FIRST EUROPEAN TITLE INSURANCE COMPANY LIMITED

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C 88171

DIRECTORS' REPORT

The directors present their report and the audited financial statements from period 19 September 2018 to 31 December 2019. As the Company was just incorporated on 19 September 2018, these financial statements are the first set prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

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, appointed 19 September 2018
Mr. Oliver Bate, appointed 19 September 2018
Mr. Justin McChesney (Non-executive), appointed 23 January 2019
Mr. John Bonett (Non-executive), appointed 30 May 2019
Mr. Joseph Demanuele (Non-executive), appointed 17 July 2019

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

Principal activities

The Company has been established to transact 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 was established as part of the Group's strategic response to the United Kingdom's ceasing to be a member of the European Union (i.e., Brexit).

As at 31 December 2019, the Company has not yet issued any policies. The Company's directors consider that the Company is very well placed to commence issuing policies in the second quarter of 2020 having put in place appropriate operational, financial, regulatory and reinsurance arrangements in the period under review.

The Company opted for 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 2019, the Company's eligible own funds adequately covered the required SCR and amounted to €3,890,000 (unaudited). The Company's SCR and MCR ratios as at 31 December 2019 were equivalent to 194.2% (unaudited) and 155.6% (unaudited), respectively. The audited Group SCR will be reported in May 2020 in the Solvency and Financial Condition Report.

Financial risk management

The Company's activities expose it to a variety of financial risks. The principal risks facing the Company and its policies for managing those risks are set out in Note 2 of the notes to these financial statements, namely market risk, liquidity risk and credit risk.

Results

The statement of comprehensive income is set out on page 12. The loss for the period has been transferred to accumulated deficit.

DIRECTORS' REPORT – continued

Events after the reporting period

Pandemic risks have arisen since 31 December 2019 in the form of the virus Covid19. The Company has plans in place to address circumstances such as widespread infectious diseases. While this helps ensure that the Company can continue to operate largely as normal there will be an impact on the Company from the general economic shock, potentially reducing demand for the Company's products in the short to medium term. The Company is well capitalised to manage any such impact and at 31 December 2019 did not hold any investments in debt or equities so did not incur any investment losses since the period end. Pandemic risks do not impact upon the incidence or quantum of claims arising from title insurance business. The directors are therefore satisfied that the Company remains a going concern in light of the risks of Covid19.

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

Future developments

The Company is party to a proposed transfer of insurance portfolio from First Title Insurance plc, a fellow subsidiary company. This transfer is subject to court approval, governed by Part VII of the Financial Services and Markets Act 2000 in the United Kingdom ("UK"), and approval by the Malta Financial Services Authority in Malta and the Financial Services Authority in the UK. The transfer is expected to be completed in April 2020. The Company is expected to commence issuing policies following this transfer.

First Title Insurance plc is a company registered in the UK which is also a wholly owned subsidiary of First American Financial Corporation, and which currently transacts title insurance business in the EU and the UK. While it is not clear if First Title Insurance plc will be able to continue to transact title insurance business in the European Union after 31 December 2020 depending upon the outcome of trade negotiations between the UK and the EU, First Title Insurance plc is set to stop writing non-UK business in April 2020, following the completion of the transfer of insurance portfolio.

Going concern

The financial statements are prepared on a going concern basis under the historical cost convention, which the directors believe is appropriate. The financial statements are being prepared on the basis that the Company will assume the non-UK insurance portfolio of First Title Insurance plc in line with the proposed transfer which is expected to be completed in April 2020 and that the Company will start writing title insurance in various European jurisdictions thereafter. The Company currently has passporting rights to conduct business in various European jurisdictions.

External actuarial function holder

The Company's external actuarial function holder is Milliman LLP.

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 that period in accordance with the requirements of IFRS as adopted by the EU.

DIRECTORS' REPORT – continued

Statement of directors' responsibilities for the financial statements – continued

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

- ensuring that the financial statements have been drawn up in accordance with 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.

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.

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

John Maidens
Director

John Bonett
Director

The Reed Centre, Blue Harbour
Ta' Xbiex Seafront, Ta' Xbiex
XBX 1027
Malta

30 March 2020

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:

- First European Title Insurance Company Limited's financial statements give a true and fair view of the Company's financial position as at 31 December 2019, 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 11 to 26, comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

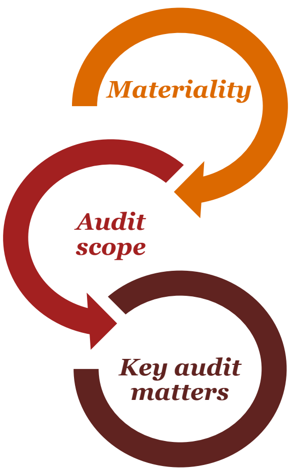
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of 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 19 September 2018 to 31 December 2019 are disclosed in note 8 to the financial statements.

Our audit approach

Overview



Overall materiality: €39,650, which represents 1% of total assets

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.

Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

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.

Overall materiality	€39,650
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as reflected in the statement of financial position as the benchmark since the Company is a start-up and results are not deemed to be representative of future expected operations. We chose 1% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €3,965 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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. We have no key audit matters to report with respect to our audit of the Company's financial statements in view of the Company not yet commencing its operations.

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, including the directors' report.

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.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial period 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).

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Independent auditor's report - continued

To the Shareholders of First European Title Insurance Company Limited

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.

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.

Independent auditor's report *- continued*

To the Shareholders of First European Title Insurance Company Limited

- 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Company's trade, customers, suppliers and the disruption to its businessand the overall economy.
- 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 those charged with governance 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, related safeguards.

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

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that 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 we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

Appointment

We were first appointed as auditors of the Company on 24 June 2019 by virtue of a board resolution.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Romina Soler
Partner

30 March 2020

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 €'000
ASSETS		
Current assets		
Cash at bank	4	3,911
Receivables and prepayments	5	54
Total current assets		3,965
Total assets		**3,965**
EQUITY AND LIABILITIES		
Equity		
Share capital	6	4,150
Accumulated deficit		(260)
Total equity		**3,890**
LIABILITIES		
Current liabilities		
Trade and other payables	7	75
Total liabilities		**75**
Total equity and liabilities		**3,965**

The notes on pages 15 to 26 are an integral part of these financial statements.

The financial statements on pages 11 to 26 were approved and authorised for issue by the Board on 30 March 2020 and signed on its behalf by:

John Maidens
Director

John Bonett
Director

STATEMENT OF COMPREHENSIVE INCOME

Non-technical account

	Notes	From Period 19 September 2018 to 31 December 2019*
		€'000
Operating expenses	8	260
Loss before tax for the period ended 31 December 2019		**(260)**
Tax expense	12	**-**
Loss after tax for the period ended 31 December 2019		**(260)**
Total comprehensive loss for the period ended 31 December 2019		**(260)**

The notes on pages 15 to 26 are an integral part of these financial statements.

*The Company was incorporated on 19 September 2018.

STATEMENT OF CHANGES IN EQUITY
From Period 19 September 2018 to 31 December 2019*

	Note	**Share capital €'000**	**Accumulated deficit €'000**	**Total €'000**
Transaction with owners				
Issuance of share capital	6	4,150	–	4,150
Total comprehensive loss for the period				
Loss for the period		–	(260)	(260)
Balance as at 31 December 2019		**4,150**	**(260)**	**3,890**

The notes on pages 15 to 26 are an integral part of these financial statements.

*The Company was incorporated on 19 September 2018.

STATEMENT OF CASH FLOWS

	Notes	From Period 19 September 2018 to 31 December 2019*
		2019
		€'000
Cash flows from operating activities		
Cash used in operations	10	(239)
Net cash used in operating activities		**(239)**
Cash flow from financing activity		
Issuance of share capital	6	**4,150**
Cash generated from financing activity		**4,150**
Net movement in cash at bank		**3,911**
Cash at bank at the beginning of the period		**–**
Cash and cash equivalents at the end of the period	4	**3,911**

The notes on pages 15 to 26 are an integral part of these financial statements.

*The Company was incorporated on 19 September 2018.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the period.

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 The Reed Centre, Blue Harbour, Ta'Xbiex Seafront, Ta'Xbiex XBX 1027, Malta. The Company was registered on 19 September 2018.

The Company's principal activity is to transact title insurance business in Europe in terms of the Maltese Insurance Business Act, 1998. As at the date of these financial statements, however, the Company has not yet started underwriting insurance policies.

The Company is party to a proposed transfer of insurance portfolio from First Title Insurance plc, a fellow subsidiary company. This transfer is subject to court approval, governed by Part VII of the Financial Services and Markets Act 2000 in the United Kingdom ("UK"), and approval by the Malta Financial Services Authority in Malta and the Financial Services Authority in the UK. The transfer is expected to be completed in April 2020. The Company is expected to commence issuing policies following this transfer.

First Title Insurance plc, a company registered in the UK, is a wholly owned subsidiary of First American Financial Corporation, and which currently transacts title insurance business in the European Union ("EU") and the UK. While it is not clear if First Title Insurance plc will be able to continue to transact title insurance business in the European Union after 31 December 2020 depending upon the outcome of trade negotiations between the UK and the European Union, First Title Insurance plc is set to stop writing non-UK business in April 2020, following the completion of the transfer of insurance portfolio.

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 Insurance Business Act, 1998 and the Maltese Companies Act (Cap. 386). As the Company was incorporated on 19 September 2018, these are the first set of financial statements prepared.

These financial statements are prepared on a going concern basis under the historical cost convention. The financial statements are being prepared on the basis that the Company will assume the non-UK insurance portfolio of First Title Insurance plc in line with the proposed transfer which is expected to be completed in April 2020 and that the Company will start writing title insurance in various European jurisdictions thereafter. The Company currently has passporting rights to conduct business in various European jurisdictions.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies (see Note 3 - Critical accounting estimates and judgements).

Notes to the financial statements – continued

1. **Summary of significant accounting policies** – continued

1.2 Basis of preparation – continued

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning on or after 1 January 2020. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Company's directors are of the opinion that there are no requirements that will have an impact on the Company's financial statements in the period of initial application, except as disclosed below.

IFRS 17, 'Insurance Contracts', was issued in May 2017 and supersedes IFRS 4, 'Insurance Contracts'. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is expected to be effective for annual periods beginning on or after 1 January 2023. The Company is in the process of assessing the impact of IFRS 17. Industry practice and interpretation of the Standard is still developing and there may be changes to it, therefore the likely impact of its implementation remains uncertain. The Standard is still subject to being endorsed for use in the EU.

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 balance sheet 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.

Notes to the financial statements – continued

1. **Summary of significant accounting policies** – continued

1.5 Cash and cash equivalents

Cash and cash equivalents includes 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 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.

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.

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.

Notes to the financial statements – continued

1. Summary of significant accounting policies – continued

1.9 Financial assets and liabilities

Financial assets

The Company's financial assets include cash at bank and receivable from a group undertaking.

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 Company classifies its financial assets as those to be measured at amortised cost. 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.

Financial assets are recognised initially at fair value plus directly attributable transaction costs except for financial assets at fair value through profit or loss ("FVTPL"). Transaction costs relating to financial assets at FVTPL are expensed outright. Debt instruments are recognised at amortised cost, subject to impairment, where the intention is to hold the asset to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest.

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

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company's financial assets are subsequently measured at amortised cost.

The Company's financial assets are subject to expected credit loss model. The Company recognises loss allowances for expected credit losses on its financial assets measured at amortised cost. 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).

Notes to the financial statements – continued

1.9 Financial assets and liabilities – continued

Any impairment is recognised directly in 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 statement of comprehensive income.

The Company's financial assets mainly pertain to cash at bank. While cash at bank is also subject to the impairment requirements, the identified impairment loss was immaterial.

Financial liabilities

The Company's financial liabilities include trade 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, net of directly attributable transaction costs. Financial liabilities are derecognised when they are extinguished, cancelled or expired.

2. Management of 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 Market risk

In the period ended 31 December 2019, the Company did not make any investments in equity or debt instruments held for trading, such that market risk exposure was not significant.

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 at bank is exposed to cash flow interest rate risk (see Note 4). As the Company has no significant interest-bearing assets that mature in the long term, its income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, a sensitivity analysis to determine the potential impact on income statement of a defined interest rate shift that is reasonably possible at the reporting date was not considered necessary by the directors.

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.

2.2 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 so as to ensure that it has adequate funds to meet any calls.

Notes to the financial statements – continued

2. **Management of financial risk** – continued

2.2 Liquidity risk – continued

The net cash outflows arising from trade and other payables are expected to be within 12 months (see Note 7).

2.3 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 at bank and receivable from a group undertaking.

The Company measures credit risk and expected credit losses 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 at bank is placed with a quality financial institution. No loss allowance has been recognised as any such impairment would be wholly insignificant to the Company given the significance of debtor balances and the Company's counterparty bank's credit quality.

The following table provides information regarding the Company's aggregated credit risk exposure at the end of the reporting period and includes reputable credit rating agencies' composite rating (where applicable).

	2019 **€'000**
Cash at bank – unrated	**3,911**
Amounts owed from a group undertaking – unrated	**17**
	3,928

While the Company's counterparty bank is unrated, it is a subsidiary of a rated-A multinational bank.

3. **Critical accounting estimates and judgements**

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

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

Notes to the financial statements – continued

4. Cash at bank

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

	2019 €'000
Cash at bank	**3,911**
Interest-bearing - at floating rates	**3,911**

5. Receivables and prepayments

	2019 €'000
Amounts owed from a group undertaking	**17**
Prepayments	**37**
	54

Amounts owed from a group undertaking are unsecured, interest-free and repayable on demand.

6. Share capital

	2019 €'000
Authorised	
10,000,000 ordinary shares of €1 each	**10,000**
Issued and fully paid	
4,150,000 ordinary shares of €1 each	**4,150**

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.

Notes to the financial statements – continued

6. Share capital – continued

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;
- To provide an adequate return to shareholders by pricing insurance contracts to properly reflect the level of risk being assumed.

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

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 is subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Company must hold eligible own funds to cover the solvency capital requirement (SCR) and eligible basic own funds to cover the minimum capital requirement (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 opted for 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 2019, the Company's eligible own funds adequately covered the required SCR and amounted to €3,890,000 (unaudited). The Company's SCR and MCR ratios as at 31 December 2019 were equivalent to 194.2% (unaudited) and 155.6% (unaudited), respectively.

7. Trade and other payables

	2019
	€'000
Amounts owed to a group undertaking	**5**
Accrued liabilities	**68**
Other payables	**2**
	75

Amounts owed to a group undertaking are unsecured, interest-free and payable on demand.

Notes to the financial statements – continued

8. Operating expenses

	From Period 19 September 2018 to 31 December 2019
	€'000
Professional fees	**135**
Directors' fees and other emoluments (Note 9)	**38**
Management fees	**29**
Other expenses	**58**
	260

Professional fees include fees, excluding VAT, charged by the external auditor for services rendered during the financial period ended 31 December 2019 relating to the following:

	From Period 19 September 2018 to 31 December 2019
	€'000
Annual statutory audit fees	**6**
Annual regulatory assurance fees	**4**
Tax compliance fees	**1**
	11

During the period, the Company employed two employees in an administrative role.

9. Directors' fees and other emoluments

The aggregate emoluments of the directors were as follows:

	From Period 19 September 2018 to 31 December 2019
	€'000
Directors' fees	**38**
Other emoluments	**-**
	38

Notes to the financial statements – continued

10. Cash generated from operations

Reconciliation of operating loss to cash used in operations:

	From Period 19 September 2018 to 31 December 2019
	€'000
Operating loss before tax	(260)
Changes in working capital:	
Receivables and prepayments	(54)
Trade and other payables	75
Cash used in operations	(239)

11. 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 14).

Outstanding balances owed by and to related parties are disclosed in these financial statements in Notes 5 and 7. Directors' remuneration is disclosed in Note 9.

During the period ended 31 December 2019, During the period ended 31 December 2019, expenditures recharged by related parties amounted to €72,000.

12. Income tax

	From Period 19 September 2018 to 31 December 2019
	€'000
Current tax expense	–

Notes to the financial statements – continued

12. Income tax – continued

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

	From Period 19 September 2018 to 31 December 2019
	€'000
Loss before tax	(260)
Theoretical tax at 35%	(91)
Loss carryover against future profits	91
Income tax expense	-

The Company did not recognise deferred tax asset on its unused tax losses of €260,120 as at 31 December 2019.

13. Fair values

As at 31 December 2019, the carrying amounts of financial assets and financial liabilities approximated their fair values due to their short-term nature.

14. 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 The Reed Centre, Blue Harbour, Ta'Xbiex Seafront, Ta'Xbiex XBX 1027, 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.

Notes to the financial statements – continued

15. Events after the reporting period

Pandemic risks have arisen since 31 December 2019 in the form of the virus Covid19. There has been no change to the value of assets or liabilities held at 31 December 2019 as a result of this pandemic and the Company has implemented plans to ensure, as far as possible, that operations continue with minimal disruption. While this helps ensure that the Company can continue to operate largely as normal there will be an impact on the Company from the general economic shock, potentially reducing demand for the Company's products in the short to medium term. The Company is well capitalised to manage any such impact.