the Corporate and Other segment increased \$8 million, or 36%, in the three-month period ended September 30, 2018 and increased \$21 million, or 31%, in the nine-month period ended September 30, 2018, from the corresponding periods in 2017. The increase is primarily attributable to increased costs resulting from acquisitions of real estate technology subsidiaries.

Other operating expenses in the Corporate and Other segment increased \$16 million, or 17%, in the three-month period ended September 30, 2018 and increased \$74 million, or 27%, in the nine-month period ended September 30,

2018, from the corresponding periods in 2017. The increase is primarily attributable to increased costs associated with acquisitions, transaction costs associated with the Pacific Union Sale, and to the inclusion of \$11 million and \$33 million of expense eliminations (reduction to expense) in the three and nine months ended September 30, 2017, respectively, related to eliminations of transactions with Black Knight.

Discontinued Operations

As a result of the FNFV Split-Off and BK Distribution, the results of operations of FNFV and Black Knight are included in discontinued operations. Earnings from discontinued operations, net of tax, were \$18 million and \$165 million in the three and nine months ended September 30, 2017. Refer to Note K. Discontinued Operations to our Condensed Consolidated Financial

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Statements in Item 1 of Part I of this Quarterly Report for further information, including a breakout of the results of operations of both FNFV and Black Knight.

Liquidity and Capital Resources

**Cash Requirements.** Our current cash requirements include personnel costs, operating expenses, claim payments, taxes, payments of interest and principal on our debt, capital expenditures, business acquisitions, stock repurchases and dividends on our common stock. We paid dividends of \$0.30 per share in the third quarter of 2018, or approximately \$82 million to our FNF common shareholders. On October 24, 2018, our Board of Directors declared cash dividends of \$0.30 per share, payable on December 28, 2018, to FNF common shareholders of record as of December 14, 2018. There are no restrictions on our retained earnings regarding our ability to pay dividends to our shareholders, although there are limits on the ability of certain subsidiaries to pay dividends to us, as described below. The declaration of any future dividends is at the discretion of our Board of Directors. Additional uses of cash flow are expected to include acquisitions, stock repurchases and debt repayments.

We continually assess our capital allocation strategy, including decisions relating to the amount of our dividend, reducing debt, repurchasing our stock, making acquisitions and/or conserving cash. We believe that all anticipated cash requirements for current operations will be met from internally generated funds, through cash dividends from subsidiaries, cash generated by investment securities, potential sales of non-strategic assets and borrowings on existing credit facilities. Our short-term and long-term liquidity requirements are monitored regularly to ensure that we can meet our cash requirements. We forecast the needs of all of our subsidiaries and periodically review their short-term and long-term projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying such forecasts.

Our insurance subsidiaries generate cash from premiums earned and their respective investment portfolios, and these funds are adequate to satisfy the payments of claims and other liabilities. Due to the magnitude of our investment portfolio in relation to our title claim loss reserves, we do not specifically match durations of our investments to the cash outflows required to pay claims, but do manage outflows on a shorter time frame.

Our two significant sources of internally generated funds are dividends and other payments from our subsidiaries. As a holding company, we receive cash from our subsidiaries in the form of dividends and as reimbursement for operating and other administrative expenses we incur. The reimbursements are paid within the guidelines of management agreements among us and our subsidiaries. Our insurance subsidiaries are restricted by state regulation in their ability to pay dividends and make distributions. Each applicable state of domicile regulates the extent to which our title underwriters can pay dividends or make other distributions. As of December 31, 2017, \$1,700 million of our net assets were restricted from dividend payments without prior approval from the relevant departments of insurance. We anticipate that our title insurance subsidiaries will pay or make dividends in the remainder of 2018 of approximately \$89 million. Our underwritten title companies and non-insurance subsidiaries are not regulated to the same extent as our insurance subsidiaries.

The maximum dividend permitted by law is not necessarily indicative of an insurer's actual ability to pay dividends, which may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect an insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, depending on business and regulatory conditions, we may in the future need to retain cash in our underwriters or even contribute cash to one or more of them in order to maintain their ratings or their statutory capital position. Such a requirement could be the result of investment losses, reserve charges, adverse operating conditions in the current economic environment or changes in statutory accounting requirements by regulators.

Cash flow from our operations will be used for general corporate purposes including to reinvest in operations, repay debt, pay dividends, repurchase stock, pursue other strategic initiatives and/or conserve cash.

**Operating Cash Flow.** Our cash flows provided by operations for the nine months ended September 30, 2018 and 2017 totaled \$671 million and \$563 million, respectively. The increase of \$108 million is primarily attributable to decreased payments for income taxes in the current period of \$160 million, increased pre-tax earnings of \$45 million and the payment of legal settlements of \$65 million in the 2017 period, partially offset by \$115 million of cash flow from

operating activities attributable to discontinued operations in the 2017 period. The remaining variance is attributable to timing of receipt and payment of receivables and payables.

Investing Cash Flows. Our cash (used in) provided by investing activities for the nine months ended September 30, 2018 and 2017 were \$(42) million and \$178 million, respectively. The 2017 period included \$63 million of cash provided by investing activities of discontinued operations. The decrease in cash provided by (increase in cash used in) investing activities of \$220 million in the 2018 period compared to the 2017 period is primarily attributable to a \$253 million decrease in net inflows from the sales of, and distributions from, equity and fixed income investments, net of purchases and additional investments in unconsolidated investees in the 2018 period and proceeds from FNFV's sale of its subsidiary for \$325 million in the 2017 period, partially offset by increased proceeds from the sale of property and equipment of \$19 million, lower cash paid for acquisitions of \$200 million and decreased capital expenditures of \$76 million in the 2018 period compared to the corresponding period in 2017.



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**Capital Expenditures.** Total capital expenditures for property and equipment and capitalized software were \$56 million and \$132 million for the nine-month periods ended September 30, 2018 and 2017, respectively. The decrease is primarily attributable to the inclusion of capital expenditures at Black Knight and FNFV in the 2017 period.

**Financing Cash Flows.** Our cash flows used in financing activities for the nine months ended September 30, 2018 and 2017 were \$317 million and \$832 million, respectively. The decrease in cash used in financing activities of \$515 million from the 2018 period to the 2017 period is primarily attributable to decreased net debt service payments, net of borrowings, of \$465 million, and decreased equity repurchases of both FNF and Black Knight stock of \$69 million, partially offset by a decrease in the change in secured trust deposits of \$58 million and an increase in dividends paid of \$42 million.

**Financing Arrangements.** For a description of our financing arrangements see Note E. Notes Payable included in Item 1 of Part 1 of this Quarterly Report, which is incorporated by reference into this Item 2 of Part I.

**Contractual Obligations.** There have been no significant changes to our long-term contractual obligations since our Annual Report for the year ended December 31, 2017.

**Capital Stock Transactions.** On July 20, 2015, our Board of Directors approved a three-year stock repurchase program (the "2015 Repurchase Program") under which we could purchase up to 25 million shares of our FNF common stock through July 31, 2018. On July 17, 2018, our Board of Directors terminated the 2015 Repurchase Program effective as of July 31, 2018 and approved a new three-year stock repurchase program effective August 1, 2018 (the "2018 Repurchase Program") under which we can purchase up to 25 million shares of our FNF common stock through July 31, 2021. We may make repurchases from time to time in the open market, in block purchases or in privately negotiated transactions, depending on market conditions and other factors. Since the original commencement of the 2015 Repurchase Program through market close on July 31, 2018, we repurchased a total of 10,589,000 FNF common shares for \$372 million, or an average of \$35.10 per share. We have not made any repurchases under these programs in the three or nine months ended September 30, 2018 or in the subsequent period ended October 25, 2018.

**Equity and Preferred Security Investments.** Our equity and preferred security investments may be subject to significant volatility. Should the fair value of these investments fall below our cost basis and/or the financial condition or prospects of these companies deteriorate, we may determine in a future period that this decline in fair value is other-than-temporary, requiring that an impairment loss be recognized in the period such a determination is made.

**Off-Balance Sheet Arrangements.** There have been no significant changes to our off-balance sheet arrangements since our Annual Report for the year ended December 31, 2017.

### **Critical Accounting Policies**

There have been no material changes to our critical accounting policies described in our Annual Report for our fiscal year ended December 31, 2017.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

There have been no material changes in the market risks described in our Annual Report on Form 10-K for the year ended December 31, 2017.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is: (a) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms; and (b) accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II: OTHER INFORMATION

Item 1. Legal Proceedings

See discussion of legal proceedings in Note F. Commitment and Contingencies to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report, which is incorporated by reference into this Item 1 of Part II.

Item 1A. Risk Factors

In addition to the significant risks and uncertainties described in our Annual Report, we identified the following additional risk as a result of the pending Stewart Merger. See "Recent Developments" in Note A. Basis of Financial Statements to our Condensed Consolidated Financial Statements included in Item 1 of Part 1 of this report for further discussion of the Stewart Merger.

Our pending acquisition of Stewart may expose us to certain risks.

On March 19, 2018, we signed a merger agreement (the "Merger Agreement") to acquire Stewart Information Services Corporation ("Stewart") (NYSE: STC) (the "Stewart Merger"). The closing of the Stewart Merger is subject to certain closing conditions, federal and state regulatory approvals and the satisfaction of other customary closing conditions. Closing of the Stewart Merger is expected in the first or second quarter of 2019. If the Stewart Merger is not completed for failure to obtain the required regulatory approvals, we are required to pay a reverse break-up fee of \$50 million to Stewart. If the Stewart Merger is completed, we may face challenges in integrating Stewart. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures, and achieving cost reductions. There can be no assurance that we will be able to fully integrate all aspects of the acquired business successfully, and the process of integrating this acquisition may disrupt our business and divert our resources.

Item 2.

Unregistered

Sales of

Equity

Securities

and Use of

Proceeds

None.

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Item 6. Exhibits

(a) Exhibits:

- 2.1 Agreement and Plan of Merger, dated as of March 18, 2018, by and among Stewart Information Services Corporation, Fidelity National Financial, Inc., A Holdco Corp., and S Holdco LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on March 19, 2018)
- 3.1 Fifth Amended and Restated Certificate of Incorporation of Fidelity National Financial, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 13, 2018)
- 4.1 Fourth Supplemental Indenture, dated August 13, 2018, between the Registrant and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed on August 13, 2018)
- 4.2 4.50% Senior Note due 2028 of the Registrant (incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed on August 13, 2018)
- 4.3 Registration Rights Agreement, dated August 13, 2018, by and between the Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of itself and the Initial Purchasers (incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K filed on August 13, 2018)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 32.2 Certification by Chief Financial Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

- 101 The following materials from Fidelity National Financial, Inc.'s Quarterly Report on Form 10-Q for the quarter and nine-months ended September 30, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Statements of Comprehensive Earnings, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIDELITY NATIONAL FINANCIAL, INC.

Date: October 26, 2018 (registrant)

By: /s/ Anthony J. Park  
Anthony J. Park  
Chief Financial Officer  
(Principal Financial and Accounting Officer)