

FIRST EUROPEAN TITLE INSURANCE COMPANY
LIMITED

Annual Report and Financial Statements
31 December 2023

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DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2023.

Directors

The directors of the Company who held office during the period and at the date of signing of these financial statements were:

Mr. John Maidens

Mr. Oliver Bate

Mr. Justin McChesney (Non-executive)

Mr. John Bonett (Non-executive)

Mr. Joseph Demanuele (Non-executive)

The Company's Articles of Association do not require any directors to retire.

Principal activities

The principal activities of the Company consist of title insurance business in Europe. The Company is licensed to transact insurance business falling within Class 16 - Miscellaneous financial loss.

Review of the business

The Company is a wholly owned subsidiary of First American Financial Corporation (i.e., the ultimate parent), a company registered in Delaware, USA.

The Company is dependent upon the strength of the commercial property markets in Europe. These markets were impacted by the high interest rates and levels of inflation during the year, which impacted upon the Company's planned income levels and profits. The Company is well capitalised to manage the short-term impact of such disruptions to the economy. The risks arising in the year do not impact upon the incidence or quantum of claims arising from title insurance business and are not expected to have a material adverse impact upon the Company's medium or longer term plans.

The policies issued in the year to 31 December 2023 contributed net €377 thousand to the Contractual Service Margin (CSM) (2022: €264 thousand). Furthermore €154 thousand of the gross CSM was recognised in respect of the coverage provided during the year ended 31 December 2023 (2022: €122 thousand). The insurance service result for the year ended 31 December 2023 was €980 thousand (2022: €714 thousand) which also reflects the limited incurred claims compared to expectations as more fully detailed in note 1.11. Investment income for the year ended 31 December 2023 was €419 thousand (2022: loss of €553 thousand).

The Company has opted for the standard formula under the Solvency II regime to calculate the Solvency Capital Requirement (SCR) as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2023, the Company's eligible own funds adequately covered the required SCR and amounted to €8.891 million (unaudited) (2022: €7.733 million, unaudited). The Company's SCR as calculated using the standard formula and Minimum Capital Requirement (MCR) ratios as at 31 December 2023 were equivalent to 462% (unaudited) and 329% (unaudited), respectively (2022: 337% and 286%, respectively (unaudited)). The audited Group SCR is reported in the group-wide Solvency and Financial Condition Report.

DIRECTORS' REPORT – continued

Results

The statement of comprehensive income is set out on page 17. The profit for the year has been transferred to accumulated profit.

Principal risks and uncertainties

The Company's activities expose it to a variety of insurance and financial risks. The principal risks facing the Company and its policies for managing those risks are set out in Note 2 of these financial statements.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All material policies are subject to Board approval and ongoing review by management. Compliance with regulation, legal and ethical standards is a high priority for the Company and the compliance team takes on an important role in this regard. The principal risks from the general title insurance business arise from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to expectations; inadequate reinsurance protection; and inadequate reserving. In addition, the Company is exposed to financial risks arising primarily from the investments that it holds. These risks are mitigated through the investment management policy agreed by the Board to ensure investments held are aligned to the Company's risk appetite. The Company's underwriting and reinsurance strategies are approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

The ongoing economic challenges including higher interest rates and inflation have had an impact on the operations of the Company during the year. The Company continues to monitor the economic impact and ensure it is focused on strong product offerings and client services to multiple markets to minimise the disruption to business. These risks do not impact upon the incidence or quantum of claims arising from title insurance business, and the Company is well capitalised to manage the remaining economic impacts.

In addition, the Company's exposure to counterparty default risk is low. The directors considered the Company's exposure to credit risk whereby a significant portion of the Company's assets relate to bonds issued by reputable companies as well as due from reinsurers with good credit standing. The Company's cash and cash equivalents are likewise held by reputable banks.

The directors are therefore satisfied that the Company remains a going concern in light of the ongoing risks and uncertainties associated to the war in Ukraine and related economic uncertainty.

Financial risk management

Information pertaining to the Company's financial risk management is included within Note 2 to these financial statements.

Future developments

In all core markets, the Company expects to continue to see the impact of continuing economic and competitor pressure. The Company is very well placed to respond to these pressures due to its market position, financial and economic strength and by being a subsidiary of a leading global title insurer.

The performance of the Company during the year ended 31 December 2023 has been profitable despite the economic challenges experienced and depressed market activity throughout Europe. The Company operates in a number of geographic markets throughout Europe which diversifies risk, and is sufficiently well capitalised to manage any foreseeable fall in revenue in the year ahead.

DIRECTORS' REPORT – continued

Events after the reporting period

There are no events affecting the Company after the reporting period.

Going concern

The financial statements are prepared on a going concern basis under the historical cost convention as modified by the fair valuation of financial assets through profit or loss, which the directors believe is appropriate.

External actuarial function holder

The Company's external actuarial function holder is Mr. Derek Newton, Fellow of the Institute of Actuaries (FIA), and a principal of Milliman LLP (London Office).

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) and Insurance Business Act, 1998 to prepare financial statements that give a true and fair view of the state of affairs of the Company as at the end of each reporting period and of the profit or loss for the period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386) and Insurance Business Act, 1998. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by



John Maidens
Director



John Bonett
Director

Portomaso Business Centre
Vjal Portomaso, San Giljan
PTM01, Malta
9 April 2024



Independent auditor's report

To the Shareholders of First European Title Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of First European Title Insurance Company Limited (the Company) as at 31 December 2023, and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Board of Directors.

What we have audited

First European Title Insurance Company Limited's financial statements, set out on pages 15 to 60, comprise:

- the statement of profit or loss for the year ended 31 December 2023;
- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Independence

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Company, in the period from 1 January 2023 to 31 December 2023, are disclosed in the note 8 to the financial statements.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• Overall materiality: €87,577, which represents 1% of equity plus net contractual service margin (net of tax)
Key audit matters	<ul style="list-style-type: none">• Implementation of IFRS17: Transition methodology, judgements and related estimates• Valuation of insurance contract liabilities and reinsurance assets



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	€87,577
<i>How we determined it</i>	1% of equity plus net contractual service margin (net of tax)
<i>Rationale for the materiality benchmark applied</i>	We chose equity plus net contractual service margin (net of tax) as reflected in the statement of financial position (and related notes) as the benchmark because, in our view, it is a key financial statement metric used in evaluating the financial position of the Company and is not as volatile as a profit and loss measure. We selected 1% based on our professional judgement, noting that it is also within the range of benchmarks that we consider to be acceptable.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €8,758 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Implementation of IFRS17: Transition methodology, judgements and related estimates</p> <p>IFRS 17 became effective for periods beginning on or after 1 January 2023, replacing IFRS 4, 'Insurance Contracts'. As a result, the Company has adopted IFRS 17 in these financial statements. The 2022 opening statement of financial position and the 2022 comparatives have been restated in order to comply with the requirements of IFRS 17.</p> <p>Transition to IFRS 17 introduces significant changes to the recognition, measurement and presentation of (re-) insurance contract liabilities (or assets), and requires significant judgement to estimate the impact on 1 January 2022 (the transition date) and 31 December 2022 (comparative period). IFRS 17 adoption has resulted in a reduction in the Company's retained earnings of €881k as at 1 January 2022. This is primarily due to the net change in the valuation of insurance balances under IFRS 17, and the establishment of the Contractual Service Margin ("CSM") on adoption of IFRS 17. The CSM is the mechanism in IFRS 17 by which profits are deferred and released over the duration of a contract.</p>	<p>Our audit procedures addressing the implementation of IFRS 17 included <i>inter alia</i> the following procedures using our IFRS 17 and actuarial specialist team members:</p> <ul style="list-style-type: none"> - we assessed the methodology applied against IFRS 17 requirements in the context of the Company and its products; - we challenged the key judgements and assumptions used to develop and calculate the transition balance sheet and restated comparatives on adopting IFRS 17;



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Key audit matter	How our audit addressed the Key audit matter
<p data-bbox="161 528 767 624">Implementation of IFRS17: Transition methodology, judgements and related estimates - continued</p> <p data-bbox="161 678 815 741">The key methodology, judgements and assumptions first applied on transition to the new standard include:</p> <ul data-bbox="172 757 815 965" style="list-style-type: none"><li data-bbox="172 757 815 846">• Determination of the coverage period for the CSM recognition given that the Company provides cover in the main in perpetuity;<li data-bbox="172 880 815 965">• The methodology to be applied in calculating IFRS 17 assets and liabilities, including risk adjustment and CSM. <p data-bbox="161 1003 815 1261">There is a risk that the CSM modelling is not appropriate or the agreed methodology has not been implemented correctly in the CSM model. Further, there is a risk that the key judgements and estimates applied at transition, and for 2022 restatement, are not described in an appropriate level of detail for users of the financial statements to understand the decisions made by management.</p> <p data-bbox="161 1276 767 1305">Relevant references in the financial statements are:</p> <ul data-bbox="209 1317 815 1447" style="list-style-type: none"><li data-bbox="209 1317 815 1346">• Basis of preparation: Note 1.2;<li data-bbox="209 1352 815 1382">• Accounting for insurance business: Note 1.11<li data-bbox="209 1388 815 1447">• Critical accounting estimates and judgements: Note 3.	<ul data-bbox="847 600 1342 902" style="list-style-type: none"><li data-bbox="847 600 1342 801">- we tested the CSM model's compliance with IFRS 17 by sample testing the inputs and outputs to/from the CSM model in relation to completeness and accuracy of data flows, besides independently assessing the material outputs.<li data-bbox="847 808 1342 902">- we tested the adequacy and compliance of the new quantitative and qualitative disclosures in the financial statements. <p data-bbox="847 958 1390 1081">Based on the audit procedures performed, we consider the transition methodology, judgements, related estimates and disclosures to be reasonable.</p>



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Key audit matter	How our audit addressed the Key audit matter
<p><i>Valuation of insurance contract liabilities and reinsurance contract assets</i></p> <p>As described above, the Company has adopted IFRS 17 'Insurance contracts'. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. As at 31 December 2023, the Company recorded insurance contract liabilities of €4,223k, and reinsurance contract assets of €1,245k.</p> <p>As explained in Note 1.2, the Company recognises and measures groups of insurance contracts at a risk-adjusted present value of fulfilment cash flows plus the CSM described above, the determination of which required judgement and interpretation. This includes the selection of accounting policies and the use of complex methodologies. Portfolios of reinsurance contracts held are assessed separately from portfolios of insurance contracts issued.</p> <p>The fulfilment cash flows are the current estimates of the future cash flows within the contract boundary, including claims, benefits and expenses adjusted to reflect the timing and uncertainty of these amounts, duly discounted to reflect the time value of money. The process of determining the value of this component of insurance liabilities and reinsurance assets for insurance contracts issued and reinsurance contracts held requires judgement in the selection of key assumptions.</p> <p>The process used to determine the fulfilment cash flows, as well as related disclosures are included in Note 1.11 and 3 to these financial statements.</p> <p>We focused on this area due to its inherent subjectivity, high degree of uncertainty as well as magnitude.</p>	<p>Our audit procedures addressing the reasonableness of the Company's estimated present value of future cash flows for insurance contracts issued and reinsurance contracts held, including the involvement of our actuarial specialist team members, are outlined below:</p> <ul style="list-style-type: none"> • we applied our industry knowledge and experience in understanding and evaluating the Company's methodology and assumptions used, including consideration of the view of the Company's third-party actuarial function and the assessment of historical experience; • we tested the accuracy and completeness of the underlying data utilised for the purpose of the Company's estimation models; • we tested the reasonableness of the Company's estimates on a gross and net basis as at year-end through the use of actuarial techniques; • we tested the CSM as at the year-end (see separate key audit matter pertaining to Implementation of IFRS 17); • we considered the extent of related disclosures to the financial statements. <p>Based on the work performed, we found the valuation of insurance liabilities and reinsurance assets (estimate of present value of future cash flows, risk adjustment and contractual service margin) to be consistent with the explanations and evidence obtained.</p>



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Auditor's responsibilities for the audit of the financial statements – continued

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2023* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the <i>Annual Report and Financial Statements 2023</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 3)</p> <p>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Area of the <i>Annual Report and Financial Statements 2023</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none">• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.• the financial statements are not in agreement with the accounting records and returns.• we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	<p>We have nothing to report to you in respect of these responsibilities.</p>



Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the Company on 24 June 2019. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

A handwritten signature in blue ink, appearing to be 'Romina Soler', written in a cursive style.

Romina Soler
Principal

For and on behalf of

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

9th April 2024

STATEMENT OF PROFIT OR LOSS

		Year ended 31 December 2023	Year ended 31 December 2022 (Restated)
	Notes	€'000	€'000
Insurance revenue	1.11(h)	1,510	2,204
Insurance service expense	1.11(h)	(325)	(1,152)
Net expenses from reinsurance contracts held	1.11(h)	(205)	(338)
Insurance service result		980	714
Net investment income / (expense)	10	419	(553)
Finance (expense) / income from insurance contracts issued	10	(66)	169
Finance expenses from reinsurance contracts held	10	(7)	(34)
Net insurance finance (expense) / income		(73)	135
Other operating expenses		(157)	(178)
Other income		20	-
Profit before income tax		1,189	118
Income tax expense	13	(59)	(6)
Profit for the year		1,130	112

The notes on pages 19 to 60 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2023 €'000	As at 31 December 2022 Restated €'000	As at 31 December 2021 Restated €'000
ASSETS				
Cash and cash equivalents	4	3,364	3,047	2,582
Financial assets at fair value through profit or loss	9	6,662	6,309	6,936
Reinsurance contract assets	1.11 (i)	1,245	1,004	855
Other assets	5	208	167	127
Intangible assets	14	155	-	-
Fixed assets	15	24	1	-
Total assets		11,658	10,528	10,500
LIABILITIES				
Current income tax liabilities		-	-	21
Other current liabilities	7	156	141	145
Insurance contract liabilities	1.11 (i)	4,223	4,244	4,300
Deferred income tax liabilities		6	-	3
Total liabilities		4,385	4,385	4,469
EQUITY				
Share capital	6	5,800	5,800	5,800
Retained earnings		1,473	343	231
Total equity		7,273	6,143	6,031
Total equity and liabilities		11,658	10,528	10,500

The notes on pages 19 to 60 are an integral part of these financial statements.

The financial statements on pages 15 to 60 were approved and authorised for issue by the Board on 4 April 2024 and signed on its behalf by:


John Maidens
Director


John Bonett
Director

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2023 €'000	Year ended 31 December 2022 €'000
Profit for the year		1,130	112
Other comprehensive income		-	-
Total comprehensive income for the year		1,130	112

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Note	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2023		5,800	343	6,143
Total comprehensive income Profit for the year		-	1,130	1,130
Balance as at 31 December 2023		5,800	1,473	7,273

For the year ended 31 December 2022

	Note	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2022		5,800	1,112	6,912
Impact due to application of IFRS 17, net of tax		-	(881)	(881)
Restated balance as at 1 January 2022		5,800	231	6,031
Total comprehensive income Profit for the year		-	112	112
Balance as at 31 December 2022		5,800	343	6,143

STATEMENT OF CASH FLOWS

	Year ended 31 December 2023	Year ended 31 December 2022
Notes	€'000	€'000
Cash flows from operating activities		
Profit for the year	1,130	112
Adjustments for:		
Changes in insurance and reinsurance contract assets / liabilities	(262)	(205)
Net unrealised (gains) / losses on investments	9 (401)	562
Net interest income	(18)	(9)
Increase / (decrease) in other current liabilities	15	(4)
(Increase) / decrease in other assets	(54)	7
Income tax expense	59	6
Income tax paid	(33)	(68)
Net cash generated from operating activities	<u>436</u>	<u>401</u>
Cash flows from investing activities		
Purchase of financial investments	(2,531)	(2,123)
Sales and maturities of financial investments	2,452	2,086
Interest received	138	102
Increase in fixed and intangible assets	(178)	(1)
Net cash (used in) / generated from investing activities	<u>(119)</u>	<u>64</u>
Movement in and cash equivalents	<u>317</u>	<u>465</u>
Cash and cash equivalents - beginning of year	<u>3,047</u>	<u>2,582</u>
Cash and cash equivalents - end of year	<u>3,364</u>	<u>3,047</u>

The notes on pages 19 to 60 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the periods presented, including the prior restated periods, unless otherwise stated.

1.1 General information

First European Title Insurance Company Limited ("the Company") is a limited liability company incorporated and domiciled in Malta in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act (Cap. 386). The registered office of the Company is Portomaso Business Centre, Vjal Portomaso, San Giljan, PTM01, Malta.

The Company's principal activity is to transact title insurance business in Europe in terms of the Maltese Insurance Business Act, 1998. The Company currently has passporting rights to conduct business in various European jurisdictions.

1.2 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386).

These financial statements are prepared on a going concern basis of accounting under the historical cost convention as modified by the fair valuation of financial assets through profit or loss (FVTPL).

The statement of financial position is organised in decreasing order of liquidity, with additional disclosures on the current or non-current nature of the Company's assets and liabilities provided within the notes to the financial statements.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Standards, interpretations and amendments to published standards effective in 2023

In 2023, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2023.

Changes in accounting policies

IFRS 17 'Insurance Contracts'

The Company has adopted IFRS 17 'Insurance Contracts' as adopted by the EU with a date of transition 1 January 2022, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt IFRS 17 in previous periods.

The adoption of IFRS 17 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of insurance contracts and reinsurance contracts. Set out below are disclosures relating to the impact of the adoption of IFRS 17 on the Company.

Notes to the financial statements - continued

1. Summary of material accounting policies - continued

1.2 Basis of preparation - continued

Further details of the specific IFRS 17 accounting policies applied are described in more detail in Note 1.11.

As this is the first year for adoption of the IFRS 17 standard, a reconciliation of the previously reported balances for the transition date 1 January 2022 is provided to show the impact of the presentation of the statement of financial position and valuation of shareholder's equity. Please note that some balances have been aggregated for ease of understanding.

Changes to classification and measurement

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company. The key principles of IFRS 17 are that the Company:

- Identifies insurance contracts as those under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- Separates specified embedded derivatives, distinct investment components and distinct non-insurance goods or services from insurance contracts and accounts for them in accordance with other standards;
- Divides the insurance and reinsurance contracts into groups it will recognise and measure;
- Recognises and measures groups of insurance contracts at:
 - A risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows in a way that is consistent with observable market information, plus
 - An amount representing the unearned profit in the group of contracts (the contractual service margin or CSM); and
- Recognises profit from a group of insurance contracts over the period the Company provides insurance coverage, as the Company is released from risk. If a group of contracts is expected to be onerous (i.e., loss-making) over the remaining coverage period, the Company recognises the loss immediately.

The Company's classification and measurement of insurance and reinsurance contracts is explained in Note 1.11.

Changes to presentation and disclosure

The Company presents separately in the statement of financial position the carrying amount of portfolios of:

- insurance contracts issued that are assets;
- insurance contracts issued that are liabilities;
- reinsurance contracts held that are assets; and
- reinsurance contracts held that are liabilities.

Notes to the financial statements - continued

1. Summary of material accounting policies - continued

1.2 Basis of preparation - continued

The portfolios referred to above are those established at initial recognition in accordance with IFRS 17 requirements.

The line-item descriptions in the statement of comprehensive income have been changed significantly compared with last year. Previously the Company reported the following line items: gross premiums written and changes in the provision for claims and payments. IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expense
- Net expenses from reinsurance contracts held
- Insurance finance income or expense
- Reinsurance finance income or expense

The Company provides disaggregated qualitative and quantitative information in the notes to the financial statements about:

- The amounts recognised in its financial statements from insurance and reinsurance contracts, and
- Significant judgements, and changes in those judgements, made when applying the standard.

Transition

At the transition date (i.e., 1 January 2022), the Company has:

- identified, recognised and measured each group of insurance contracts and reinsurance contracts as if IFRS 17 had always been applied;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied; and
- recognised in equity, on a net basis, any differences between amounts recognised under IFRS 4 and other applicable standards and IFRS 17.

Full retrospective approach

On transition to IFRS 17, the Company has applied the full retrospective approach to all contracts issued since commencement of coverage in April 2020.

As explained above, IFRS 17 differs from IFRS 4 in a number of ways. The Company expects that two of the largest differences will pertain to the notion of the CSM and the respective coverage units, and the measurement of in-scope contracts in accordance with IFRS 17 which have led to a reduction in equity.

Notes to the financial statements - continued

1. Summary of material accounting policies - continued

1.2 Basis of preparation - continued

1 January 2022 statement of financial position €'000	As previously reported	IFRS 17 Adjustments	Statement of financial position items applying IFRS 17
Cash and investments held	9,518	-	9,518
Reinsurers' share of technical provisions ⁽¹⁾	1,273	(1,273)	-
Reinsurance contract assets ⁽¹⁾	-	855	855
Other assets ⁽²⁾	816	(689)	127
Total assets	11,607	(1,107)	10,500
Other liabilities ⁽²⁾	668	(499)	169
Technical provisions: claims outstanding ⁽¹⁾	4,027	(4,027)	-
Insurance contract liabilities ⁽¹⁾	-	4,300	4,300
Total liabilities	4,695	(226)	4,469
Shareholder's equity ⁽³⁾	6,912	(881)	6,031

IFRS 17 adjustments

- (1) The recognition of the liability for future claim payment obligations on a gross and net basis differs between IFRS 4 and IFRS 17. Under IFRS 4, reserves for notified claims and incurred but not reported claims and their related claims handling costs, were reported on the statement of financial position within the "technical provisions: claims outstanding" liability. Similarly, the anticipated reinsurance recoveries thereon were recorded within the reinsurers' share of technical provisions. Under IFRS 17 all future cash flows for coverage to be provided relating to policies written to date, are considered within insurance contract liabilities and reinsurance contract assets. The future cash flows incorporate not only the expected costs of future claims and related costs, but also premium receipts, acquisition cost cash outflows, the risk adjustment and profit to be realised on coverage provided, referred to as the Contractual Service Margin (CSM). The requirements of the measurements under IFRS 17 are detailed further in note 1.11.
- (2) Under IFRS 4, premium amounts due were recognised within other assets and accrued expenses relating to insurance acquisition costs were included within other liabilities. Under the principles of IFRS 17, these balances are recognised within the insurance contract liabilities as future cash flows relating to the group of contracts for the year the policy was issued. Similarly, receivables and payables relating to reinsurance contracts which were recognised under IFRS 4 as other assets and liabilities respectively, are recognised within reinsurance contract assets under IFRS 17.
- (3) The reconciliation of the shareholder's equity is therefore:

	€'000
Shareholder's equity under IFRS 4	6,912
Net change in valuation of balances under IFRS 17	97
Element of profit deferred through the net CSM	(978)
Shareholder's equity under IFRS 17	<u>6,031</u>

Please see note 1.11 for further details on the approach taken for accounting for insurance business under IFRS 17.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”), being the Euro (“EUR”), which is also the Company’s presentation currency.

(b) Transactions and balances

Transactions in foreign currencies are recorded using the rate of exchange ruling at the end of the month before the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the statement of financial position date and the gains or losses on translation are included in the statement of comprehensive income.

1.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks (i.e., cash at bank), other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

1.6 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

1.7 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Accrued liabilities pertain to estimated obligations in the absence of a confirming document, such as a supplier invoice. Trade and other payables are derecognised when they are extinguished, cancelled or expired.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.8 Current and deferred tax

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the period. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The current income tax charge is calculated on taxable income for the period using the effective consolidated tax rate of 5% (2022: 5%) as the Company invoked for fiscal unity on 31 December 2020.

Deferred tax

Deferred income tax is provided using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes.

Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.9 Financial assets and liabilities

Financial assets

The Company's financial assets include cash and cash equivalents, corporate and government bond investments, accrued interest receivable, and prepayments.

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for de-recognition.

The Company assesses which business models apply to the financial assets held by the Company. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of the Company's financial assets at initial recognition and reclassifies these debt instruments when and only when its business model for managing those assets changes.

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit and loss or FVTPL; and
- Measured at amortised cost.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.9 Financial assets and liabilities - continued

Measured at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. These amounts are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in investment income using the effective interest rate method. The Company's financial assets classified as measured at amortised cost include accrued interest receivable, and cash and cash equivalents.

Fair value through profit or loss or FVTPL: Assets that do not meet the criteria for measured at amortised cost or fair value through other comprehensive income are measured at FVTPL. Financial assets at FVTPL are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income. Gains or losses on investments that are subsequently measured at FVTPL and are not part of hedging relationships are recognised in the profit or loss and presented in the profit or loss statement within investment income in the period in which they arise.

Financial assets are classified as current assets if they are expected to be settled within twelve months or within the normal operating cycle; otherwise, they are classified as non-current.

The Company's financial assets measured at amortised cost are reviewed for expected credit losses. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured at 12-month expected credit losses (i.e., resulting from default events that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months):

- Debt instruments that are determined to have low credit risk at the reporting date; and
- Debt instruments for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally-understood definition of 'investment grade' (i.e., typically, at least 'BBB-' rating under S&P's).

Any impairment is recognised directly in the statement of comprehensive income. If in a subsequent period, the amount of the impairment loss decreased, the previously recognised expected credit loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

Financial assets relating to cash and cash equivalents are subject to impairment review, although the identified impairment loss was immaterial.

Financial liabilities

The Company's financial liabilities include current income tax liability, and other payables. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings (if any), net of directly attributable transaction costs. Financial liabilities are derecognised when they are extinguished, cancelled or expired.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.10 Investment income

Investment income comprises fair value movements on FVTPL financial assets and interest income, and is net of investment expenses, charges and interest. Interest and expenses are accounted for on an accruals basis.

1.11 Accounting for insurance business

(a) Definition and classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Company uses judgement to assess whether a contract transfers insurance risk (i.e., if there is a scenario with commercial substance in which the Company has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant insurance risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in these financial statements apply to insurance contracts issued and, reinsurance contracts held, unless specifically stated otherwise.

(b) Unit of account

The Company manages all insurance contracts within the single line of business written as these are all similar risks. The contracts are then disaggregated into groups of contracts that are issued within a calendar year. These groups represent the level of aggregation at which the insurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered. These groups of contracts are also considered as to whether they are:

- Contracts that are onerous at initial recognition;
- Contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or
- A group of remaining contracts.

For each portfolio of contracts, the Company determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held by coverage concluded within a calendar year (annual cohorts) into groups of: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis.

Upon adoption of IFRS 17 the Company aggregated historical contracts by individual underwriting year. It is noted that the Company commenced issuing policies in 2020.

Before the Company accounts for an insurance contract based on the guidance in IFRS 17, it analyses whether the contract contains components that should be separated. IFRS 17 distinguishes three categories of components that have to be accounted for separately:

- cash flows relating to embedded derivatives that are required to be separated;
- cash flows relating to distinct investment components; and
- promises to transfer distinct goods or distinct non-insurance services.

The Company applies IFRS 17 to all remaining components of the contract. The Company does not have any contracts that require further separation or combination of insurance contracts.

(c) Recognition, modification and derecognition

Accounting for contract recognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the Company determines that a group of contracts becomes onerous.

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) is recognised at the later of:
 - i. the beginning of the coverage period of the group; and
 - ii. the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the groups of reinsurance contracts held unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts' restriction. Composition of the groups is not reassessed in subsequent periods.

It is noted that in determining whether a group of contracts has become onerous, the future net cash outflows are compared to the net CSM and if such outflows exceed the CSM then the group is considered to become onerous. This would include such instances where the favorable variances in cash flows for incurred coverage exceed the adverse variances in cash flows for remaining coverage.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(c) Recognition, modification and derecognition - continued

Accounting for contract modifications and derecognition

Insurance contracts acquired in a business combination or a portfolio transfer are accounted for as if they were written by the Company at the date the business combination or portfolio transfer.

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified and additional criteria discussed below are met.

When an insurance contract is modified by the Company as a result of an agreement with the counterparties or due to a change in regulations, the Company treats changes in cash flows caused by the modification as changes in estimates of the fulfilment cash flows ('FCF'), unless the conditions for the derecognition of the original contract are met. The Company derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

- if the modified terms had been included at contract inception and the Company would have concluded that the modified contract:
 - i. is not within the scope of IFRS 17;
 - ii. results in different separable components;
 - iii. results in a different contract boundary; or
 - iv. belongs to a different group of contracts.

When a new contract is required to be recognised as a result of modification and it is within the scope of IFRS 17, the new contract is recognised from the date of modification and is assessed for, amongst other things, contract classification, component separation requirements and aggregation requirements.

~~Title insurance contracts are issued with cover normally provided in perpetuity. Once issued, additional cover or amendments to cover may be made through the issuance of a separate endorsement. Such an endorsement would be treated as a modification to the original policy issued and would not be expected to result in the derecognition of the original contract as the above criteria would not be fully satisfied. Nor would endorsements result in:~~

- The original contract being excluded from the scope of IFRS 17 had it applied at inception;
- The original contract being amended to an insurance contract that would be treated differently under IFRS 17 had it applied at inception;
- The original contract being amended to have differing contract boundaries had it applied at inception; or
- The original contract being amended to be included within a different group of contracts had it applied at inception.

It is noted that the Company does not issue any contracts with direct participation features and all contracts are measured using the General Measurement Model (GMM) approach. It is not anticipated that derecognition of issued contracts of insurance would occur.

Notes to the financial statements – continued

Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement

The Company offers cover for one line of business only, being title insurance contracts. The Company has applied IFRS 17 and uses the GMM approach.

Fulfilment cash flows

The fulfilment cash flows (FCF) are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- are based on a probability weighted mean of the full range of possible outcomes;
- are determined from the perspective of the Company, provided the estimates are consistent with observable market prices for market variables; and
- reflect conditions existing at the measurement date.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation.

Risk of the Company's non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability weighted estimates of the present value of future cash flows include the potential credit losses and other disputes with the reinsurers to reflect the non-performance risk of the reinsurers.

The Company estimates certain FCF at the group of contracts level and then allocates such estimates to groups of contracts. The Company uses consistent assumptions to measure the estimates of the present value of future cash flows for both the groups of reinsurance contracts held and the groups of underlying insurance contracts.

As insurance contracts are issued by the Company with cover given in perpetuity, the Company recognises the CSM over the period for which insurance services are anticipated under the contracts issued based on the coverage units. The total number of coverage units in a group is the quantity of service provided by the contracts in the group over the expected coverage period. The Company recognises a portion of the risk adjustment for non-financial risk relating to the Liability for Remaining Coverage (LRC) in insurance revenue as the risk is released.

Contract boundary

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. This assessment is reviewed every reporting period. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the contract of insurance is issued and the Company has a substantive obligation to provide the policyholder with insurance coverage or other services.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

A substantive obligation ends when:

- the Company has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
- both of the following criteria are satisfied:
 - i. the Company has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
 - ii. the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Company, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included.

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Company that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer.

The reinsurance contracts held provide coverage for claims incurred in relation to insurance contracts issued during a calendar year. Thus, all cash flows arising from claims incurred and expected to be incurred in relation to such insurance contracts are included in the measurement of the reinsurance contracts held.

~~Cash flows that are not directly attributable to a portfolio of insurance contracts, such as investment management fees, are recognised in other operating expenses as incurred.~~

Insurance acquisition costs

The Company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Where applicable, insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated to that group. Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

The risk adjustment represents compensation for uncertainty and as such the estimates are made on the degree of diversification benefits and expected favorable and unfavorable outcomes in a way that reflects the Company's degree of risk aversion. The Company estimates an adjustment for non-financial risk separately from all other estimates.

The risk adjustment was calculated and applied to each group of contracts. As a mono-line insurer, all groups of contracts have aligned risk profiles. Due to the nature of title insurance, the volatility in claims activity, the term over which coverage is provided and the limited amount of claims data available, the Board of the Company apply a risk adjustment margin through a 30% uplift to gross best estimate technical provisions (2022; 35%) and a 10% uplift to the reinsurers' share of the best estimate technical provisions (2022; 15%), to calculate a net risk adjustment margin. The resulting uplift on the reserves gives a gross confidence level of 80%-82% (2022: 74%-78%) and a net confidence level of 77%-81% (2022: 79%-82%).

The methods used to determine the risk adjustment for non-financial risk were not changed in 2023 (2022: unchanged), albeit the assumptions were amended as above to maintain a comparable confidence level on a net basis.

Initial measurement; Contractual service margin

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts issued representing the unearned profit that the Company will recognise as it provides coverage in the future.

At initial recognition, the CSM is an amount that results in no income or expenses (unless a group of contracts is onerous) arising from:

- the initial recognition of the FCF;
- the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows; and
- cash flows arising from the contracts in the group at that date.

When the above calculation results in a net outflow, the group of insurance contracts issued is onerous. A loss from onerous insurance contracts is recognised in profit or loss immediately, with no CSM recognised on the statement of financial position on initial recognition, and a loss component is established in the amount of loss recognised.

Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

Initial measurement; Contractual service margin - continued

For groups of reinsurance contracts held, any net gain or loss at initial recognition is recognised as the CSM unless the net cost of purchasing reinsurance relates to past events, in which case the Company recognises the net cost immediately in profit or loss. For reinsurance contracts held, the CSM represents a deferred gain or loss that the Company will recognise as a reinsurance expense as it receives insurance contract services from the reinsurer in the future and is calculated as the sum of:

- i. the initial recognition of the FCF;
- ii. cash flows arising from the contracts in the group at that date;
- iii. the amount derecognised of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held (other pre-recognition cash flows) at the date of their initial recognition; and
- iv. any income recognised in profit or loss when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

A loss-recovery component is established or adjusted within the remaining coverage for reinsurance contracts held for the amount of income recognised in iv. above. This amount is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

Subsequent measurement; Contractual service margin

The carrying amount at the end of each reporting period of a group of insurance contracts issued is the sum of:

- the LRC, comprising:
 - the FCF related to future service allocated to the group at that date; and
 - the CSM of the group at that date; and
 - the liability for incurred claims (LIC), comprising the FCF related to past service allocated to the group at the reporting date.
-

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of:

- the remaining coverage, comprising:
 - the FCF related to future service allocated to the group at that date;
 - and the CSM of the group at that date; and
 - the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.
-

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

Changes in fulfilment cash flows

The FCF are updated by the Company for current assumptions at the end of every reporting period, using the current estimates of the amount, timing and uncertainty of future cash flows and of discount rates.

The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

- changes that relate to current or past service are recognised in profit or loss; and
- changes that relate to future service are recognised by adjusting the CSM or the loss component within the LRC as per the policy below.

The following adjustments relate to future service and thus adjust the CSM:

- experience adjustments – arising from premiums received in the period that relate to future service and related cash flows such as insurance acquisition cash flows;
- changes in estimates of the present value of future cash flows in the LRC; and
- changes in the risk adjustment for non-financial risk that relate to future service.

The adjustments above are measured using discount rates determined on initial recognition (the locked-in discount rates).

The following adjustments do not relate to future service and thus do not adjust the CSM:

- changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereof;
- changes in the FCF relating to the LIC; and
- experience adjustments relating to insurance service expenses.

Changes to the contractual service margin

For insurance contracts issued, at the end of each reporting period the carrying amount of the CSM is adjusted by the Company to reflect the effect of the following changes:

- i. The effect of any new contracts added to the group.
- ii. Interest accreted on the carrying amount of the CSM.
- iii. Changes in the FCF relating to future service are recognised by adjusting the CSM. Changes in the FCF are recognised in the CSM to the extent that the CSM is available. When an increase in the FCF exceeds the carrying amount of the CSM, the CSM is reduced to zero, the excess is recognised in insurance service expenses and a loss component is recognised within the LRC. When the CSM is zero, changes in the FCF adjust the loss component within the LRC with the corresponding expense recognised within the insurance service expenses. The excess of any decrease in the FCF over the loss component reduces the loss component to zero and reinstates the CSM.
- iv. The effect of any currency exchange differences, where applicable.
- v. The amount recognised as insurance revenue for insurance contract services provided during the period, determined after all other adjustments above.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

For reinsurance contracts held, at the end of each reporting period, the carrying amount of the CSM is adjusted by the Company to reflect the effect of the following changes:

- i. The effect of any new contracts added to the group.
- ii. Interest accreted on the carrying amount of the CSM.
- iii. Income recognised in profit or loss when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group. A loss recovery component is established or adjusted within the remaining coverage for reinsurance contracts held for the amount of income recognised.
- iv. Reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held.
- v. Changes in the FCF, to the extent that the change relates to future service, unless the change results from a change in FCF allocated to a group of underlying insurance contracts that does not adjust the CSM for the group of underlying insurance contracts.
- vi. The effect of any currency exchange differences.
- vii. The amount recognised in profit or loss for insurance contract services received during the period, determined after all other adjustments above.

Income referred to in (iii) above is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contract held that is entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

Interest accretion on the CSM

Under the GMM, interest is accreted on the CSM using discount rates determined at initial recognition that are applied to nominal cash flows that do not vary based on the returns of underlying items.

Adjusting the CSM for changes in the FCF relating to future service

The CSM is adjusted for changes in the FCF, measured applying the discount rates as specified in the Changes in fulfilment cash flows section above.

Release of the CSM to profit or loss

The amount of the CSM recognised in profit or loss for insurance contract services in the period is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts based on coverage units.

The coverage period is defined as a period during which the Company provides insurance contract services. Insurance contract services include coverage for an insured event (insurance coverage).

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

For contracts issued, the Company determines the coverage period for the CSM recognition as follows:

- Contracts issued by the Company provide cover in the main in perpetuity and as such do not include stipulated coverage periods.
- Therefore, to estimate the coverage period over which the CSM is to be released, the Company utilises the expected emergence of reported claims as the basis for determining length of coverage.
- The expected emergence of reported claims is provided by the independent actuary alongside their estimated best estimate for claim cash flows.
- Further details on the significant judgements and estimates in applying IFRS 17 are detailed in Note 3.

The total number of coverage units in a group is the quantity of service provided by the contracts in the group over the expected coverage period. The coverage units are determined at each reporting period-end prospectively by considering:

- i. the quantity of benefits provided by contracts in the group;
- ii. the expected coverage period of contracts in the group; and
- iii. the likelihood of insured events occurring, only to the extent that they affect the expected coverage period of contracts in the group.

The Company uses the amount that it expects the policyholder to be able to validly claim in each period if an insured event occurs as the basis for the quantity of benefits with respect to insurance coverage.

The Company determines coverage units as follows:

- The number of coverage units in a group is the quantity of service provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided under a contract.
- The Company considers the maximum contractual cover to represent coverage units for all policies issued and considers coverage units to be uniform throughout the coverage period.
- The CSM at the end of the period, prior to recognition of any amounts in the profit and loss, is applied equally to each coverage unit provided in the current period and expected to be provided in the future.

For reinsurance contracts held, the CSM is released to profit or loss as insurance contract services are received from the reinsurer in the period, reflecting the risk attaching nature of the reinsurance contracts held.

Coverage units for the reinsurance contracts held are based on the insurance coverage provided by the reinsurer, and they are determined by the ceded policies' fixed face values, taking into account new business projected within the reinsurance contract boundary.

The coverage period for these contracts is determined based on the coverage period of all underlying contracts whose cash flows are included in the reinsurance contract boundary. Refer to the Contract boundary section above.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(d) Measurement - continued

Onerous contracts – Loss component

When adjustments to the CSM exceed the amount of the CSM, the group of contracts becomes onerous and the Company recognises the excess in insurance service expenses, and it records the excess as a loss component of the LRC.

When a loss component exists, the Company allocates the following between the loss component and the remaining component of the LRC for the respective group of contracts, based on the ratio of the loss component to the FCF relating to the expected future cash outflows:

- i. expected incurred claims and other directly attributable expenses for the period;
- ii. changes in the risk adjustment for non-financial risk for the risk expired; and
- iii. finance income (expenses) from insurance contracts issued.

The amounts of loss component allocation in (i) and (ii) above reduce the respective components of insurance revenue and are reflected in insurance service expenses.

Decreases in the FCF relating to future service in subsequent periods reduce the remaining loss component and reinstate the CSM after the loss component is reduced to zero. Increases in the FCF relating to future service in subsequent periods increase the loss component.

Reinsurance contracts held – Loss-recovery component

A loss-recovery component is established or adjusted within the asset for remaining coverage for reinsurance contracts held for the amount of income recognised in profit or loss when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

Subsequently, the loss-recovery component is adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts discussed in the *Onerous contracts – Loss component* section above. The loss recovery component is further adjusted, if required, to ensure that it does not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held.

The loss-recovery component determines the amounts that are presented as a reduction of incurred claims recovery from reinsurance contracts held and are consequently excluded from the reinsurance expenses determination.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(e) Insurance service results from insurance contracts issued

As the Company provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Company expects to be entitled to in exchange for those services.

Insurance revenue

Insurance revenue comprises the following:

- Amounts relating to the changes in the LRC:
 - i. claims and other directly attributable expenses incurred in the period measured at the amounts expected at the beginning of the period, excluding:
 - (i) amounts allocated to the loss component;
 - (ii) amounts of transaction-based taxes collected in a fiduciary capacity;
 - (iii) insurance acquisition expenses; and
 - (iv) amounts related to the risk adjustment for non-financial risk (see ii.);
 - ii. Changes in the risk adjustment for non-financial risk, excluding:
 - (i) changes included in insurance finance income / (expenses), where applicable;
 - (ii) changes that relate to future coverage (which adjust the CSM); and
 - (iii) amounts allocated to the loss component;
 - iii. amounts of the CSM recognised for the services provided in the period;
 - iv. experience adjustments – arising from premiums received in the period other than those that relate to future service; and
 - v. other amounts, including any other pre-recognition cash flow assets derecognised at the date of initial recognition.
- Insurance acquisition cash flows recovery is determined by allocating the portion of premiums related to the recovery of those cash flows:

Insurance service expenses

Insurance service expenses include the following:

- Incurred claims reduced by loss component allocations;
- other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
- changes that relate to past service – changes in the FCF relating to the LIC; and
- changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

Other expenses not meeting the above categories are included in other operating expenses in the statement of profit or loss.

Net expenses from reinsurance contracts held

The Company presents the financial performance of groups of reinsurance contracts held on a net basis in net expenses from reinsurance contracts held, comprising the following amounts:

- reinsurance expenses;
- incurred claims recovery reduced by loss-recovery component allocations;
- other incurred directly attributable expenses;

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business – continued

(e) Insurance service results from insurance contracts issued - continued

- changes that relate to past service – changes in the FCF relating to incurred claims recovery;
- effect of changes in the risk of reinsurers' non-performance; and
- amounts relating to accounting for onerous groups of underlying insurance contracts issued:
 - i. income on initial recognition of onerous underlying contracts;
 - ii. reinsurance contracts held under the GMM: reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held; and
 - iii. reinsurance contracts held under the GMM: changes in the FCF of reinsurance contracts held from onerous underlying contracts.

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services.

Reinsurance expenses comprise the following amounts relating to the changes in the remaining coverage:

- claims and other directly attributable expenses recovery in the period, measured at the amounts expected to be incurred at the beginning of the period, excluding:
 - amounts allocated to the loss-recovery component; and
 - amounts related to the risk adjustment for non-financial risk (as below);
- changes in the risk adjustment for non-financial risk, excluding:
 - changes included in finance expenses from reinsurance contracts held, where applicable;
 - changes that relate to future coverage (which adjust the CSM); and
 - amounts allocated to the loss-recovery component;
- amounts of the CSM recognised for the services received in the period; and
- experience adjustments – arising from premiums paid in the period other than those that relate to future service.

Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money; and
- the effect of financial risk and changes in financial risk.

As applied by the Company, the main amounts within insurance finance income or expenses are:

- interest accreted on the FCF and the CSM; and
- the effect of changes in interest rates and other financial assumptions.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses. The Company includes all insurance finance income or expenses for the period in profit or loss (that is, the profit or loss option is applied). It is noted that finance income and expenses relating to assets held are detailed within investment income as noted in 1.10 above.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(f) Sensitivity analysis to underwriting risk variables

The following table presents information on how reasonably possible changes in assumptions made by the Company with regard to underwriting risk variables impact insurance liabilities, profit or loss and equity before and after risk mitigation by reinsurance contracts held. The analysis is based on a change in an assumption while holding all other assumptions constant.

	2023			2022				
	FCF as at 31 Dec	Impact on FCF	Impact on profit	Impact on equity	FCF as at 31 Dec	Impact on FCF	Impact on profit	Impact on equity
Insurance contract liabilities	4,223				4,244			
Reinsurance contract assets	(1,245)				(1,004)			
Net insurance contract liabilities	2,978				3,240			
<i>Future claims cash outflows and related expenses: 10% increase</i>								
Insurance contract liabilities		237	225	225		264	251	251
Reinsurance contract assets		(102)	(97)	(97)		(64)	(61)	(61)
Net insurance contract liabilities		135	(128)	(128)		200	(190)	(190)

(g) Composition of the statement of financial position

The amounts shown on the statement of financial position relate wholly to title insurance and therefore a single portfolio. Therefore, an analysis between portfolios has not been included. A presentation of current and non-current portions of the statement of financial position is presented below:

	2023			2022		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Insurance contract liabilities	1,129	3,094	4,223	1,892	2,352	4,244
Reinsurance contract assets	340	905	1,245	510	494	1,004

It is noted that there are no pre-recognition cash flows recognised by the Company. See 1.11 (d) above for further details regarding insurance acquisition cash flows.

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(h) Insurance revenue and expenses

An analysis of insurance revenues, insurance service expenses and net expenses from reinsurance contracts held is included in the following tables.

	2023 €'000	2022 €'000
Insurance revenue		
Amounts relating to the changes in the LRC		
- Expected incurred claims and other directly attributable expenses	730	1,379
- Changes in the risk adjustment for non-financial risk for the risk expired	210	400
- CSM recognised for the services provided	154	122
Insurance acquisition cash flows recovery	416	303
Total insurance revenue	1,510	2,204
Insurance service expense		
Incurred claims and other directly attributable expenses	1,053	206
Changes relating to past service; changes to FCF relating to the LIC	(32)	(35)
Losses on onerous contracts and reversal of those losses	(930)	(1,020)
Insurance acquisition cash flows amortisation	(416)	(303)
Total insurance services expenses	(325)	(1,152)
Net expenses from reinsurance contracts held		
Amounts relating to changes in the remaining coverage		
- Expected incurred claims and other directly attributable recoveries	(246)	(447)
- Changes in the risk adjustment for non-financial risk for the risk expired	(35)	(67)
- CSM recognised for the services received	(41)	(39)
Reinsurance expenses	(322)	(553)
Incurred claims recovery	(280)	(59)
Income on onerous contracts and reversal of related income	397	274
Total net expenses from reinsurance contracts held	(205)	(338)
Total insurance services result	980	714

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(i) Movements in insurance and reinsurance contract business

The following shows the movements in insurance contracts analysed by remaining coverage and incurred claims.

	2023				2022			
	LRC – excl loss comp. €'000	LRC – Loss comp. €'000	LIC €'000	Total €'000	LRC – excl loss comp. €'000	LRC – Loss comp. €'000	LIC €'000	Total €'000
Opening insurance liabilities	2,974	1,189	81	4,244	3,737	491	72	4,300
Insurance revenues	(1,510)	-	-	(1,510)	(2,204)	-	-	(2,204)
<i>Insurance service expenses</i>								
- Incurred claims and other insurance service expenses	(44)	(1,021)	12	(1,053)	133	(322)	(17)	(206)
- Reversals of previous onerous contract losses recognised	-	930	-	930	-	1,020	-	1,020
- Changes relating to past service; changes to FCF relating to the LIC	-	-	32	32	-	-	35	35
- Insurance acquisition cash flows amortisation	416	-	-	416	303	-	-	303
Insurance result	(1,138)	(91)	44	(1,185)	(1,768)	698	18	(1,052)
Net finance expenses / (income) from insurance contracts	64	-	2	66	(168)	-	(1)	(169)
Total changes in the statement of profit or loss	(1,074)	(91)	46	(1,119)	(1,936)	698	17	(1,221)
<i>Cash flows</i>								
- Premiums received	2,967	-	-	2,967	3,305	-	-	3,305
- Claims and other directly attributable expenses paid	(6)	-	(32)	(38)	(37)	-	(8)	(45)
- Insurance acquisition cashflows	(1,831)	-	-	(1,831)	(2,095)	-	-	(2,095)
Total cash flows	1,130	-	(32)	1,098	1,173	-	(8)	1,165
Closing liabilities	3,030	1,098	95	4,223	2,974	1,189	81	4,244

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(i) *Movements in insurance and reinsurance contract business - continued*

The following shows the movements in insurance contracts analysed by measurement component as follows:

	2023				2022			
	PV of future cash flows €'000	Risk adj. for non-financial risk €'000	CSM €'000	Total €'000	PV of future cash flows €'000	Risk adj. for non-financial risk €'000	CSM €'000	Total €'000
Opening insurance liabilities	1,939	589	1,716	4,244	2,292	781	1,227	4,300
<i>Changes that relate to current service</i>								
CSM recognised for services provided	-	-	(154)	(154)	-	-	(122)	(122)
Change in risk adjustment for the non-financial risk expired	-	(210)	-	(210)	-	(400)	-	(400)
Experience adjustment relating to insurance service expenses	(1,588)	(163)	-	(1,751)	(1,520)	(30)	-	(1,550)
<i>Changes that relate to future service cost</i>								
Contracts initially recognised in the year	(703)	79	624	-	(674)	28	646	-
Change in estimate resulting in onerous contract losses	757	173	-	930	767	253	-	1,020
Changes in estimates that adjust the CSM	298	91	(389)	-	22	6	(28)	-
Insurance service result	(1,236)	(30)	81	(1,185)	(1,405)	(143)	496	(1,052)
Net finance expenses / (income) from insurance contracts	66	(15)	15	66	(113)	(49)	(7)	(169)
Total changes in the statement of profit or loss	(1,170)	(45)	96	(1,119)	(1,518)	(192)	489	(1,221)
<i>Cash flows</i>								
Premiums received	2,967	-	-	2,967	3,305	-	-	3,305
Claims and other insurance service expenses	(38)	-	-	(38)	(46)	-	-	(46)
Insurance acquisition costs	(1,831)	-	-	(1,831)	(2,094)	-	-	(2,094)
Total cash flows	1,098	-	-	1,098	1,165	-	-	1,165
Closing liabilities	1,867	544	1,812	4,223	1,939	589	1,716	4,244

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(i) Movements in insurance and reinsurance contract business - continued

The following shows the movements in reinsurance contracts analysed by assets for remaining coverage (ARC) and assets for incurred claims (AIC).

	2023				2022			
	ARC – excl loss recovery comp. €'000	ARC – Loss recovery comp. €'000	AIC €'000	Total €'000	ARC – excl loss recovery comp. €'000	ARC – Loss recovery comp. €'000	AIC €'000	Total €'000
Opening reinsurance asset	691	294	19	1,004	730	109	16	855
Incurred claims recovery	(322)	-	-	(322)	(553)	-	-	(553)
Reinsurance expenses	10	(289)	(1)	(280)	25	(89)	5	(59)
- Reversals of loss recovery component and changes in the FCF of reinsurance contracts held from onerous underlying contracts	-	397	-	397	-	274	-	274
Net (expense) / income from reinsurance contracts held	(312)	108	(1)	(205)	(528)	185	5	(338)
Net finance expenses from reinsurance contracts	(8)	-	1	(7)	(34)	-	-	(34)
Total changes in the statement of profit or loss	(320)	108	-	(212)	(562)	185	5	(372)
<i>Cash flows</i>								
- Premiums paid	453	-	-	453	523	-	-	523
- Amounts received	-	-	-	-	-	-	(2)	(2)
Total cash flows	453	-	-	453	523	-	(2)	521
Closing reinsurance asset	824	402	19	1,245	691	294	19	1,004

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(i) *Movements in insurance and reinsurance contract business - continued*

The following shows the movements in reinsurance contracts analysed by measurement component as follows:

	2023				2022			
	PV of future cash flows €'000	Risk adj. for non-cash financial risk €'000	CSM €'000	Total €'000	PV of future cash flows €'000	Risk adj. for non-cash financial risk €'000	CSM €'000	Total €'000
Opening reinsurance asset	500	84	420	1,004	506	100	249	855
<i>Changes that relate to current service</i>								
CSM recognised for services provided	-	-	(41)	(41)	-	-	(39)	(39)
Change in risk adjustment for the non-financial risk expired	-	(35)	-	(35)	-	(67)	-	(67)
Experience adjustment relating to reinsurance service	(420)	(106)	-	(526)	(435)	(71)	-	(506)
<i>Changes that relate to future services</i>								
Contracts initially recognised in the year	(262)	15	247	-	(386)	4	382	-
Reversals of a loss recovery component changes in FCF of reinsurance contracts held from onerous underlying contracts	362	109	(74)	397	325	114	(165)	274
Changes in estimates that adjust the CSM	289	26	(315)	-	5	1	(6)	-
Net (expense) / income from reinsurance contracts held	(31)	9	(183)	(205)	(491)	(19)	172	(338)
Net finance expenses from reinsurance contracts	(18)	(1)	12	(7)	(36)	3	(1)	(34)
Total changes in statement of profit or loss	(49)	8	(171)	(212)	(527)	(16)	171	(372)
<i>Cash flows</i>								
Premiums paid	453	-	-	453	523	-	-	523
Claims and other insurance service expenses	-	-	-	-	(2)	-	-	(2)
Total cash flows	453	-	-	453	521	-	-	521
Closing reinsurance asset	904	92	249	1,245	500	84	420	1,004

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(j) Expected recognition of the contractual service margin

An analysis of the expected recognition of the CSM remaining at the end of the reporting period in profit or loss is provided in the following table:

Number of years until expected to be recognised	Year ended 31 December 2023		Year ended 31 December 2022	
	Insurance contracts issued €'000	Reinsurance contracts held €'000	Insurance contracts issued €'000	Reinsurance contracts held €'000
1	102	(2)	106	15
2	109	1	105	16
3	113	4	107	17
4	116	6	108	19
5	120	8	110	21
6	123	10	112	22
7	127	12	115	24
8	131	14	117	26
9	135	16	120	28
10	139	18	123	30
>10	597	162	593	202
Total	1,812	249	1,716	420

(k) Impact of contracts recognised in the year

Please note that there were no onerous contract groups for 2023 or 2022 and no contracts were acquired during either period from other entities as a result of insurance contract transfers or business combinations.

Insurance contracts issued	2023 €'000	2022 €'000
Estimates of the present value of cash outflows		
- Insurance acquisition cash flows	(1,833)	(2,109)
- Claims and other directly attributable expenses	(265)	(97)
Estimates of the present value of cash outflows	(2,098)	(2,206)
Estimates of the present value of cash inflows	2,801	2,880
Risk adjustment for non-financial risk	(79)	(28)
CSM	624	646
Reinsurance contracts held	2023 €'000	2022 €'000
Estimates of the present value of cash inflows	(154)	(24)
Estimates of the present value of cash outflows	416	410
Risk adjustment for non-financial risk	(15)	(4)
CSM	247	382

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.11 Accounting for insurance business - continued

(i) Claims development tables

The Company provides information on the gross and net claims development for the current period back to the year that trading commenced, 2020. Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the below claims development disclosure on a gross of reinsurance basis as at 31 December 2023.

Estimate of gross ultimate claim cost	Claims year				Total
	2020	2021	2022	2023	
	€'000	€'000	€'000	€'000	€'000
At end of accident year	129	1	11	-	
1 year later	132	1	61		
2 years later	138	1			
3 years later	138				
Cumulative gross paid and other directly attributable expenses	(90)	(1)	(33)	-	
Gross cumulative claims liability	48	-	28	-	76
Effect of the risk adjustment margin for non-financial risk					23
Effect of discounting					(4)
Gross LIC at year end					95

The following table shows the comparable information on a net of reinsurance basis as at 31 December 2023.

Estimate of net ultimate claim cost	Claims year				Total
	2020	2021	2022	2023	
	€'000	€'000	€'000	€'000	€'000
At end of accident year	70	-	11	-	
1 year later	69	-	61		
2 years later	69	-			
3 years later	70				
Cumulative net paid and other directly attributable expenses	(39)	-	(33)	-	
Net cumulative claims liability	31	-	28	-	59
Effect of the risk adjustment margin for non-financial risk					20
Effect of discounting					(3)
Net LIC at year end					76

Notes to the financial statements – continued

1. Summary of material accounting policies – continued

1.12 Fair value

IFRS 13 requires disclosure for fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

1.13 Related party and related party transactions

Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operating decisions. The Company also considers as related parties the Company's key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Details are disclosed in Note 12.

1.14 Intangible assets

Developed computer software is capitalised on the basis of the costs incurred to develop and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, which is considered to be ten years, from the period in which the software commences being used. Use of the software had not commenced as at 31 December 2023. Therefore, amortisation for the period was nil (2022:nil). Details are disclosed in Note 14.

1.15 Fixed assets

Tangible assets comprise computer equipment. These are stated at historical cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life, with computer equipment depreciated over a period of three years.

Any gains or losses on disposal of fixed assets would be determined by reference to their carrying amount and are recognised in the profit or loss statement.

Details are disclosed in Note 15.

Notes to the financial statements – continued

2. Management of financial and insurance risk

2.1 Financial risk

The Company's activities expose it to a variety of financial risks, namely market risk, liquidity risk and credit risk. The risk management policies employed by the Company to manage these risks are discussed below.

2.1.1 Market risk

Market risk arises from the Company's use of interest bearing and tradable currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

a) Interest rate risk

In general, the Company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents is exposed to cash flow interest rate risk (see Note 4).

In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company minimises this risk by holding its investments in readily realisable corporate and government bonds giving it the ability to respond quickly to any changes in prevailing interest rates. The following table details those assets held subject to fixed and floating interest rates.

Assets subject to fixed and floating interest rates as at 31 December 2023	Interest bearing at floating rates €'000	Interest bearing at fixed rates €'000	Total €'000
Cash and cash equivalents	3,364	-	3,364
Financial investments	1,547	5,115	6,662
Total	4,911	5,115	10,026
<hr/>			
Assets subject to fixed and floating interest rates as at 31 December 2022	Interest bearing at floating rates €'000	Interest bearing at fixed rates €'000	Total €'000
Cash and cash equivalents	3,047	-	3,047
Financial investments	1,511	4,798	6,309
Total	4,558	4,798	9,356

The Company's main exposure to interest rate risk relates to fair value risks, primarily in relation to the value of financial investments, which comprise wholly of corporate bonds.

Notes to the financial statements – continued

2. Management of financial and insurance risk - continued

2.1.1 Market risk – continued

If interest rates at 31 December 2023 would have resulted in assets subject to fixed interest rates to be valued 10% lower / (higher), with all other variables held constant, the impact on pre-tax profit for the year would have been €512 thousand higher / lower (2022: €480 thousand). The Company's financial instruments subject to cash flow interest rate risk are short-term in nature and accordingly the level of interest rate risk is contained.

b) Foreign currency risk

Currency risk arises on financial instruments that are denominated in a currency that is not the entity's functional currency. The Company maintains a minimal amount of exposure in foreign currency and therefore the directors consider currency risk to be insignificant.

2.1.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company maintains sufficient cash and financial investments, in addition to adequate reinsurance programs in place, so as to ensure that it can meet any calls.

The following tables presents the estimated amount and timing of the remaining contractual discounted cash flows arising from the Company's financial and insurance assets and liabilities.

As at 31 December 2023 (€'000)	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	>5 yrs	Total
Assets							
Cash and cash equivalents	3,364	-	-	-	-	-	3,364
Corporate bonds	312	892	1,669	1,704	1,104	1,011	6,692
Reinsurance contract assets	340	140	133	113	94	425	1,245
Other assets	215	-	-	-	-	-	215
	4,231	1,032	1,802	1,817	1,198	1,436	11,516
Liabilities							
Insurance contract liabilities	(1,129)	(412)	(390)	(340)	(309)	(1,643)	(4,223)
Liabilities other than insurance contract liabilities	(156)	-	-	-	-	-	(156)
	(1,285)	(412)	(390)	(340)	(309)	(1,643)	(4,379)
Net cash flows	2,946	620	1,412	1,477	889	(207)	7,137
As at 31 December 2022 (€'000)	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	>5 yrs	Total
Assets							
Cash and cash equivalents	3,047	-	-	-	-	-	3,047
Corporate bonds	213	931	1,639	1,723	969	836	6,311
Reinsurance contract assets	510	36	35	34	31	358	1,004
Other assets	144	-	-	-	-	-	144
	3,914	967	1,674	1,757	1,000	1,194	10,506
Liabilities							
Insurance contract liabilities	(1,892)	(296)	(250)	(219)	(192)	(1,395)	(4,244)
Liabilities other than insurance contract liabilities	(141)	-	-	-	-	-	(141)
	(2,033)	(296)	(250)	(219)	(192)	(1,395)	(4,385)
Net cash flows	1,881	671	1,424	1,538	808	(201)	6,121

Notes to the financial statements – continued

2. Management of financial and insurance risk – continued

2.1.3 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Cash and cash equivalents;
- Insurance contract liabilities; and
- Financial investments;
- Reinsurance contract assets.

The Company measures credit risk and expected credit losses on financial assets using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any expected credit loss. The Company's cash and cash equivalents are placed with quality financial institutions. No loss allowance has been recognised as any such impairment would be wholly insignificant to the Company given counterparty bank's credit quality

As disclosed in Note 1.11, the Company measures credit risk on estimated future cash inflows relating to insurance contracts issued and reinsurance contracts held using incurred credit loss approach.

The following tables provide information regarding the Company's primary aggregated credit risk exposure and includes reputable credit rating agencies' composite rating (where applicable).

Balances bearing credit risk as at 31 December 2023	AAA €'000	AA €'000	A €'000	BBB €'000	Unrated €'000	Total €'000
Financial investments (Note 9)	-	501	2,414	3,747	-	6,662
Future cash inflows within reinsurance contract asset*	-	-	924	-	-	924
Cash and cash equivalents (Note 4)	-	-	2,381	-	983	3,364
Total	-	501	5,719	3,747	983	10,950
Balances bearing credit risk as at 31 December 2022	AAA €'000	AA €'000	A €'000	BBB €'000	Unrated €'000	Total €'000
Financial investments (Note 9)	-	405	1,800	4,104	-	6,309
Future cash inflows within reinsurance contract asset*	-	-	558	-	-	558
Future cash inflows within insurance contract liabilities	-	-	-	-	114	114
Cash and cash equivalents (Note 4)	-	-	1,890	-	1,157	3,047
Total	-	405	4,248	4,104	1,271	10,028

* Amounts are stated excluding the risk adjustment for non-financial risk and CSM.

At 31 December 2023, all of the Company's future cash inflows relating to insurance contracts issued were not past due or impaired (2022: nil past due or impaired).

While some of the Company's cash at bank is held at an unrated counterparty bank, this bank is a subsidiary of an A rated multinational bank.

Notes to the financial statements – continued

2. Management of financial and insurance risk – continued

2.1.3 Credit risk - continued

Reinsurance is used to manage risk. This does not, however, discharge the Company's liability as a prime insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. All of the reinsurance contracts held, in terms of potential recoveries, are placed with group companies (which are rated A) and the creditworthiness and financial strength minimise this risk. A group risk arises from the fact that the reinsurance is placed with a group company.

2.1.4 Fair value estimation

The following table presents the Company's assets and liabilities that are measured at fair value:

Assets	2023	2022
	Total	Total
	Level 1	Level 1
	€'000	€'000
Financial assets at fair value through profit and loss:		
- Investment assets	<u>6,662</u>	<u>6,309</u>
Total	<u>6,662</u>	<u>6,309</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

At 31 December 2023, and throughout the year, the carrying amount of the Company's other financial assets and liabilities approximate their fair value in view of their short-term maturity.

2.2 Insurance risk

The risk under any one insurance contract is the uncertainty of whether loss will arise to the insured from the event which the Company has insured against. If that happens, then further uncertainty lies in total quantum of the related claim per policy and for the book of business as a whole, the frequency and severity of claims.

Insurance risk is by its nature random and unpredictable. Consequently, the Company writes a portfolio of risks with the intention of correctly constructing pricing of its insurance contracts to ensure sufficient profitability and retained funds to service future claims costs for policy holders at an aggregate level.

The risk the Company faces, however, remains that actual claims incurred exceed the amounts of such provisions as the frequency and severity incurred may exceed the level estimated. Insurance events, due to their random nature, can vary in severity and frequency from year to year.

Notes to the financial statements – continued

2. Management of financial and insurance risk – continued

2.2 Insurance risk - continued

2.2.1 Frequency and severity of claims

Title insurance claims tend to arise infrequently but can be significant in their quantum. During the year, there were limited incurred claims. This development was outside of expectations and continued a trend identified during the prior year, which had previously been attributed to the limited economic activity during the Covid-19 pandemic having an impact on the timing, rather than ultimate quantum, of claims. However, despite the increase in economic activities during the year ending 31 December 2023, claims incurred remained limited. It is, however, noted that title claims may be made a number of years after a policy has been issued and therefore estimated fulfilment cash flows are reviewed in accordance with this development. The Company manages these risks through its underwriting strategy and adequate reinsurance arrangements.

2.2.2 Sources of uncertainty in estimation of future claims payments

A title claim is payable if a loss arises to the insured in relation to the defect known at the date the policy is issued in accordance with the coverage provided. Claims development may take a number of years giving rise to uncertainty within the estimated fulfilment cash flows recognised. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, and the fulfilment cash flows are based upon the historical experience of the Company and other title insurers in the wider international group with experience of writing and reinsuring business within the European Union as well as consideration of sums insured and other factors as appropriate. However, given the uncertainty in establishing estimates, it is likely that the final outcome will prove to be different from the original best estimate of fulfilment cash flows. The estimation of the LRC is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. The ultimate fulfilment cash flows may not be apparent to the Company until many years after the claim event has arisen. Where possible, multiple techniques are adopted to estimate the fulfilment cash flows in respect of both remaining coverage and the coverage provided to date. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each year of claim.

2.2.3 Concentration of insurance risk

As a single line insurer, the Company is aware of the concentration risk within its book. However, the policies for which the Company is responsible are issued in geographies across Europe and the Company has underwriting procedures in place to avoid concentration risk in relation to individual property developments.

Notes to the financial statements – continued

2. Management of financial and insurance risk – continued

2.2 Insurance risk - continued

2.2.4 Mitigation of insurance risk

The main mitigation of insurance risk arising from the frequency and severity of claims is through the use of extensive reinsurance as provided by other group companies. Reinsurance is placed with companies of a sufficient credit rating and level of expertise as assessed by the directors of the Company and limit the maximum net loss of a significant claim arising. Operational insurance risk is mitigated through the use of experienced and highly trained property professionals as underwriters and claims handlers, as well as through benefitting from the support of the reinsurance companies, with First American Title Insurance Company having over 125 years of experience in writing title insurance and paying title insurance claims.

2.3 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements of the Malta Financial Services Authority ("MFSA");
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts to properly reflect the level of risk being assumed.

The Company is required to hold regulatory capital for its insurance business. The Company monitors its capital on a regular basis and maintained required capital levels throughout the period. The Company defines capital as the excess of assets over liabilities as valued in accordance with the respective regulatory requirements.

The Company may issue new shares in order to adjust the capital structure.

The Company is subject to the requirements of the EU Solvency II directive. The Solvency II regime is an established set of EU-wide capital requirements, risk management and disclosure standards. The Company must hold eligible own funds to cover the SCR and eligible basic own funds to cover the MCR. The SCR shall be calculated either in accordance with the standard formula or using a full or partial internal model as approved by the Regulator. The Company must immediately inform the Regulator where it observes that its SCR or MCR are no longer complied with or where there is risk of non-compliance in the following six months for SCR and three months for MCR.

The Company uses the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2023, the Company's eligible own funds adequately covered the required SCR and amounted to €8.891 million (unaudited) (2022: €7.733 million, unaudited). The Company's SCR as calculated using the standard formula and Minimum Capital Requirement (MCR) ratios as at 31 December 2023 were equivalent to 462% (unaudited) and 329% (unaudited), respectively (2022: 337% and 286%, respectively (unaudited)). The audited Group SCR is reported in the group-wide Solvency and Financial Condition Report.

Notes to the financial statements – continued

3. Critical accounting estimates and judgements

Significant judgements and estimates in applying IFRS 17

Judgements

Judgements in relation to the following have been detailed above:

- Definition and classification;
- Unit of account;
- Recognition, modification and derecognition; and
- Measurement.

Methods used and judgements applied in determining the IFRS 17 transition amounts

The Company has determined that reasonable and supportable information was available for all contracts in force at the transition date and has therefore adopted IFRS 17 applying the full retrospective approach. Accordingly, the Company has recognised and measured each group of insurance contracts as if IFRS 17 had always applied, derecognised any existing balances that would not exist had IFRS 17 always applied and recognised any resulting net difference in equity.

Estimates and assumptions

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. This note provides an overview of items that are more likely to be materially adjusted due to changes in estimates and assumptions in subsequent periods.

Discount rates; the present value of future cash flows over time varies based on changes in the discount rates applied. Risk-free interest rate term structures are aligned to those applied within the discounting of reserves within the Solvency calculations in accordance with European Insurance and Occupational Pensions Authority (EIOPA) published technical information.

Estimates of future cash flows to fulfil insurance contracts; the nature of title insurance is that claims are limited in number, but can be significant in value. This results in claims volatility and therefore the estimates of future cash flows can vary between periods, sometimes significantly. The Company relies on the Actuarial Function to provide best estimate technical provision calculations and claims development patterns, which are then reviewed by the Board and utilised in the calculation of the LRC. ~~Estimates are performed on an underwriting year basis aligned to the insurance contract groups using a range of widely used actuarial techniques including the chain-ladder and the Bornhuetter-Ferguson methods, which are the industry standards for general insurance. The chain-ladder technique involves an analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each claim year that is not yet fully developed to produce an estimated ultimate claims cost for each claim year. The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as gross or reinsurance premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.~~

Estimates and judgements are continually evaluated and based on factors including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the fulfilment cash flows arising from remaining coverage for insurance contracts issued to date is the Company's most critical accounting estimate. The Company's business tends to be long tailed and there are sources of uncertainty that need to be considered in the estimate of liability that the Company will ultimately pay for such claims (see Note 2.2).

Notes to the financial statements – continued

3. Critical accounting estimates and judgements - continued

As disclosed in Note 1.11, provision is made for the future fulfilment cash flows. These estimates include expenses to be incurred in settling and managing the claim. Given the uncertainty in establishing cash flows estimates, it is expected that the final outcome will prove to be different from the original amount estimated. However, the most likely basis of a deterioration in future claims development would be as a result of a low number of large claims. It is noted that in this instance, due to the reinsurance cover provided on a stop loss basis, the impact to the Company net of reinsurance would be limited. In reporting best estimate future cash flows, the Company takes all reasonable steps to curtail any future deviations in establishing its liabilities by ensuring that it has appropriate information regarding its claims exposures and related future liabilities from the outset. The results of the Company's claims cost progression are disclosed in development tables included in Note 1.11 with additional detail in the insurance contract liabilities and reinsurance contract assets disclosures. The Company believes that, with the confidence level recognised through the risk adjustment, the estimate of fulfilment cash flows arising from claims under insurance contracts is adequately reflected in the insurance contract liabilities and reinsurance contract assets as at the financial year end.

Estimates relating to contract boundaries under IFRS 17; As noted above, the Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the contract of insurance is issued and the Company has a substantive obligation to provide the policyholder with insurance coverage or other services. As contracts for title insurance provide cover in perpetuity, the period used for accounting for the coverage is based on the claims cycle based on the experience to date. This assessment is reviewed every reporting period.

Consideration of expenses in accordance with IFRS 17; Expenses are assessed as either being within contract boundaries, where they are considered to relate directly to the provision of services under contracts issued, or outside of contract boundaries, where expenses do not. Furthermore, those within contract boundaries are identified as insurance acquisition cash flows if they are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. As the Company is a mono-line insurer, all costs incurred in relation to issuing the policies are considered to fall into this category, with future expenses considered in relation to each cohort of business limited to the provision of services in relation to claims management and settlement.

4. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2023	2022
	€'000	€'000
Cash at bank and with investment institutions	3,364	3,047
Interest-bearing: at floating rates	3,364	3,047

Notes to the financial statements – continued

5. Other assets

	2023	2022
	€'000	€'000
Deferred tax	-	25
Current income tax	16	12
Prepayments and accrued income	192	130
	208	167

6. Share capital

	2023	2022
	€'000	€'000
Authorised		
10,000,000 ordinary shares of €1 each	10,000	10,000
Issued and fully paid		
5,800,000 (2022: 5,800,000) ordinary shares of €1 each	5,800	5,800

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. No shares were issued in 2023 (2022: nil).

7. Other current liabilities

	2023	2022
	€'000	€'000
Accrued other operating expenses	156	141
Total other current liabilities	156	141

Notes to the financial statements – continued

8. Expenses by nature

	2023			2022		
	Expenses attributed to insurance acquisition cash flows €'000	Other directly attributable expenses €'000	Other operating expenses €'000	Expenses attributed to insurance acquisition cash flows €'000	Other directly attributable expenses €'000	Other operating expenses €'000
Professional fees	334	-	134	262	-	155
Employee expenses	657	-	-	1,051	-	-
Brokerage fees	462	-	-	414	-	-
Other expenses	378	2	23	367	15	23
Total	1,831	2	157	2,094	15	178

Expenses attributed to insurance acquisition cash flows and other directly attributable expenses comprise expenses incurred by the Company in the reporting period that relate directly to the fulfilment of contracts issued within IFRS 17's scope and reinsurance contracts held. These expenses are recognised in the statement of profit or loss based on IFRS 17 measurement requirements.

Professional fees include fees, excluding VAT, charged by the external auditor for services rendered during the financial period relating to the following:

	2023 €'000	2022 €'000
Annual statutory audit fees, including impact of IFRS 17	160	97
Annual regulatory assurance fees	13	12
Tax compliance fees	8	2
	181	111

9. Financial assets at fair value through profit or loss

	2023 €'000	2022 €'000
As at 31 December		
Cost	6,803	6,852
Accumulated net fair value losses	(141)	(543)
At end of year	6,662	6,309

Debt securities comprise wholly of corporate bonds with a mix of fixed and variable rates (see Note 2.1.1) and are held at fair value through profit and loss. Analysis of net movements is as follows:

	2023 €'000	2022 €'000
Year ended 31 December		
At beginning of year	6,309	6,936
Net gains / (losses) on FVTPL investments	402	(562)
Additions	2,509	2,104
Disposals and maturities	(2,558)	(2,169)
At end of year	6,662	6,309

Notes to the financial statements – continued

10. Net investment income / (expense) and finance (expense) / income from insurance contract

	2023	2022
	€'000	€'000
Net investment income / (expense) recognised in the statement of profit or loss		
Interest income from investments	89	35
Other interest income	30	-
Realised losses on sale of investments	(102)	(26)
Net unrealised gains / (losses) on FVTPL investments	402	(562)
Net investment income / (expense)	419	(553)
	2023	2022
	€'000	€'000
Finance (expense) / income from insurance contracts issued		
Interest accreted	(15)	7
Effect of change in interest rates and other financial assumptions	33	151
Effect of changes in FCF at current rates when CSM is unlocked at locked-in rates	(84)	11
Finance (expense) / income from insurance contracts issued	(66)	169
	2023	2022
	€'000	€'000
Finance expenses from reinsurance contracts held		
Interest accreted	12	(1)
Effect of change in interest rates and other financial assumptions	(39)	(29)
Effect of changes in FCF at current rates when CSM is unlocked at locked-in rates	20	(4)
Finance expenses from reinsurance contracts held	(7)	(34)

11. Directors' fees and other emoluments

Remunerations to directors were as follows:

	2023	2022
	€'000	€'000
Directors' fees	75	75

There were no other emoluments paid to the directors in 2023 (2022; nil).

Notes to the financial statements – continued

12. Related party disclosures

All companies forming part of the First American Group are considered by the directors to be related parties as these companies are ultimately controlled by First American Financial Corporation, a company incorporated in Delaware, USA (see Note 16).

During the year ended 31 December 2023 reinsurance was provided wholly by companies forming part of the First American Group on an excess of loss basis, with the Company retaining the initial loss on each claim. Reinsurance transactions are as follows:

	2023 €'000	2022 €'000
Outward reinsurance cash flows	(453)	(523)
Reinsurers' cash inflows in relation to claims paid	-	2
Reinsurers' change in liability for coverage	<u>212</u>	<u>372</u>
Total movement in the year	<u>(241)</u>	<u>(149)</u>

13. Income tax

	2023 €'000	2022 €'000
Current tax expense	<u>(59)</u>	<u>(6)</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2023 €'000	2022 €'000
Profit before tax	<u>1,189</u>	<u>118</u>
Effective tax at 5% (2022: 5%)	<u>(59)</u>	<u>(6)</u>
Income tax expense	<u>(59)</u>	<u>(6)</u>

The current income tax charge during the year is calculated on the taxable income using the effective consolidated tax rate of 5% (2022: 5%) as the Company invoked for fiscal unity on 31 December 2020.

Notes to the financial statements – continued

14. Intangible assets

Intangible assets represent costs incurred in respect of software development. Use of the software had not commenced as at 31 December 2023. Therefore, amortisation for the period was nil (2022: nil).

	2023 Developed software €'000	2022 Developed software €'000
Cost		
At 1 January	-	-
Movement in the year:		
Additions	155	-
At 31 December	155	-

15. Fixed assets

	2023 Computer equipment €'000	2022 Computer equipment €'000
Cost or valuation		
At 1 January	1	-
Movement in the year:		
Additions	24	1
At 31 December	25	1
Accumulated depreciation		
At 1 January	-	-
Charge for the year	1	-
At 31 December	1	-
Net book value at 1 January	1	-
Net book value at 31 December	24	1

16. Statutory information

First European Title Insurance Company Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of the Company is First European Holding Company Limited, a company incorporated in Malta, with its registered office at Portomaso Business Centre, Vjal Portomaso, San Giljan, PTM01, Malta. The Company's ultimate parent is First American Financial Corporation, a company registered in Delaware, USA, with its registered office at 1 First American Way, Santa Ana, CA 92707, United States.

The individual financial statements of the Company are incorporated in the consolidated financial statements of First American Financial Corporation. Copies of the consolidated accounts of First American Financial Corporation are available on request from the Company's registered office, stated above.

17. Events after the reporting date

No significant events have taken place since the financial reporting date that would have otherwise required adjustment to and/or disclosure in this annual report.