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**Report of the independent approved auditor to the Directors of First European Holding Company Limited ("the Undertaking") pursuant to section 8.10.2 in Chapter 8 of the Insurance Rules issued by the MFSA ("competent authority") in terms of the Insurance Business Act (Cap. 403)**

## *Our opinion*

We have audited the following documents prepared by the Undertaking as at 31 December 2023, which we have initialed for identification purposes only:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report ("Group SFCR") of the Undertaking as at 31 December 2023 ("the narrative disclosures subject to the audit"); and
- S.02.01.02, S.23.01.22, S.25.01.22, as at 31 December 2023 ("the templates subject to the audit").

The narrative disclosures subject to the audit and the templates subject to the audit are hereafter defined as the "relevant elements of the Group SFCR".

In our opinion, the information subject to audit in the relevant elements of the Group SFCR of the Undertaking as at 31 December 2023 is prepared, in all material respects, in accordance with the Insurance Business Act (Cap. 403), regulations and Insurance Rules issued thereunder, the Commission Delegated Regulation and the European Commission Implementing Regulation (EU) 2015/2452 (hereafter referred to as "the relevant legislation").

### Scope exclusion

The relevant legislation does not require us to read or audit, nor have we read or audited, and as a consequence do not express any opinion on the other elements of the Group SFCR which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group SFCR;
- Group templates S.05.01.02.01, S.05.01.02.02, S.05.02.01; and
- Any information or calculations pertaining to a solo insurer within the Group.

To the extent the information subject to audit in the relevant elements of the Group SFCR includes amounts that are totals, sub-totals or calculations derived from the other elements of the Group SFCR, we have relied without verification on the other elements of the Group SFCR.

### 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 relevant elements of the* Group SFCR section of our report. 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 relevant elements of the Group SFCR in Malta, and we have fulfilled our other ethical responsibilities in accordance with these codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Report of the independent approved auditor to the Directors of First European Holding Company Limited ("the Undertaking") pursuant to section 8.10.2 in Chapter 8 of the Insurance Rules issued by the MFSA ("competent authority") in terms of the Insurance Business Act (Cap. 403)**

## *Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use*

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR, which describe the basis of accounting. The Group SFCR is prepared to assist the Undertaking in complying with the financial reporting provisions of the Solvency II Regulations. As a result, the relevant elements of the Group SFCR may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. We understand that our report will be made available to the MFSA in support of your obligation under the relevant legislation in respect of your business for the year ended 31 December 2023. Our report is solely for this purpose and for your information and is not to be used for any other purpose or to be copied or distributed or otherwise made available, in whole or in part, to any other parties. This report will not form part of the public disclosure of the Group SFCR. We do not accept any liability or responsibility to any third party to whom our report is shown or into whose hands it may come. We hereby give you permission to provide this letter to the MFSA but assume no liability or responsibility towards them in this respect.

## *Responsibilities of Directors for the Solvency and Financial Condition Report*

The Directors are responsible for the preparation of the Group SFCR in accordance with the financial reporting provisions of the relevant legislation.

In accordance with section 8.9 and section 8.11.1 of Chapter 8 of the Insurance Rules, the Directors are responsible for having in place appropriate systems and structures to meet the Undertaking's public disclosure requirements in relation to the Group SFCR and for the approval of the Group SFCR.

The Directors are also responsible for such internal control as management determines is necessary to enable the preparation of a Group SFCR that is free from material misstatement, whether due to fraud or error. The Directors are responsible for overseeing the Undertaking's financial reporting process.

The Directors should be satisfied that, throughout the financial year in question, the Undertaking has complied in all material respects with the requirements of the relevant legislation as applicable to the Undertaking. All Directors are required to sign a Declaration Form, in accordance with sections 8.6.2 and 8.11.1 of Chapter 8 of the Insurance Rules and Annex IV to the said Chapter, for submission with the Group SFCR to the competent authority.

In preparing the Group SFCR, the directors are responsible for assessing the Undertaking'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 Undertaking or to cease operations, or have no realistic alternative but to do so.

**Report of the independent approved auditor to the Directors of First European Holding Company Limited ("the Undertaking") pursuant to section 8.10.2 in Chapter 8 of the Insurance Rules issued by the MFSA ("competent authority") in terms of the Insurance Business Act (Cap. 403)**

## *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report*

Our responsibility as approved auditors is to form an independent opinion as to whether the relevant information and relevant elements of the Group SFCR are prepared, in all material respects, in accordance with the relevant legislation on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant information and relevant elements of the Group SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the relevant information and relevant elements of the Group SFCR.

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

- Identify and assess the risks of material misstatement of the relevant elements of the Group SFCR 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 Undertaking'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 Undertaking'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 Undertaking'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 Undertaking's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the relevant elements of the Group SFCR, including the disclosures, and whether the relevant elements of the Group SFCR represent the underlying transactions and events in a manner that achieves fair presentation.

**Report of the independent approved auditor to the Directors of First European Holding Company Limited ("the Undertaking") pursuant to section 8.10.2 in Chapter 8 of the Insurance Rules issued by the MFSA ("competent authority") in terms of the Insurance Business Act (Cap. 403)**

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.

Romina Soler

Principal

*For and on behalf of*

**Pricewaterhouse Coopers**

78, Mill Street,

Zone 5, Central Business District,

Qormi, CBD 5090

Malta

9th April 2024

## Summary

First European Holding Company Limited (First European Holding) is a company based in Malta. It has one subsidiary which is wholly owned, being First European Title Insurance Company Limited (First European Title), an insurance company based in Malta to provide title insurance to European real estate markets. Title insurance is classified as miscellaneous financial loss business and is a no fault insurance policy that can protect policyholders from a wide range of title risks associated with buying and owning land or property. It covers legal expenses and costs in resolving the problem or compensates for loss. First European Title has no other lines of business. This report will consider First European Holding, First European Title and both companies collectively (the First European Group). As First European Title is the only regulated insurance entity within the First European Group it is noted that the primary risks for the First European Group relate to First European Title.

This solvency and financial condition report (SFCR) provides information on the First European Group and an overview of its business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. Ultimate responsibility for this report and these areas lies with the respective boards of the members of the First European Group.

In the year to 31 December 2023, First European Title issued insurance policies with a total premium income of €2,801,000. This was a decrease from the €2,995,000 in the year to 31 December 2022 following the economic pressures in First European Title's market as a result of high interest rates and high inflation. In the year to 31 December 2023 First European Title recorded a net insurance service result of €980,000 (2022: €714,000) and a retained profit of €1,130,000, calculated in accordance with International Financial Reporting Standards (IFRS) (2022 restated: €112,000).

In the year ended 31 December 2023, the First European Group reported a profit after tax of €1,129,000 (2022 restated: €115,000).

On a Solvency II valuation basis, consolidated eligible own funds for the First European Group increased by €1,158,000 from €7,731,000 as at 31 December 2022 to €8,889,000 as at 31 December 2023. This increase was due to the reduction in technical provisions on a Solvency II basis during the year and profitable business written during the period.

The First European Group's eligible own funds solely comprise tier 1 unrestricted amounts classified as basic own funds. The solvency capital requirement (SCR) as at 31 December 2023, as calculated using the standard formula, was €1,924,000. The minimum capital requirement (MCR) was €2,700,000. Therefore, as at 31 December 2023, the First European Group's capital requirement was equal to the MCR and the ratio of eligible own funds to the MCR was 329%. The First European Group fully complied with the SCR and MCR as required during the year.

The First European Group operates the universally recognised three lines of defence model in respect of the governance of risk, as more fully set out in section B below.

The First European Group's most material risk is underwriting risk, followed by market risk and then counterparty default risk. The combination of these accounts for the majority of the First European Group's SCR. These and other less significant risks are considered more fully in section C below.

The First European Group has not used any transitional arrangements in the calculation of its eligible own funds or SCR.

## Directors' statement in respect of the SFCR for the year ended 31 December 2023

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the Solvency II Regulations.

We are satisfied that:

a) Throughout the reporting period, the First European Group has complied in all material respects with the requirements of the Solvency II Regulations as applicable to the First European Group; and
b) It is reasonable to believe that the First European Group has continued so to comply and will continue so to comply in future.

Signed: DocuSigned by: 2C8FE241BC4441D...

John Maidens

Date: 9/04/2024

## D. Valuation for solvency purposes

The First European Group balance sheet is summarised below detailing the values of assets and liabilities on both Solvency II and statutory accounting bases.

| As at 31 December 2023 | Solvency II value €'000 | Statutory accounting value €'000 |
|---|---|---|
| Total assets (excluding reinsurance contract assets / recoveries on technical provisions) | 10,446 | 10,413 |
| | | |
| Net technical provisions | 1,001 | 2,978 |
| | | |
| Liabilities (other than insurance contract liabilities / technical provisions) | 556 | 162 |
| | | |
| **Total eligible own funds / net assets** | **8,889** | **7,273** |

The Solvency II balance sheet has been calculated in accordance with Directive 2009/138/EC of the European Parliament and of the Council (the Solvency II Directive), specifically Articles 75 to 86 of the Solvency II Directive text.

The statutory accounting balance sheet has been calculated in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Net technical provisions on a statutory accounting basis comprise the insurance contract liabilities less the reinsurance contract assets as more fully set out in D.2 below.

The approach and assumptions applied to the valuation of the Solvency II balance sheet items have not changed during the reporting period. The statutory accounting balance sheet has been calculated in accordance with "IFRS 17 Insurance contracts" which was applied from 1 January 2023.

### D.1 Assets

The following table analyses the First European Group's total assets (excluding reinsurance recoveries on technical provisions) as at 31 December 2023:

| As at 31 December 2023 | Solvency II value €'000 | Statutory accounting value €'000 |
|---|---|---|
| Other assets | 315 | 214 |
| Intangible assets | - | 155 |
| Fixed assets | 24 | 24 |
| Corporate bonds | 6,732 | 6,662 |
| Cash and cash equivalents | 3,375 | 3,372 |
| **Total assets (excluding reinsurance recoveries on technical provisions)** | **10,446** | **10,427** |

*Other assets*

Other assets represent amounts paid by the First European Group prior to 31 December 2023 for goods and services due to be received after 31 December 2023. For Solvency II, accrued interest on cash deposits and the bond investments held as at 31 December 2023 is included within the value of the cash and cash equivalents and bond investments held respectively, as opposed to the statutory accounts whereby the accrued interest is included within other assets.

Additionally, the amount of premiums due in relation to policies issued is included within "other assets" for Solvency II, however is considered within future cash in flows within the insurance contract liabilities within the statutory accounts.

*Corporate bonds*

Corporate bonds are held at fair value, being at quoted market price in active markets for identical assets for both Solvency II and statutory accounts. The market prices are readily available, and the bonds are actively traded, details of which are provided in a statement produced by the portfolio manager. There were no significant estimates and judgements used in valuing the asset due to the nature of the asset.

For Solvency II, accrued interest on the bond investments held as at 31 December 2023 is included within the value of the bond investments held, but for statutory accounts, the accrued interest is included within other assets.

*Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. There are no significant estimates or judgements used in valuing these assets due to their nature.

For Solvency II, accrued interest on cash deposits as at 31 December 2023 is included within the value of the cash and cash equivalents, but for statutory accounts, the accrued interest is included within other assets.

## D.2 Technical provisions

Technical provisions for Solvency II are defined as the probability-weighted average of future cash flows, discounted to take into account the time value of money considering all possible future scenarios. Technical provisions are generally grouped into the following key components:

- Claims provisions, which relate to the best estimate of provisions relating to the earned exposure.
- Premium provisions, which relate to the best estimate of provisions that relate to the unearned exposure. As such, First European Group's technical provisions for Solvency II purposes do not comprise premium provisions.
- Risk margin, which is an additional provision to bring the best estimate to the level required to transfer the insurance obligations to a third party.

First European Group's net technical provisions for Solvency II comprise the gross best estimate technical provisions less the reinsurers' share of those technical provisions plus a risk margin as follows:

| | **Miscellaneous financial loss €'000** |
|---|---|
| Gross best estimate technical provisions | **1,832** |
| Reinsurers' share of technical provisions | **(929)** |
| Best estimate liabilities net of reinsurance | **903** |
| Risk margin | **98** |
| Net technical provisions | **1,001** |

The technical provisions within the First European Group are wholly attributable to First European Title.

The gross best estimate technical provisions and reinsurers' share of technical provisions represent the discounted cash flows of the undiscounted claims provisions, as calculated by the actuarial function and reviewed by the board and executive team. Standard actuarial techniques such as the basic chain ladder, the expected loss ratio and the Bornhuetter-Ferguson methods were used to model the undiscounted claims provisions. The key assumptions used in the calculation of the provisions were the loss development factors (derived from historical data and expert judgement), consideration of events not in data (ENID) and estimation of costs associated with the run-off of policies in-force at the balance sheet date. First European Title does not recognise any expected profit included in future premiums and does not hold an unearned premium reserve.

As noted above, title insurance, classified as miscellaneous financial loss business, is a no-fault insurance policy that can protect from a wide range of title risks associated with buying and owning a property. Risks in relation to this line of business are generally known at the point the policy is issued and are not materially affected by, for example, subsequent environmental events. Uncertainty is therefore primarily due to whether or not the known title risk results in a claim and if so the quantum of that claim. Title insurance claim liabilities have tended to be long-tailed, meaning that it often takes several years for all the claims arising from an underwriting year to be notified and for them then to be settled and paid. Therefore, many years of historical experience are needed to provide a sound basis for the projection of future claims development.

The First European Group's chief mitigation for underwriting risk is reinsurance to guard against large losses. The reinsurance for the liabilities taken on as a result of the Part VII transfer on 28 April 2020 is with FATIC, a subsidiary of FAFC, on a non-proportional treaty / risk-attaching basis. For policies issued subsequently by First European Title, reinsurance is provided by First Title Insurance plc, also on a non-proportional treaty / risk-attaching basis.

The required risk margin has been calculated in accordance with risk margin methodology 3 as per guideline 62 within the European Insurance and Occupational Pensions Authority "Guidelines on the valuation of technical provisions". The risk margin is calculated as the amount of capital needed to support the solvency capital ratio over the lifetime of the business.

The First European Group has not used any simplifications in the calculation of its technical provisions.

The First European Group does not apply the matching adjustment referred to in Article 77b of the Solvency II Directive.

The First European Group does not use the volatility adjustment referred to in Article 77d of the Solvency II Directive.

The First European Group does not apply the risk-free interest rate-term structure referred to in Article 308c of the Solvency II Directive.

The First European Group does not apply the transitional deduction referred to in Article 308d of the Solvency II Directive.

For statutory accounts, the net technical provisions are calculated in accordance with IFRSs as adopted by the EU as follows:

| | Miscellaneous financial loss €'000 |
|---|---|
| Gross insurance best estimate liabilities and fulfilment cash flows | 1,867 |
| Gross risk adjustment for non-financial risk | 544 |
| Gross contractual service margin | 1,812 |
| Insurance contract liabilities | 4,223 |
| | |
| Reinsurance best estimate recoveries and fulfilment cash flows | (904) |
| Reinsurance risk adjustment for non-financial risk | (92) |
| Reinsurance contractual service margin | (249) |
| Reinsurance contract assets | (1,245) |
| | |
| Net insurance balance recognised on the balance sheet | 2,978 |

The gross insurance best estimate liabilities and fulfilment cash flows and reinsurance best estimate recoveries and fulfilment cash flows represent the discounted cash flows of related receivables and payables plus the undiscounted claims provisions, as calculated by the actuarial function and reviewed by the board and executive team. Standard actuarial techniques such as the basic chain ladder, the expected loss ratio and the Bornhuetter-Ferguson methods were used to model the undiscounted claims provisions. The key assumptions used in the calculation of the provisions were the loss development factors (derived from historical data and expert judgement), consideration of events not in data (ENID) and estimation of costs associated with the run-off of policies in-force at the balance sheet date.

The risk adjustment for non-financial risk represents the compensation that the First European Group would require if it was to charge the policyholder an explicit separate amount for bearing non-financial risk.

The gross contractual service margin represents the unearned profit in relation to policies issued prior to the end of the reporting period, which is to be recognised over the coverage period of such policies, as assessed by the expected claims period.

The main valuation principles of Solvency II leading to differences from statutory accounting are:

- The recognition of the risk adjustment as recognised under IFRS 17;
- The consideration of the deferred profit (CSM) as recognised under IFRS 17.

### D.3 Other liabilities

The following table analyses the First European Group's liabilities other than technical provisions as at 31 December 2023:

| As at 31 December 2023 | Solvency II value €'000 | Statutory accounting value €'000 |
|---|---|---|
| **Liabilities (excluding technical provisions)** | | |
| Deferred tax liabilities | 90 | 6 |
| Insurance and reinsurance payables | 165 | - |
| Accrued expenses and other liabilities | 299 | 156 |
| | | |
| **Total Liabilities (excluding technical provisions)** | **556** | **162** |

*Deferred tax liability*
The deferred tax liability arises primarily as a result of the best estimate technical provisions included for Solvency II being lower in value than the technical provisions recognised in the statutory accounts. Deferred tax liabilities are calculated under the liability method for all temporary differences using First European Group's effective tax rate of 5%.

*Insurance and reinsurance payables*
These amounts represent unsettled expenses incurred in relation to issuing insurance contracts during the year ended 31 December 2023. These amounts are reflected within the insurance contract liabilities as future out flows within the statutory accounts.

*Accrued expenses and other liabilities*
These amounts represent expenses incurred relating to the year ended 31 December 2023 for which payment had not yet been requested and amounts owed to other group companies for which amounts were outstanding as at 31 December 2023.

For the statutory accounting value, any accrued amounts relating to expenses within contract boundaries as considered under IFRS 17 are included as future cash out flows within the insurance contract liabilities and only unpaid expenses which fall outside of the contract boundaries are included within accrued expenses. For the solvency II valuation, all accrued expenses are included within the accrued expenses and other liabilities.

### D.4 Alternative method for valuation

The First European Group does not use an alternative method for valuation.

### D.5 Any other information

There is no other material information regarding the valuation of assets or liabilities for solvency purposes.

The directors are satisfied that the First European Group remains a going concern. In making this assessment, the directors considered the ongoing impact of exceptionally high interest and inflation rates on the First European Group by looking at the impact on income, the level of capital held and the prospects and risks over the next 12 months. The directors are satisfied that the First European Group have the appropriate resources and strategy to remain a going concern.

The directors also considered First European Group's exposure to credit risk whereby a significant portion of the assets relate to liquid government bonds and bonds issued by reputable companies. First European Group's cash and cash equivalents are likewise held by reputable banks.

## E. Capital management

The standard formula has been adopted for the calculation of the capital position in accordance with the Solvency II Directive and the board considers that there was more than sufficient solvency capital for the business throughout the reporting period. The board maintains adequate eligible funds in excess of the solvency capital requirement to meet its business objectives. The business objectives are set quantitatively and qualitatively by the board annually on a forward-looking five-year basis. The five-year plan is tested using plausible scenarios and circumstances, identifying potential business stresses and so ensuring that adequate eligible funds in excess of the standard formula SCR are maintained.

Current eligible own funds, standard formula SCR and risks to the business are monitored by the board on a quarterly basis, to identify any material variances that may necessitate a review of that five-year plan.

### E.1 Own funds

Set out below is a table showing a reconciliation between the excess of assets over liabilities and equity shown in the First European Group's statutory accounts compared to total eligible own funds shown in the Solvency II balance sheet as at 31 December 2023.

| | **As at 31 December 2023 €'000** |
|---|---|
| **Retained earnings under IFRS basis** | **1,423** |
| Differences between IFRS and Solvency II as at 31 December 2023 | 1,616 |
| **Excess of assets over liabilities and equity on a Solvency II basis** | **3,039** |
| Tier 1 share capital | 5,850 |
| **Total Solvency II eligible own funds** | **8,889** |

Own funds as at 31 December 2023, and throughout the year, were composed solely of tier 1 unrestricted amounts, classified as basic own funds. Share capital relates wholly to ordinary paid-up share capital. There is therefore no difference between own funds and basic own funds, and these were as follows over the reporting period:

| | **As at 31 December 2023 €'000** | **As at 31 December 2022 €'000** |
|---|---|---|
| Ordinary share capital | 5,850 | 5,850 |
| Reconciliation reserve | 3,039 | 1,881 |
| **Total eligible own funds for Solvency II** | **8,889** | **7,731** |

The increase in the reconciliation reserve reflects the result for the year ended 31 December 2023 as well as the change in differences between IFRS and Solvency II for the year ending 31 December 2023. At 31 December 2023 cash held exceeded both the standard formula SCR and the MCR to ensure that liquid assets were available to meet liabilities as they fall due.

### E.2 Solvency capital requirement and minimum capital requirement

The solvency capital requirement for the First European Group at the end of the reporting period is detailed as follows:

| | **As at 31 December 2023 €'000** | **As at 31 December 2022 €'000** |
|---|---|---|
| Underwriting risk | 1,430 | 1,712 |
| Market risk | 678 | 532 |
| Counterparty default risk | 347 | 507 |
| Diversification benefit | (525) | (531) |
| **Basic solvency capital requirement** | **1,930** | **2,220** |
| Operational risk | 84 | 89 |
| Loss-absorbing capacity of deferred taxes | (90) | (16) |
| **Solvency capital requirement** | **1,924** | **2,293** |

As shown in the above table, the amount with which the Solvency Capital Requirement has been adjusted for the loss-absorbing capacity of deferred taxes is a reduction of €90,000 (2022: reduction of €16,000) which arises primarily as a result of the best estimate technical provisions included for Solvency II being lower in value than the technical provisions recognised in the statutory accounts as detailed in section D.3 above.

The minimum capital requirement for the First European Group is the absolute floor of €2,700,000 in accordance with the Solvency II Regulations.

Initialled on behalf of
PwC Malta
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PwC
09/04/2024.

The own funds and capital requirements over the reporting period are detailed as follows:

| | As at 31 December 2023<br>€'000 | As at 31 December 2022<br>€'000 |
|---|---|---|
| Eligible own funds to cover the SCR and MCR | 8,889 | 7,731 |
| | | |
| Standard formula SCR | 1,924 | 2,293 |
| MCR | 2,700 | 2,700 |
| | | |
| Ratio of eligible own funds to standard formula SCR | 462% | 337% |
| Ratio of eligible own funds to MCR | 329% | 286% |

The First European Group does not use undertaking specific parameters in the calculation of the SCR.

The capital requirements as at 31 December 2023 are explained further below.

*Underwriting risk*

The underwriting risk element of the SCR reflects the premiums written in the year to 31 December 2023, the estimated premium to be written in the year to 31 December 2024 and the net technical provisions valued on a Solvency II basis as at 31 December 2023. The reduction in the underwriting risk during the year is driven by the reduction in the net best estimate of technical provisions.

*Market risk*

The increase in market risk reflects the funds invested in deposit holdings during the year from cash at bank.

*Counterparty default risk*

The decrease in counterparty default risk is as a result of the decrease in cash at bank with an increase held in deposit accounts.

## E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

The First European Group does not use the duration-based equity risk sub-module in the calculation of the solvency capital requirement.

## E.4 Differences between the standard formula and any internal model used

The First European Group does not use an internal model.

## E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

The First European Group evaluated its capital requirement in relation to that required as per the standard formula. The First European Group has maintained sufficient capital to adhere to both the SCR and MCR requirements as well as maintaining an additional margin of capital to ensure compliance is continued in the event of a deterioration in financial standing.

## E.6 Any other information

The First European Group can confirm that:

- there are no restrictions on the transferability of own funds within the First European Group;
- that no transitional provisions are being used for calculating own funds; and
- the SCR is not subject to supervisory assessment.

In addition, the directors are satisfied that the First European Group remains a going concern. As disclosed in section D.5, the directors considered the impact of the economic environment on the First European Group in making this assessment. The underlying business that is being insured (i.e. title insurance policies) is assessed to be not directly impacted by such risks. However, management continue to monitor these and act accordingly.

First European Group's exposure to credit risk was also looked into by considering the nature and quality of assets, as well as, the counterparties' credit standing based on the information available to date. On this basis, the directors believe that First European Group is not exposed to significant credit risk.

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 24 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 8,762 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 0 |
| R0110 | *Equities - listed* | |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 6,733 |
| R0140 | *Government Bonds* | 0 |
| R0150 | *Corporate Bonds* | 6,733 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 0 |
| R0190 | *Derivatives* | |
| R0200 | *Deposits other than cash equivalents* | 2,029 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 0 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | |
| R0270 | Reinsurance recoverables from: | 929 |
| R0280 | *Non-life and health similar to non-life* | 929 |
| R0290 | *Non-life excluding health* | 929 |
| R0300 | *Health similar to non-life* | |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 190 |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | |
| R0390 | Own shares (held directly) | |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 1,346 |
| R0420 | Any other assets, not elsewhere shown | 125 |
| R0500 | **Total assets** | 11,375 |

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**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 1,931 |
| R0520 | *Technical provisions - non-life (excluding health)* | 1,931 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | 1,832 |
| R0550 | *Risk margin* | 98 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 0 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 0 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | |
| R0680 | *Risk margin* | |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | 90 |
| R0790 | Derivatives | |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | |
| R0830 | Reinsurance payables | 21 |
| R0840 | Payables (trade, not insurance) | 145 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 299 |
| R0900 | **Total liabilities** | 2,486 |
| | | |
| R1000 | **Excess of assets over liabilities** | 8,889 |

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## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | **Basic own funds before deduction for participations in other financial sector** | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 5,850 | 5,850 | | 0 | |
| R0020 | *Non-available called but not paid in ordinary share capital to be deducted at group level* | 0 | | | | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0060 | *Non-available subordinated mutual member accounts to be deducted at group level* | 0 | | | | |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0080 | *Non-available surplus funds to be deducted at group level* | 0 | | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0100 | *Non-available preference shares to be dedcuted at group level* | 0 | | | | |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0120 | *Non-available share premium account related to preference shares at group level* | 0 | | | | |
| R0130 | Reconciliation reserve | 3,039 | 3,039 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0150 | *Non-available subordinated liabilities to be deducted at group level* | 0 | | | | |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0170 | *The amount equal to the value of net deferred tax assets not available to be deducted at the group level* | 0 | | | | |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests | 0 | | | | |
| R0210 | *Non-available minority interests to be deducted at group level* | 0 | | | | |
| R0220 | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| R0230 | **Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities** | 0 | | | | |
| R0240 | *whereof deducted according to art 228 of the Directive 2009/138/EC* | 0 | | | | |
| R0250 | Deductions for participations where there is non-availability of information (Article 229) | 0 | | | | |
| R0260 | Deduction for participations included via Deduction and Aggregation method (D&A) when a combination of methods are used | 0 | | | | |
| R0270 | **Total of non-available own fund items to be deducted** | 0 | 0 | 0 | 0 | 0 |
| R0280 | **Total deductions** | 0 | 0 | 0 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 8,889 | 8,889 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0380 | Non available ancillary own funds to be dedcuted at group level | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Own funds of other financial sectors** | | | | | |
| R0410 | Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies | 0 | | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| R0430 | Non regulated undertakings carrying out financial activities | 0 | | | | |
| R0440 | **Total own funds of other financial sectors** | 0 | 0 | 0 | 0 | 0 |

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**S.23.01.22**
## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | **Basic own funds before deduction for participations in other financial sector** | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Own funds when using the D&A, exclusively or in combination with method 1** | | | | | |
| R0450 | Own funds aggregated when using the D&A and combination of method | 0 | | | | |
| R0460 | Own funds aggregated when using the D&A and combination of method net of IGT | 0 | | | | |
| R0520 | Total available own funds to meet the consolidated part of the group SCR (excluding own funds from other financial sector and from the undertakings included via D&A) | 8,889 | 8,889 | 0 | 0 | 0 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 8,889 | 8,889 | 0 | 0 | |
| R0560 | Total eligible own funds to meet the consolidated part of the group SCR (excluding own funds from other financial sector and from the undertakings included via D&A) | 8,889 | 8,889 | 0 | 0 | 0 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 8,889 | 8,889 | 0 | 0 | |
| R0610 | **Minimum consolidated Group SCR** | 2,700 | | | | |
| R0650 | **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | 329.23% | | | | |
| R0660 | **Total eligible own funds to meet the total group SCR (including own funds from other financial sector and from the undertakings included via D&A)** | 8,889 | 8,889 | 0 | 0 | 0 |
| R0680 | **Total Group SCR** | 1,924 | | | | |
| R0690 | **Ratio of Total Eligible own funds to Total group SCR - ratio including other financial sectors and the undertakings included via D&A** | 461.97% | | | | |

| | | C0060 |
|---|---|---|
| | **Reconcilliation reserve** | |
| R0700 | Excess of assets over liabilities | 8,889 |
| R0710 | Own shares (held directly and indirectly) | |
| R0720 | Forseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 5,850 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0750 | Other non available own funds | |
| R0760 | **Reconciliation reserve** | 3,039 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

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## Solvency Capital Requirement - for groups on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 678 | | |
| R0020 | Counterparty default risk | 347 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 1,430 | | |
| R0060 | Diversification | -525 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 1,930 | | |

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

| | **Calculation of Solvency Capital Requirement** | C0100 |
|---|---|---|
| R0130 | Operational risk | 84 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | -90 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency Capital Requirement calculated on the basis of Art. 336 (a) of Delegated Regulation (EU) 2015/35, excluding capital add-on** | 1,924 |
| R0210 | Capital add-ons already set | 0 |
| R0211 | *of which, capital add-ons already set - Article 37 (1) Type a* | 0 |
| R0212 | *of which, capital add-ons already set - Article 37 (1) Type b* | 0 |
| R0213 | *of which, capital add-ons already set - Article 37 (1) Type c* | 0 |
| R0214 | *of which, capital add-ons already set - Article 37 (1) Type d* | 0 |
| R0220 | **Consolidated Group SCR** | 1,924 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |
| R0470 | Minimum consolidated group solvency capital requirement | 2,700 |
| | **Information on other entities** | |
| R0500 | Capital requirement for other financial sectors (Non-insurance capital requirements) | 0 |
| R0510 | *Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies* | 0 |
| R0520 | *Institutions for occupational retirement provisions* | 0 |
| R0530 | *Capital requirement for non- regulated entities carrying out financial activities* | 0 |
| R0540 | Capital requirement for non-controlled participation requirements | 0 |
| R0550 | Capital requirement for residual undertakings | 0 |
| R0555 | Capital requirement for collective investment undertakings or investments packaged as funds | 0 |
| | **Overall SCR** | |
| R0560 | SCR for undertakings included via D&A method | 0 |
| R0570 | **Total group solvency capital requirement** | 2,700 |

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