



MS FIRST CAPITAL INSURANCE LIMITED
(Incorporated in Singapore. Registration No. 195000106C)

ANNUAL REPORT
For the financial year ended 31 December 2022

MS FIRST CAPITAL INSURANCE LIMITED
(Incorporated in Singapore)

ANNUAL REPORT
For the financial year ended 31 December 2022

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MS FIRST CAPITAL INSURANCE LIMITED

DIRECTORS' STATEMENT

For the financial year ended 31 December 2022

The directors present their statement to the members together with the audited financial statements for the financial year ended 31 December 2022.

In the opinion of the directors,

- (a) the financial statements set out on pages 8 to 76 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2022, and the financial performance, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Companies Act 1967 and Financial Reporting Standards in Singapore; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Ramaswamy Athappan

Ajit Nair

Arumugam Muthu

Lee Kwong Foo, Edward

Tetsuya Adachi

Akio Takai

Dileep Nair

Clemens Philippi (Appointed on 19 May 2022)

Shintaro Shimada (Appointed on 19 May 2022)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MS FIRST CAPITAL INSURANCE LIMITED

DIRECTORS' STATEMENT

For the financial year ended 31 December 2022

Directors' interests in shares or debentures

According to the register kept by the Company for the purposes of Section 164 of the Companies Act 1967 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and children) in shares, debentures, warrants and share options in the Company and in related corporations are as follows:

Name of director and corporation in which interests are held	Holdings at end of the year	Holdings at beginning of the year/ date of appointment
Tetsuya Adachi		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- Interest held	2,800	2,886
- Deemed interests	66	-
BPI/MS Insurance Corporation		
- Ordinary shares		
- Interests held	1	-
Ueang Mai Co., Ltd		
- Ordinary shares		
- Interests held	1	-
Yardhimar Company Limited		
- Ordinary shares		
- Interests held	1	-
Shintaro Shimada		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- Deemed interests	791.786	-
Ramaswamy Athappan		
MS First Capital Insurance Limited		
- Ordinary shares		
- Interests held	1#	1#

The share is held in trust for the immediate holding corporation, Mitsui Sumitomo Insurance Company, Limited.

MS FIRST CAPITAL INSURANCE LIMITED

DIRECTORS' STATEMENT

For the financial year ended 31 December 2022

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company.

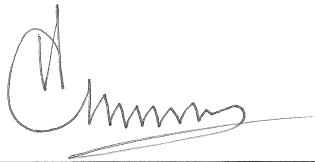
No shares were issued during the financial year by virtue of the exercise of options to take up unissued ordinary shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent auditor

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the directors



RAMASWAMY ATHAPPAN
Director



AKIO TAKAI
Director

27 March 2023



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INDEPENDENT AUDITORS' REPORT

Members of the Company
MS First Capital Insurance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of MS First Capital Insurance Limited ('the Company'), which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 8 to 76.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act 1967 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the financial position of the Company as at 31 December 2022 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained the Directors' Statement prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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

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

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

Auditors' 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 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 SSAs 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 SSAs, 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

A handwritten signature in black ink, appearing to read 'K. Anand', is written over the printed name 'KPMG LLP'.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
27 March 2023

MS FIRST CAPITAL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2022

	Note	2022 \$	2021 \$
Gross insurance premium income		896,129,216	748,718,281
Reinsurance premium ceded to reinsurers		(718,135,935)	(593,236,677)
Net insurance premium income		177,993,281	155,481,604
Movement in net premium liabilities	15(c)	(8,381,302)	14,979,699
Movement in net deferred acquisition costs	15(c)	(7,612,231)	(5,220,649)
Net premiums earned		161,999,748	165,240,654
Gross claims paid		(269,987,309)	(296,055,889)
Claims recovered from reinsurers		184,405,916	172,147,470
Net claims paid	15(a)	(85,581,393)	(123,908,419)
Change in loss reserves		(124,528,054)	(272,488,910)
Change in loss reserves recoverable from reinsurers		88,136,684	257,876,629
Net claims incurred	15(a)	(121,972,763)	(138,520,700)
Gross commission		(127,734,168)	(111,316,415)
Commission income from reinsurers		232,958,426	211,435,365
Net commission earned		105,224,258	100,118,950
Employee compensation	7	(22,279,077)	(21,496,818)
Depreciation expense on property, plant and equipment	13	(495,302)	(584,815)
Depreciation expense on right-of-use assets	22	(1,347,044)	(1,197,018)
Other operating expenses	6	(3,235,970)	(2,361,680)
		(27,357,393)	(25,640,331)
Underwriting profit		117,893,850	101,198,573
Net investment income	4	21,858,212	20,656,132
Finance costs	22	(64,143)	(35,215)
Other net operating (loss) / income	5	(3,556,180)	2,973,979
Profit before tax		136,131,739	124,793,469
Tax expense	8	(20,800,000)	(15,306,387)
Profit for the year		115,331,739	109,487,082
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets, available-for-sale			
- Fair value movement	18	(40,265,603)	(10,428,097)
- Transfer to profit or loss on disposal	18	1,532,358	25,825
Other comprehensive income, net of tax		(38,733,245)	(10,402,272)
Total comprehensive income for the year		76,598,494	99,084,810

The accompanying notes form an integral part of these financial statements.

MS FIRST CAPITAL INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

For the financial year ended 31 December 2022

	Note	2022 \$	2021 \$
ASSETS			
Non-current assets			
Property, plant and equipment	13	9,556,850	9,339,349
Right-of-use assets	22	6,023,296	627,986
Reinsurers' share of technical reserves	15	55,882,001	53,899,687
Deferred tax assets	16	8,701,900	769,200
Mortgage loans	12	6,999,025	15,003,178
Financial assets	10	649,592,823	674,399,882
		<u>736,755,895</u>	<u>754,039,282</u>
Current assets			
Reinsurers' share of technical reserves	15	1,210,165,500	1,080,873,602
Insurance and other receivables			
- insurance receivables	11(a)	340,545,051	277,098,059
- other receivables	11(b)	13,593,407	9,141,136
Mortgage loans	12	–	10,525,623
Financial assets	10	102,044,800	129,247,736
Derivative financial instruments		9,501,979	40,024
Cash and cash equivalents	9	995,423,372	810,586,226
		<u>2,671,274,109</u>	<u>2,317,512,406</u>
Total assets		<u>3,408,030,004</u>	<u>3,071,551,688</u>
EQUITY			
Share capital	17	26,500,000	26,500,000
General reserve		250,000	250,000
Fair value reserve	18	(43,319,673)	(4,586,428)
Retained earnings		1,084,737,041	1,024,147,802
Total equity		<u>1,068,167,368</u>	<u>1,046,311,374</u>
LIABILITIES			
Non-current liabilities			
Technical reserves	15	66,662,386	64,811,281
Insurance payables	14(a)	30,096,038	28,596,123
Lease liabilities	22	4,531,719	17,971
		<u>101,290,143</u>	<u>93,425,375</u>
Current liabilities			
Technical reserves	15	1,788,588,656	1,606,780,646
Derivative financial instruments		1,151,981	35,385
Insurance and other payables			
- insurance payables	14(a)	401,806,666	289,251,937
- other payables	14(b)	21,809,689	18,157,839
Lease liabilities	22	1,770,827	630,317
Current tax liabilities		23,444,674	16,958,815
		<u>2,238,572,493</u>	<u>1,931,814,939</u>
Total liabilities		<u>2,339,862,636</u>	<u>2,025,240,314</u>
Total equity and liabilities		<u>3,408,030,004</u>	<u>3,071,551,688</u>

The accompanying notes form an integral part of these financial statements.

MS FIRST CAPITAL INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2022

	Note	Share capital \$	General reserve \$	Fair value reserve \$	Retained earnings \$	Total \$
Balance at 1 January 2022		26,500,000	250,000	(4,586,428)	1,024,147,802	1,046,311,374
Profit for the year		–	–	–	115,331,739	115,331,739
Dividend paid	17	–	–	–	(54,742,500)	(54,742,500)
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax	18	–	–	(38,733,245)	–	(38,733,245)
Total comprehensive income for the year		–	–	(38,733,245)	60,589,239	21,855,994
Balance at 31 December 2022		26,500,000	250,000	(43,319,673)	1,084,737,041	1,068,167,368
Balance at 1 January 2021		26,500,000	250,000	5,815,844	956,400,720	988,966,564
Profit for the year		–	–	–	109,487,082	109,487,082
Dividend paid	17	–	–	–	(41,740,000)	(41,740,000)
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax	18	–	–	(10,402,272)	–	(10,402,272)
Total comprehensive income for the year		–	–	(10,402,272)	67,747,082	57,344,810
Balance at 31 December 2021		26,500,000	250,000	(4,586,428)	1,024,147,802	1,046,311,374

The accompanying notes form an integral part of these financial statements.

MS FIRST CAPITAL INSURANCE LIMITED

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2022

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Profit for the year		115,331,739	109,487,082
Adjustments for:			
Tax expense	8	20,800,000	15,306,387
Depreciation expense on property, plant and equipment	13	495,302	584,815
Depreciation expense on right-of-use assets	22	1,347,044	1,197,018
(Gain) / Loss on disposal of property, plant and equipment	5	(1,400)	206
Loss on disposal of financial assets, available-for-sale	4	1,846,158	31,125
Impairment of financial assets, available-for-sale	4	2,475,925	2,558,549
Interest income	4	(41,673,862)	(28,549,520)
Accretion of premium, available for sale	4	7,445,096	8,028,886
Fair value (gain) / loss on financial assets, at fair value through profit or loss	4	(14,535,538)	2,015,301
Unrealised loss / (gain) currency translation on financial assets, available-for-sale		1,107,555	(1,508,934)
Finance costs	22	64,143	35,215
Operating cash flow before working capital changes		94,702,162	109,186,130
Change in working capital			
Insurance and other receivables		(66,496,553)	(13,331,685)
Movements in net technical reserves		44,772,672	(367,417)
Movements in net deferred acquisition costs		7,612,231	5,220,649
Insurance and other payables		114,154,716	(5,077,521)
Cash generated from operations		194,745,228	95,630,156
Interest received		17,223,653	8,373,277
Interest payment of lease liabilities	22	(64,143)	(35,215)
Income tax paid		(14,314,141)	(22,735,754)
Net cash flows from operating activities		197,590,597	81,232,464
Cash flows from investing activities			
Purchases of property, plant and equipment	13	(712,803)	(41,665)
Purchases of financial assets, available-for-sale		(280,383,497)	(675,559,264)
Proceeds from sale/redemption of financial assets, available-for-sale		272,854,214	609,093,408
Proceeds from cash collateral on derivatives		5,456,430	–
Mortgage loans granted		(350,000)	(5,550,000)
Mortgage loans repayments received		18,879,777	5,528,540
Interest received		22,194,930	20,833,008
Derivative financial instruments		6,190,178	(1,982,363)
Net cash flows from / (used in) investing activities		44,129,229	(47,678,336)
Cash flows from financing activities			
Payment of dividend	17	(54,742,500)	(41,740,000)
Payment of lease liabilities	22	(1,088,096)	(1,213,729)
Net cash used in financing activities		(55,830,596)	(42,953,729)
Net increase / (decrease) in cash and cash equivalents		185,889,230	(9,399,601)
Cash and cash equivalents at beginning of the financial year		803,864,440	813,264,041
Cash collateral at end of the financial year		5,669,702	6,721,786
Cash and cash equivalents at end of the financial year	9	995,423,372	810,586,226

The accompanying notes form an integral part of these financial statements.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

The Company is incorporated and domiciled in Singapore. The address of its registered office is 6 Raffles Quay #21-00 Singapore 048580.

The principal activity of the Company consists of the acceptance of general insurance and reinsurance business and performance of investment functions incidental thereto. There have been no significant changes in the nature of these activities during the year.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standards in Singapore ("FRS").

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The assets and liabilities of the Company which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act 1966. Such assets and liabilities are accounted for in the books of the respective insurance funds established under Section 17 of the Insurance Act. The net assets of the Company held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 18 of the Insurance Act at all times. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Company continues to be able to meet the solvency requirements of Section 18 of the Insurance Act. All other assets and liabilities are accounted for in the books of the "shareholders' fund".

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

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.2 Changes in accounting policies

New standards and amendments

The Company has applied the following FRSs, amendments to and interpretations of FRS for the first time for the annual period beginning on 1 January 2022:

- Amendment to FRS 116: *COVID-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to FRS 113: *Reference to the Conceptual Framework*
- Amendments to FRS 16: *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to FRS 37: *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to FRSs 2018-2020

The application of these amendments to standards and interpretations does not have a material effect on the financial statements.

2.3 Revenue recognition

The recording of premium revenue and the determination of underwriting results of each financial year reflect delays in receipt of information from cedants and brokers. Premium income on direct and facultative insurance business is recognised at the time a policy is issued on the basis of final closing advices received from cedants and brokers. Reinsurance premium income on inward treaty insurance business is recognised on the basis of the returns and statement of accounts received from cedants and brokers.

Reinsurance commission income is recognised as revenue on a basis that is consistent with the recognition of the costs incurred on the acquisition of underlying reinsurance contracts (see Note 2.5).

Reinsurance profit commission income is recognised based on the terms of the underlying reinsurance contract, and when the amount of revenue and related cost of the reinsurance transaction can be reliably measured.

Interest income on short-term bank deposits, corporate bonds and mortgage loans is accounted for using the effective interest method. Dividends from equity investments are taken up in profit or loss in the accounting period in which the right to receive payment is established.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.4 Product classification

All the Company's existing products are insurance contracts as defined in *FRS 104 'Insurance Contracts'*. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or where at inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

2.5 Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets comprise of reinsurers' share of technical reserves and claims recoverable from reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in statement of financial position as reinsurers' share of technical provisions.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance assets are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.6 Loss reserves (continued)

Claims are charged to profit or loss when incurred based on the estimated liability for compensation owed to policyholders or for damage suffered by third party claimants. They comprise direct and indirect claims settlement costs including loss adjustment expenses and professional fees, and arise from events that have occurred up to the reporting date.

Loss reserves and reinsurance and other recoveries are assessed by reviewing individual claims, advice from ceding and broking companies, and making allowance for claims incurred but not reported, taking into consideration foreseeable events, past experience and trends. These loss reserves are reviewed by actuaries. Any reduction or increase in the provision is dealt with in profit or loss in the year in which the reduction or increase arises. Any difference between the estimated cost and subsequent settlement is dealt with in profit or loss in the year in which settlement takes place.

In line with section 37(1)(b) of the Singapore Insurance Act, an actuarial investigation is made on the net claim liabilities, and a provision for adverse deviation at a minimum 75% level of confidence is included in the net loss reserves.

Net claim liabilities is an amount not less than the value of the expected future payments in relation to all claims incurred prior to the valuation date (other than payments which have fallen due for payment before the valuation date), whether or not they have been reported to the insurer, including any expense expected to be incurred in settling those claims and provision for any adverse deviation from the expected experience, calculated based on the 75% level of sufficiency.

2.7 Premium liabilities

Premium liabilities relate to reserves established to cover the unexpired portion of premium written. Premium liabilities are calculated as an amount not less than the aggregate unearned premium reserves or the unexpired risk reserves, whichever is higher.

Unearned premium reserves are calculated on gross premiums written during the financial year less premiums on reinsurances, using the following methods:

For direct business

- Marine cargo business 25% method
- All other class of business 1/365th method

For reinsurance business

- Marine cargo business 25% method
- All other class of business
 - Proportional treaties 40% method
 - Facultative 1/365th method

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.7 Premium liabilities

Where the 1/365th method is used, provision for unearned premiums is determined after allowing for acquisition costs.

Unexpired risk reserve as at the reporting date is calculated based on the requirements under section 19 of the Insurance (Valuation and Capital) Regulations 2004 and any amendments thereof.

Unexpired risk reserve as at the reporting date is the sum of the value of the expected future payments arising from future events insured under policies in force as at the valuation date, including any expenses expected to be incurred in administering the policies and settling relevant claims and any provision for any adverse deviation from the expected experience, calculated based on the 75% level of sufficiency.

2.8 Deferred acquisition costs

Acquisition costs are deferred and amortised over the period of the insurance cover. The deferred acquisition costs comprise the portion of the commissions incurred in connection with acquisition or renewal of insurance policies that relate to the unearned premiums.

2.9 Liability adequacy tests

The liability of the Company under insurance contracts is tested for adequacy by comparing the expected future contractual cash flows with the carrying amount of the technical reserves for unexpired risks and insurance claims. Where an expected shortfall is identified, additional provisions are made for unexpired risks or insurance claims and the deficiency is recognised in profit or loss.

2.10 Property, plant and equipment

(a) *Measurement*

(i) *Land and building*

Land and building are initially recorded at cost. No depreciation is provided on freehold land; however the carrying value is adjusted for any impairment losses. Building are subsequently stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Other property, plant and equipment*

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(b) *Depreciation*

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

Motor vehicles	8 years
Office equipment	5 years
Furniture and fittings	5 years
Building on freehold land	40 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. All other repair and maintenance expense is recognised in profit or loss when incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

2.11 Impairment of non-financial assets

Property, plant and equipment

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs to.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.11 Impairment of non-financial assets (continued)

Property, plant and equipment (continued)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease to the extent of any previously recorded revaluation.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment is also recognised in profit or loss.

2.12 Financial assets

(a) *Classification*

The Company classifies its investments in financial assets in the following categories: at fair value through profit or loss, mortgage loans and receivables and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(a) *Classification (continued)*

(i) *Financial assets, at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented Company investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets.

Loans and receivables comprise cash and cash equivalents, other receivables and mortgage loans.

Cash and cash equivalents comprise cash balances and bank deposits, and are used by the Company in the management of its short-term commitments.

(iii) *Financial assets, available-for-sale*

Financial assets, available-for-sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the reporting date.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, the Company updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. No immediate gain or loss is recognised. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applies the policies on accounting for modifications to the additional changes.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in profit or loss.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(d) *Subsequent measurement*

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, at fair value through profit or loss are recognised in profit or loss when the changes arise. The effects of currency translation, interest and dividend income are recognised separately in profit or loss.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve.

Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) *Impairment*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(e) *Impairment* (continued)

(i) Loans and receivables (continued)

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

The cumulative loss that was recognised in the fair value reserve is transferred to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss on debt securities. The impairment losses recognised in profit or loss on equity securities are not reversed through profit or loss.

2.13 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.14 Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

2.15 Receivables and payables related to insurance contracts

Insurance receivables and insurance payables are recognised on the date that the Company becomes a party to the insurance contract. These include amounts due to and from insurance contract holders. They are measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method.

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivables is impaired, the Company reduces the carrying amount of the insurance receivables and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. Insurance receivables and insurance payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in note 2.12(b).

2.16 Tax

Current tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.16 Tax (continued)

A deferred tax liability is recognised on temporary differences arising on investment in subsidiary, except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date; and
- (ii) based on the tax consequence that will follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.17 Provisions

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.17 Provisions (continued)

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under the contract and an allocation of other costs directly related to fulfilling the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

2.18 Employee compensation

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's contributions are recognised as employee compensation expense when they are due.

Annual Leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

2.19 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company is the Singapore dollar.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.19 Currency translation (continued)

(b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

2.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.21 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2.22 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in FRS 116.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.22 Leases (continued)

As a lessee (continued)

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

2. Significant accounting policies (continued)

2.22 Leases (continued)

As a lessee (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.23 Government grants

Government grants related to assets are initially recognized as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. These grants are recognized as an offset against staff cost in profit or loss under 'Employee compensation' on a systematic basis over the useful life of the asset.

3. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities

Assumptions and sensitivities

(i) Process used to decide on assumptions

The major classes of general insurance written by the Company include property, motor, work injury compensation, professional indemnity, marine hull and cargo, and miscellaneous. For general insurance contracts, claims provisions (comprising provision for claims reported by policyholders and claims incurred but not reported ("IBNR")) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The best estimates of claims liabilities have been determined from the projected ultimate claim liabilities based on different methods, including the incurred loss development, the paid loss development, the Bornhuetter-Ferguson method and/or the expected loss ratio method.

Claims paid and incurred claims net of reinsurance recoveries were obtained for each of the last 12 years, as well as for 2010 and prior, and shown in a triangular form by accident/underwriting year and development year. Ratios of claim amount at successive development years were calculated to build loss development factor triangles.

For direct and facultative business, the incurred loss development method has been used to select the ultimate best estimates for 2019 and prior accident/underwriting years, as the actual claims experience in these periods are generally more stable. For more recent periods (i.e. 2020 to 2022 accident/underwriting years) where there is greater uncertainty, a combination of the claims experience and loss ratio assumptions, such as the Bornhuetter-Ferguson method and the expected loss ratio method, are used. In addition, allowance for late reported large losses based on information provided by the Company and the reporting and development patterns of historical large losses are applied where relevant.

For treaty business where little claim information was available as of the valuation date, greater reliance is placed on the expected loss ratio method for the 2018 to 2022 underwriting years. For 2017 and prior underwriting years where claims experience is generally more stable, a combination of methods, such as the IBNR to case estimates ratios and factor-to-ultimate ratios, are used in selecting the ultimate best estimates.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(i) Process used to decide on assumptions (continued)

The claims data includes external claims handling expenses but does not include internal claims handling expenses. A provision for internal claims expenses ("ULAER") has been determined for the direct and facultative business, based on the ratio of paid ULAE to net average of paid and incurred losses of 11.5%. This ULAE percentage was applied to one half of the total of the case reserves plus the IBNR.

Acquisition expenses are assumed to have been incurred at the date of writing the policy and hence do not form parts of the loss reserving exercise.

Non-reinsurance recoveries, including salvage and subrogation, were not specifically analysed in this valuation. However, they would implicitly be allowed for in the valuation method, where past recovery patterns are assumed to continue into the projected future years.

The best estimates for premium liabilities are determined such that the total premium liability provision at the insurance fund level would be sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

A discounting factor for future investment earnings has been applied to claim and premium provisions. For claim provisions, the selected discount rate of 3.68% is consistent with the one and a half year Singapore government bond yields, estimated based on the average of the posted one-year and two-year Singapore government bond yields. This is in line with the average claim liabilities duration of the Company. For premium provisions, the selected discount rate of 3.12% is consistent with the two-year Singapore government bond yields, in line with the average future expected claim liabilities duration from unexpired premium of the Company.

Inflation of claim amounts payable in the future is implicitly allowed for in the valuation method, where past inflation patterns are assumed to continue into the projected future years. Where appropriate, subjective implicit allowance based on consumer and produce price indices has been made for the potential impact from higher-than-expected future inflation in the assumptions, in particular for Hull and Motor classes.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(i) Process used to decide on assumptions (continued)

The provision for adverse deviation (“PAD”) allows for inherent uncertainty of the best estimate of the insurance liabilities. It takes into consideration the variability of claim experience within a class of business (PAD before diversification) and also the diversification between classes of business (diversification allowance).

To estimate the variability around the best estimate, an internal model based on internal company data was used. In deriving the 75% level of sufficiency for the claims liabilities, a Bootstrap method was used.

Bootstrapping procedures are useful when the theoretical distribution of a statistic of interest is complicated or unknown.

The indicated PAD loading for the claims liabilities is based on the ratio of the 75% estimate to the mean estimate of the total claims reserves from the model. Based on the model output and judgement, the PAD loading is selected for claims liabilities.

Whilst there is inherent uncertainty attached to risks in respect to claims liabilities, the corresponding PAD for premium liabilities would be subject to a higher level of uncertainty as the claim events relating to unexpired policies have yet to occur. The Company has assumed that the PAD loading for premium liabilities is a multiple of the selected PAD loading for claims liabilities.

(ii) Change in assumptions and sensitivity analysis

The Company maintains separate insurance funds – SIF and OIF – for each class of insurance business carried on by the Company that relates to Singapore policies and offshore policies, respectively. The Company’s insurance liabilities are analysed on a fund level basis i.e. SIF and OIF and not at Company level.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company’s estimation process in respect to its insurance contracts. Certain assumptions can be expected to impact the actuarial liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(ii) Change in assumptions and sensitivity analysis (continued)

The following analyses have been prepared for a change in one variable with all other variables remaining constant and ignore changes in values of related assets. The Company recognised that some of the assumptions are interdependent but it will be difficult to analyse such dependencies.

The key assumptions considered in the sensitivity analysis are as follow:

- Initial Expected Loss Ratio (“IELR”) for accident/underwriting year 2022; and
- Selected Ultimate Loss Ratio (“ULR”) for accident/underwriting year 2022.

The result of the sensitivity analysis (net of reinsurance) and the impact on the unexpired risk reserves and claim liabilities as at 31 December 2022 are as follows:

Singapore Insurance Fund (“SIF”)

	IELR		ULR	
	+15%	-15%	+15%	-15%
	\$'000	\$'000	\$'000	\$'000
2022				
Unexpired risk reserves	–	–	4,322	(4,322)
Claims liabilities	5,217	(5,217)	8,652	(8,652)
Total	5,217	(5,217)	12,974	(12,974)
2021				
Unexpired risk reserves	–	–	4,851	(4,851)
Claims liabilities	5,654	(5,654)	9,518	(9,518)
Total	5,654	(5,654)	14,369	(14,369)

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(ii) Change in assumptions and sensitivity analysis (continued)

Offshore Insurance Fund ("OIF")

	IELR		ULR	
	+15%	-15%	+15%	-15%
	\$'000	\$'000	\$'000	\$'000
2022				
Unexpired risk reserves	–	–	7,622	(7,622)
Claims liabilities	9,568	(9,568)	13,298	(13,298)
Total	9,568	(9,568)	20,920	(20,920)
2021				
Unexpired risk reserves	–	–	6,701	(6,701)
Claims liabilities	10,733	(10,733)	13,306	(13,306)
Total	10,733	(10,733)	20,007	(20,007)

The actual loss development on SIF direct and facultative business reserved on an accident year basis was better than expected by \$23.2 million. Actual loss development on SIF direct and facultative business reserved on an underwriting year basis was better than expected by \$8.5 million. Overall, SIF direct and facultative business reported loss development of \$2.2 million, which was better than the expected loss development of \$34.0 million by \$31.7 million. For more homogenous grouping of business, motor fleet programs (SMRT, Comfort, SMART, TransCab, Prime Car and CityCab), as well as Singapore Law Society professional indemnity direct business, are separated out from Motor and Miscellaneous lines respectively and analysed on an underwriting year basis. For SIF Inward Treaties and Runoff business, ultimate loss estimates are higher by \$1.1 million.

The ultimate loss estimates on SIF business for this year's valuation are lower than last year's by \$25.2 million, stemming from decreases in most prior years.

The actual loss development on OIF direct and facultative business of \$10.4 million was better than expected loss development of \$25.9 million by \$15.6 million. For OIF Inward Treaties and Runoff Business, ultimate loss estimates are lower by \$3.8 million.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(ii) Change in assumptions and sensitivity analysis (continued)

The ultimate loss estimates on OIF business for this year's valuation are lower than last year's by \$15.9 million, also stemming from decreases in most of prior years.

(b) Investments in financial assets

Impairment of financial assets, available-for-sale

The Company follows the guidance of FRS 39 in determining when an investment is considered impaired. This determination requires significant judgment. The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and near-term business outlook of the issuer of the instrument, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(c) Taxes

The Company is subject to Singapore income tax laws. Judgment is involved in determining the Company's provision for income taxes. The Company recognises liabilities for tax based on estimates. For these estimates the ultimate tax determination is based on the final assessment. Where the final assessment is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Premium recognition

In line with the Company's accounting policy described in Note 2.3, the Company records premium income from businesses in pipeline only upon receipt of documents from counterparty, rather than recording it as of the date of inception of risk.

The directors are of the view that due to the nature of the business, specifically where it relates to large risks, recording of the premium should only be done upon receipt of documents from the counterparty and consider the impact of the time lag to the financial statements as being insignificant as this application has been adopted consistently year on year and that the insurance liabilities recognised as at 31 December 2022 are adequate. In addition, the directors have also considered the credit risk arising from the unprocessed business not recognised as at 31 December 2022 to be insignificant.

MS FIRST CAPITAL INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2022***4. Net investment income**

	2022	2021
	\$	\$
Fair value gain / (loss)		
- financial assets, fair value through profit or loss	14,535,538	(2,015,301)
- financial assets, available-for-sale	(1,115,130)	1,339,379
Realised loss on disposal		
- financial assets, available-for-sale	(1,846,158)	(31,125)
Interest income	41,673,862	28,549,520
Impairment of financial assets, AFS	(2,475,925)	(2,558,549)
Net amortisation of premium	(7,445,096)	(8,028,886)
Investment expenses	(801,706)	(837,885)
Net (loss) / gain on foreign exchange	(20,667,173)	4,238,979
Net investment income	21,858,212	20,656,132

5. Other net operating (loss) / income

	2022	2021
	\$	\$
Brokerage income	1,843,587	1,794,215
Net currency exchange loss on operations	(7,353,441)	(370,358)
Gain / (Loss) on disposal of property, plant & equipment	1,400	(206)
Allowance for impairment of receivables	(19,655)	(78,491)
Service fee income	1,469,303	1,096,483
Miscellaneous income	502,626	532,336
	(3,556,180)	2,973,979

6. Other operating expenses

	2022	2021
	\$	\$
Professional fees	680,701	575,244
Rental & occupancy income	884,726	303,167
Management fees	322,854	225,354
Directors' fees	225,000	225,000
Advertising and promotional expenses	76,842	98,632
Travelling expenses	91,021	70,176
Levy and subscriptions	122,860	147,959
Computer supplies & maintenance	517,298	435,589
Miscellaneous expenses	314,668	280,559
	3,235,970	2,361,680

MS FIRST CAPITAL INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2022***7. Employee compensation**

	2022 \$	2021 \$
Wages and salaries	20,304,536	19,781,528
Other benefits	701,539	533,563
Government grants	(433,965)	(532,827)
Employer's contribution to defined contribution plans including Central Provident Fund	1,706,967	1,714,554
	<u>22,279,077</u>	<u>21,496,818</u>

Government grant income

In 2021, the Company had been awarded a COVID-19 relief government grant by the Singapore Government under the Jobs Support Scheme ("JSS"). The grant received by the Company amounts to \$267,952 and was conditional on the payment of salaries to local employees and that of related CPF contributions on those salaries paid for the period mentioned in the announcement. JSS grant income was recognised in the profit or loss on a systematic basis over the period of economic uncertainty. No JSS grant was received in 2022.

8. Tax expenseTax recognised in profit or loss

	2022 \$	2021 \$
Tax expense attributable to profit is made up of:		
Current income tax - Singapore	20,800,000	15,250,000
Underprovision in prior financial year	–	56,387
Tax charge	<u>20,800,000</u>	<u>15,306,387</u>

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax as explained below:

	2022 \$	2021 \$
Profit before tax	<u>136,131,739</u>	124,793,469
Tax calculated at a tax rate of 17% (2021: 17%)	23,142,396	21,214,890
Effects of:		
- Income not taxable for tax purposes	2,141	(30,731)
- Effect of income taxed at rate of 10%	(8,168,361)	(7,362,540)
- Singapore statutory stepped income exemption	(17,425)	(17,425)
- Under-provision in prior financial year	–	56,387
- Others	5,841,249	1,445,806
	<u>20,800,000</u>	<u>15,306,387</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

8. Tax expense (continued)

Pursuant to Section 43C of the Singapore Income Tax Act 1947, qualifying income is subject to the tax concessionary rate of 10% instead of the standard rate of 17%.

The Company's tax liabilities have been measured based on the corporate tax rate and tax laws prevailing at reporting date.

9. Cash and cash equivalents

	2022	2021
	\$	\$
Cash at bank and on hand	33,682,934	28,170,483
Short-term bank deposits	961,740,438	782,415,743
	995,423,372	810,586,226

Included in the Company's cash at bank and on hand is \$5,669,702 (2021: \$6,721,786) of cash collateral collected from policy holders.

Short-term bank deposits at the reporting date had maturity ranging between 1 – 6 months (2021: 1 - 6 months) from the end of the financial year with the following weighted average effective interest rates:

	2022	2021
Singapore Dollar	3.64%	0.40%
United States Dollar	4.80%	0.54%
Others	2.59%	1.70%

10. Financial assets

Financial assets, available-for-sale are analysed as follows:

	2022	2021
	\$	\$
Debt securities:		
- Listed	710,863,688	713,886,202
- Unlisted	40,773,935	89,761,416
Total financial assets, available-for-sale	751,637,623	803,647,618
Current	102,044,800	129,247,736
Non-current	649,592,823	674,399,882
Total financial assets, available-for-sale	751,637,623	803,647,618

The debt securities are fixed rate bonds with a weighted average effective interest rate of 2.91% (2021: 2.75%).

MS FIRST CAPITAL INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2022*

11. Insurance and other receivables

(a) Insurance receivables

	2022	2021
	\$	\$
Amounts due from insureds, agents, brokers, insurers and reinsurers		
- External receivables	332,216,706	265,011,233
- Immediate holding company	1,222,072	1,729,728
- Related companies	7,508,623	10,739,792
	<u>340,947,401</u>	<u>277,480,753</u>
Less: Allowance for impairment of receivables	(402,350)	(382,694)
Total insurance receivables	<u>340,545,051</u>	<u>277,098,059</u>

(b) Other receivables

	2022	2021
	\$	\$
Deposits	718,749	535,188
Accrued interest and dividend income	8,246,081	5,990,805
Other receivables	4,330,704	2,368,866
Prepayments	297,873	246,277
	<u>13,593,407</u>	<u>9,141,136</u>

12. Mortgage loans

	2022	2021
	\$	\$
Mortgage loans maturing within 1 year	-	10,525,623
Mortgage loans maturing after 1 year	6,999,025	15,003,178
	<u>6,999,025</u>	<u>25,528,801</u>

- ✓ Mortgage loans are secured with interest rates ranging from 2.38% to 6.29% per annum (2021: 2.22% to 5.50% per annum).

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

13. Property, plant and equipment

	Motor vehicles	Office equipment	Furniture and fittings	Building	Land	Total
	\$	\$	\$	\$	\$	\$
2022						
<u>Cost</u>						
At 1 January 2022	429,999	2,626,209	1,127,194	2,350,000	7,264,164	13,797,566
Additions	–	199,713	513,090	–	–	712,803
Disposals	–	(61,395)	(257,040)	–	–	(318,435)
At 31 December 2022	429,999	2,764,527	1,383,244	2,350,000	7,264,164	14,191,934
<u>Accumulated depreciation</u>						
At 1 January 2022	184,861	2,047,993	1,109,113	1,116,250	–	4,458,217
Depreciation for the year	45,273	367,830	23,449	58,750	–	495,302
Disposals	–	(61,395)	(257,040)	–	–	(318,435)
At 31 December 2022	230,134	2,354,428	875,522	1,175,000	–	4,635,084
Net book value at 31 December 2022	199,865	410,099	507,722	1,175,000	7,264,164	9,556,850
2021						
<u>Cost</u>						
At 1 January 2021	429,999	2,588,280	1,124,294	2,350,000	7,264,164	13,756,737
Additions	–	38,765	2,900	–	–	41,665
Disposals	–	(836)	–	–	–	(836)
At 31 December 2021	429,999	2,626,209	1,127,194	2,350,000	7,264,164	13,797,566
<u>Accumulated depreciation</u>						
At 1 January 2021	139,589	1,605,811	1,070,981	1,057,500	–	3,873,881
Depreciation for the year	45,272	442,661	38,132	58,750	–	584,815
Disposals	–	(479)	–	–	–	(479)
At 31 December 2021	184,861	2,047,993	1,109,113	1,116,250	–	4,458,217
Net book value at 31 December 2021	245,138	578,216	18,081	1,233,750	7,264,164	9,339,349

The fair value of the office building for the Company as at 31 December 2022 was approximately \$30,000,000 (2021: \$30,000,000). The property of the Company was valued by an independent professional valuer using the sales comparison approach as at 31 December 2020. Under the sales comparison approach, the recent sale prices of properties in close proximity are adjusted for differences in key attributes such as tenure, location, condition of the properties. The most significant input into this valuation approach is selling price per square foot.

MS FIRST CAPITAL INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2022*

14. Insurance and other payables**(a) Insurance payables**

At the reporting date, the carrying amounts of balances due to agents, brokers and reinsurers approximated their fair values.

	2022	2021
	\$	\$
Amounts due to insureds, agents, brokers, insurers and reinsurers		
- External payables	431,688,300	317,792,870
- Immediate holding company	24,260	15,209
- Related companies	190,144	39,981
	<u>431,902,704</u>	<u>317,848,060</u>

(b) Other payables

	2022	2021
	\$	\$
Cash collateral	10,273,564	6,721,786
Accrued operating expenses	2,658,196	3,457,234
Amount due to related company	379,060	277,338
Other creditors	8,498,869	7,701,481
	<u>21,809,689</u>	<u>18,157,839</u>

15. Technical reserves

	2022	2021
	\$	\$
Technical reserves		
- premium liabilities	417,359,935	358,228,874
- loss reserves	1,437,891,107	1,313,363,053
Total technical reserves, gross	<u>1,855,251,042</u>	<u>1,671,591,927</u>
Reinsurers' share of technical reserves		
- premium liabilities on reinsurance ceded	298,520,321	255,382,793
- loss reserves recoverable from reinsurers	967,527,180	879,390,496
Total reinsurers' share of technical reserves	<u>1,266,047,501</u>	<u>1,134,773,289</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

15. Technical reserves (continued)

Net

- premium liabilities	118,839,614	102,846,081
- loss reserves	470,363,927	433,972,557
Total technical reserves, net	589,203,541	536,818,638

Technical reserves are disclosed as follows:

Current	578,423,156	525,907,044
Non-current	10,780,385	10,911,594
	589,203,541	536,818,638

(a) Movements in net loss reserves are as follows:

	2022	2021
	\$	\$
Balance at beginning of financial year	433,972,557	419,360,276
Net claims paid	(85,581,393)	(123,908,419)
Claims incurred	121,972,763	138,520,700
Balance at end of financial year	470,363,927	433,972,557

(b) Loss development triangles

Disclosed below is an exhibit that shows the development of claims over a period of time on a gross and net of reinsurance basis. The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident and underwriting year at each reporting date, together with cumulative claims as at the current reporting date.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Gross)

	Direct & Facultative Lines Accident Year Basis					Total
	As at 31 December 2022					
	2018	2019	2020	2021	2022	
	\$	\$	\$	\$	\$	\$
Accident Year						
Estimate of ultimate claim costs:	236,655,170	354,035,992	341,210,780	471,440,688	433,688,321	
- At end of accident year	224,421,628	357,632,516	319,550,292	411,020,774		
- one year later	211,977,438	347,184,414	284,174,696			
- two years later	201,521,504	332,464,025				
- three years later	196,103,146					
- four years later						
Current estimate of cumulative claims	196,103,146	332,464,025	284,174,696	411,020,774	433,688,321	1,657,450,962
Cumulative payments to date	(163,425,539)	(281,052,958)	(151,818,880)	(116,615,915)	(31,895,707)	(744,809,999)
Liability recognised in actuarial valuation	<u>32,677,607</u>	<u>51,411,067</u>	<u>132,355,816</u>	<u>294,404,859</u>	<u>401,792,614</u>	<u>912,641,963</u>

	Direct & Treaty Lines Underwriting Year Basis					Total
	As at 31 December 2022					
	2018	2019	2020	2021	2022	
	\$	\$	\$	\$	\$	\$
Underwriting Year						
Estimate of ultimate claim costs:	96,878,136	106,712,335	52,403,791	36,774,244	40,934,530	
- At end of underwriting year	143,839,632	164,262,731	95,127,511	106,079,760		
- one year later	156,960,961	213,862,053	115,076,893			
- two years later	165,933,094	205,120,607				
- three years later	158,999,194					
- four years later						
Current estimate of cumulative claims	158,999,194	205,120,607	115,076,893	106,079,760	40,934,530	626,210,984
Cumulative payments to date	(130,757,947)	(134,412,587)	(49,266,456)	(20,575,268)	(3,515,025)	(338,527,283)
Liability recognised in actuarial valuation	<u>28,241,247</u>	<u>70,708,020</u>	<u>65,810,437</u>	<u>85,504,492</u>	<u>37,419,505</u>	<u>287,683,701</u>

Total All Lines (Direct & Facultative & Treaty)						
Liability recognised in actuarial valuation						1,200,325,664
Reserve in respect of prior years						98,115,061
Total reserve including ULAE						1,298,440,725
PAD, Discounting						102,457,717
Total reserve included in actuarial valuation						1,400,898,442
Total reserve included in the statement of financial position						<u>1,437,891,107</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2022

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Gross) (continued)

	Direct & Facultative Lines Accident Year Basis					Total
	As at 31 December 2021					
	2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$
Accident Year						
Estimate of ultimate claim costs:						
- At end of accident year	266,521,592	236,655,170	354,035,992	341,210,780	471,440,688	
- one year later	258,110,881	224,421,628	357,632,516	319,550,292		
- two years later	240,222,416	211,977,438	347,184,414			
- three years later	230,066,873	201,521,504				
- four years later	219,781,904					
Current estimate of cumulative claims	219,781,904	201,521,504	347,184,414	319,550,292	471,440,688	1,559,478,802
Cumulative payments to date	(184,295,265)	(150,500,739)	(266,008,577)	(94,308,731)	(38,060,034)	(733,173,346)
Liability recognised in actuarial valuation	<u>35,486,639</u>	<u>51,020,765</u>	<u>81,175,837</u>	<u>225,241,561</u>	<u>433,380,654</u>	<u>826,305,456</u>

	Direct & Treaty Lines Underwriting Year Basis					Total
	As at 31 December 2021					
	2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$
Underwriting Year						
Estimate of ultimate claim costs:						
- At end of underwriting year	61,916,810	96,878,136	106,712,335	52,403,791	36,774,244	
- one year later	96,106,686	143,839,632	164,262,731	95,127,511		
- two years later	98,559,851	156,960,961	213,862,053			
- three years later	95,648,571	165,933,094				
- four years later	93,488,895					
Current estimate of cumulative claims	93,488,895	165,933,094	213,862,053	95,127,511	36,774,244	605,185,797
Cumulative payments to date	(83,491,269)	(123,743,789)	(120,506,492)	(27,834,306)	(1,940,974)	(357,516,830)
Liability recognised in actuarial valuation	<u>9,997,626</u>	<u>42,189,305</u>	<u>93,355,561</u>	<u>67,293,205</u>	<u>34,833,270</u>	<u>247,668,967</u>

Total All Lines (Direct & Facultative & Treaty)

Liability recognised in actuarial valuation	1,073,974,423
Reserve in respect of prior years	79,158,571
Total reserve including ULAE	1,153,132,994
PAD, Discounting	143,380,745
Total reserve included in actuarial valuation	1,296,513,739
Total reserve included in the statement of financial position	<u>1,313,363,053</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Net)

	Direct & Facultative Lines Accident Year Basis					Total
	2018	2019	2020	2021	2022	
	\$	\$	\$	\$	\$	\$
Accident Year						
Estimate of ultimate claim costs:						
- At end of accident year	96,902,398	88,759,842	104,949,930	116,225,651	110,986,651	
- one year later	88,295,755	85,901,107	89,764,953	103,014,058		
- two years later	82,429,649	81,484,125	80,869,423			
- three years later	76,176,646	74,362,521				
- four years later	72,530,182					
Current estimate of cumulative claims	72,530,182	74,362,521	80,869,423	103,014,058	110,986,651	441,762,835
Cumulative payments to date	(62,011,477)	(58,521,307)	(46,437,617)	(39,061,149)	(12,864,934)	(218,896,484)
Liability recognised in actuarial valuation	10,518,705	15,841,214	34,431,806	63,952,909	98,121,717	222,866,351

	Direct & Treaty Lines Underwriting Year Basis					Total
	2018	2019	2020	2021	2022	
	\$	\$	\$	\$	\$	\$
Underwriting Year						
Estimate of ultimate claim costs:						
- At end of underwriting year	88,431,398	69,779,707	29,523,059	16,477,675	21,828,250	
- one year later	123,177,511	96,703,190	46,555,181	41,958,312		
- two years later	129,798,527	120,287,950	50,170,982			
- three years later	136,282,906	119,423,390				
- four years later	132,043,935					
Current estimate of cumulative claims	132,043,935	119,423,390	50,170,982	41,958,312	21,828,250	365,424,869
Cumulative payments to date	(110,191,343)	(79,636,164)	(24,221,351)	(9,227,676)	(2,254,410)	(225,530,944)
Liability recognised in actuarial valuation	21,852,592	39,787,226	25,949,631	32,730,636	19,573,840	139,893,925

Total All Lines (Direct & Facultative & Treaty)						
Liability recognised in actuarial valuation						362,760,276
Reserve in respect of prior years						34,386,945
Total reserve including ULAE						397,147,221
PAD, Discounting						36,224,041
Total reserve included in actuarial valuation						433,371,262
Total reserve included in the statement of financial position						470,363,927

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Net) (continued)

	Direct & Facultative Lines Accident Year Basis					Total
	As at 31 December 2021					
	2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$
Accident Year						
Estimate of ultimate claim costs:						
- At end of accident year	79,321,731	96,902,398	88,759,842	104,949,930	116,225,651	
- one year later	86,884,976	88,295,755	85,901,107	89,764,953		
- two years later	81,345,370	82,429,649	81,484,125			
- three years later	78,349,612	76,176,646				
- four years later	74,566,489					
Current estimate of cumulative claims	74,566,489	76,176,646	81,484,125	89,764,953	116,225,651	438,217,864
Cumulative payments to date	(62,229,797)	(57,686,769)	(56,505,613)	(34,604,244)	(16,930,243)	(227,956,666)
Liability recognised in actuarial valuation	12,336,692	18,489,877	24,978,512	55,160,709	99,295,408	210,261,198

	Direct & Treaty Lines Underwriting Year Basis					Total
	As at 31 December 2021					
	2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$
Underwriting Year						
Estimate of ultimate claim costs:						
- At end of underwriting year	37,656,634	88,431,398	69,779,707	29,523,059	16,477,675	
- one year later	69,719,958	123,177,511	96,703,190	46,555,181		
- two years later	73,248,266	129,798,527	120,287,950			
- three years later	71,567,314	136,282,906				
- four years later	70,085,375					
Current estimate of cumulative claims	70,085,375	136,282,906	120,287,950	46,555,181	16,477,675	389,689,087
Cumulative payments to date	(63,733,826)	(105,435,350)	(74,977,277)	(15,893,966)	(1,449,075)	(261,489,496)
Liability recognised in actuarial valuation	6,351,549	30,847,556	45,310,673	30,661,213	15,028,600	128,199,591

Total All Lines (Direct & Facultative & Treaty)						
Liability recognised in actuarial valuation						338,460,789
Reserve in respect of prior years						29,097,427
Total reserve including ULAE						367,558,216
PAD, Discounting						49,565,027
Total reserve included in actuarial valuation						417,123,243
Total reserve included in the statement of financial position						433,972,557

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

15. Technical reserves (continued)

(c) Movements in premium liabilities are as follows:

	----- 2022 -----		----- 2021 -----	
	Gross	Reinsurance	Gross	Reinsurance
	\$	\$	\$	\$
<u>Premium liabilities</u>				
Balance at beginning of financial year	395,124,809	(327,468,188)	370,909,998	(288,273,678)
Movement during the year	62,579,406	(54,198,104)	24,214,811	(39,194,510)
Balance at end of financial year	457,704,215	(381,666,292)	395,124,809	(327,468,188)
		Net		Net
		\$		\$
		67,656,621		82,636,320
		8,381,302		(14,979,699)
		76,037,923		67,656,621
<u>Deferred acquisition costs</u>				
Balance at beginning of financial year	36,895,935	(72,085,395)	33,026,731	(62,995,542)
Costs deferred during the year	3,448,345	(11,060,576)	3,869,204	(9,089,853)
Balance at end of financial year	40,344,280	(83,145,971)	36,895,935	(72,085,395)
		(35,189,460)		(29,968,811)
		(7,612,231)		(5,220,649)
		(42,801,691)		(35,189,460)
<u>Premium liabilities, net of deferred acquisition costs</u>				
Balance at beginning of financial year	358,228,874	(255,382,793)	337,883,267	(225,278,136)
Movement during the year	59,131,061	(43,137,528)	20,345,607	(30,104,657)
Balance at end of financial year	417,359,935	(298,520,321)	358,228,874	(255,382,793)
		102,846,081		112,605,131
		15,993,533		(9,759,050)
		118,839,614		102,846,081

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

16. Deferred taxes

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement in deferred tax (assets)/liabilities is as follows:

	Accelerated tax depreciation	Fair value (loss)/gain	Total
	\$	\$	\$
2022			
Beginning of financial year	170,000	(939,200)	(769,200)
Credited to:			
- Equity (Note 18)	-	(7,932,700)	(7,932,700)
End of financial year	170,000	(8,871,900)	(8,701,900)
2021			
Beginning of financial year	170,000	1,190,600	1,360,600
Credited to:			
- Equity (Note 18)	-	(2,129,800)	(2,129,800)
End of financial year	170,000	(939,200)	(769,200)

The Company's deferred tax liabilities have been computed based on the corporate tax rate and tax laws prevailing at reporting date.

17. Share capital

The share capital comprises of fully paid-up 25,000,000 (2021: 25,000,000) ordinary shares with no par value, amounting to a total of \$26,500,000 (2021: \$26,500,000).

The holder of ordinary shares are entitled to receive dividend as declared from time to time, and are entitled to one vote per share at the meeting of the Company.

Dividends

The following exempt (one-tier) dividends were declared and paid by the Company:

For the year ended 31 December

	2022	2021
	\$	\$
Paid by the Company to owners of the Company		
2.1897 dollars per qualifying ordinary share (2021: 1.6696 dollars)	54,742,500	41,740,000
	54,742,500	41,740,000

MS FIRST CAPITAL INSURANCE LIMITED

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For the financial year ended 31 December 2022

18. Fair value reserve

	2022 \$	2021 \$
Beginning of financial year	(4,586,428)	5,815,844
Financial assets, available-for-sale		
Fair value loss	(48,512,103)	(12,563,197)
Tax on fair value changes (Note 16)	8,246,500	2,135,100
	(40,265,603)	(10,428,097)
Transfer to profit or loss on disposal	1,846,158	31,125
Tax effect (Note 16)	(313,800)	(5,300)
	1,532,358	25,825
End of financial year	(43,319,673)	(4,586,428)

19. Management of insurance and financial risk

Exposure to underwriting, credit, market, liquidity and capital risks arise in the normal course of business. The management of these risks is discussed below:

The Company is a Singapore based direct insurer. The table below sets out the composition of gross written premium for the current year by class of business.

	Singapore %	Overseas %
2022		
Marine and aviation	14	13
Fire	40	76
Motor	8	1
Workmen's compensation	12	–
Miscellaneous accident	26	10
	<u>100</u>	<u>100</u>
2021		
Marine and aviation	14	13
Fire	37	75
Motor	8	2
Workmen's compensation	13	–
Miscellaneous accident	28	10
	<u>100</u>	<u>100</u>

The Company's overall business strategy, its tolerance of risks and its general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(a) *Underwriting risk*

Underwriting risks include the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the Company having either received insufficient premiums for the risks it has agreed to underwrite and hence not having adequate funds to invest and pay claims. The Company seeks to minimise underwriting risks with a balanced mix and spread of classes of business and by observing underwriting guidelines and limits, and high standards applied to the security of reinsurers. The Company adopted the Company's certifying actuary's view on its claims and premium liabilities at reporting date.

The table below sets out the concentration of the claims and premium liabilities (in percentage terms) at the reporting date:

	<u>Gross claims liabilities</u> %	<u>Net claims liabilities</u> %	<u>Gross premium liabilities</u> %	<u>Net premium liabilities</u> %
2022				
Marine and aviation	17	20	13	18
Fire	50	26	51	48
Motor	9	20	2	5
Workmen's compensation	5	10	3	7
Miscellaneous accident	19	24	31	22
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
2021				
Marine and aviation	17	19	14	19
Fire	48	22	46	41
Motor	11	25	3	8
Workmen's compensation	5	10	4	10
Miscellaneous accident	19	24	33	22
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions failed to perform as contracted. Credit evaluations are performed on all new brokers, reinsurers, financial institutions and other counterparties by reviewing credit grades provided by rating agencies and other publicly available financial information. The exposure to individual counterparties is managed by monitoring the payment history for significant contract holders with whom the Company regularly transacts. The exposure to individual counterparties is also managed by other mechanisms, such as, withholding premiums deposits and the right to offset where counterparties are both debtors and creditors of the Company.

	AAA \$	AA \$	A \$	BBB \$	BB \$	Not rated / analysed \$	Total \$
2022							
Cash and cash equivalents [#]	–	71,992,736	620,327,263	297,773,754	–	5,329,619	995,423,372
Financial assets	333,941,414	48,268,221	128,228,673	159,714,223	–	81,485,092	751,637,623
Insurance receivables	18,053	19,048,403	125,165,921	29,438,479	3,268,779	163,605,416	340,545,051
Other receivables [#]	2,480,770	492,998	4,928,713	1,753,403	–	3,639,650	13,295,534
Derivative financial instruments	–	–	8,349,998	–	–	–	8,349,998
Mortgage loans [#]	–	–	–	–	–	6,999,025	6,999,025
	336,440,237	139,802,358	887,000,568	488,679,859	3,268,779	261,058,802	2,116,250,603
2021							
Cash and cash equivalents [#]	–	88,041,348	399,566,609	312,715,168	–	10,263,101	810,586,226
Financial assets	340,554,398	49,974,562	153,990,001	167,232,929	5,101,109	86,794,619	803,647,618
Insurance receivables	–	10,308,444	77,242,748	23,666,310	7,603,982	158,276,575	277,098,059
Other receivables [#]	1,861,752	536,199	3,767,247	1,458,600	117,881	1,153,180	8,894,859
Derivative financial instruments	–	–	4,639	–	–	–	4,639
Mortgage loans [#]	–	–	–	–	–	25,528,801	25,528,801
	342,416,150	148,860,553	634,571,244	505,073,007	12,822,972	282,016,276	1,925,760,202

* Excludes prepayments

These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks which have credit-ratings as determined by international credit-rating agencies. Financial assets, insurance receivables and reinsurance receivables that are neither past due nor impaired are substantially companies with good collection track records with the Company.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(b) *Credit risk (continued)*

(i) *Financial assets that are neither past due nor impaired*

Mortgage loans are not exposed to credit risk as these loans are fully collateralised. For financial assets that do not have any collateral, the maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial assets presented on the statement of financial position.

(ii) *Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for insurance and other receivables.

The age analysis of insurance receivables and other receivables (excluding prepayments) is disclosed below.

	Gross 2022 \$	Impairment losses 2022 \$	Gross 2021 \$	Impairment losses 2021 \$
Insurance and other receivables				
Not past due	305,922,653	1,070	243,666,091	4,780
4-6 months	30,878,978	2,457	25,082,235	5,937
7-12 months	12,467,341	3,378	12,725,421	1,393
More than one year	4,973,963	395,445	4,901,865	370,584
	354,242,935	402,350	286,375,612	382,694

Movement in provision for impairment:

	2022 \$	2021 \$
At 1 January	382,694	582,978
Provision for the year	27,280	125,250
Write-back for the year	(7,624)	(2,305)
Written-off for the year	-	(323,229)
At 31 December	402,350	382,694

MS FIRST CAPITAL INSURANCE LIMITED

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For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(c) *Market risk*

(i) *Currency risk*

The Company is exposed to foreign exchange rate fluctuations because of its foreign currency denominated investments, bank deposits and insurance policies. Exposures to foreign currency risks on investments and bank deposits are monitored on an ongoing basis. The exposures to foreign currency risks on insurance policies are reviewed annually. The currency giving rise to this foreign currency risk is primarily the US Dollar.

The table below summarises the Company's exposures to foreign currency exchange rate movements as at 31 December 2022. The Company's assets and liabilities at carrying amounts are included in the table, categorised by currency denomination at their carrying amounts. All the amounts are presented in Singapore Dollars.

	SGD \$	Denominated in: USD \$	Others \$	Total \$
2022				
Cash and cash equivalents	674,123,564	255,503,601	65,796,207	995,423,372
Financial assets	662,986,935	88,650,688	–	751,637,623
Mortgage loans	6,999,025	–	–	6,999,025
Insurance and other receivables	92,209,830	146,448,526	115,480,102	354,138,458
Derivative financial instruments	2,943,212	5,406,786	–	8,349,998
Reinsurers' share of technical reserves	363,710,673	459,112,038	443,224,790	1,266,047,501
	<u>1,802,973,239</u>	<u>955,121,639</u>	<u>624,501,099</u>	<u>3,382,595,977</u>
Insurance and other payables	(345,266,198)	(68,882,561)	(39,563,634)	(453,712,393)
Technical reserves	(621,620,739)	(631,008,971)	(602,621,332)	(1,855,251,042)
	<u>(966,886,937)</u>	<u>(699,891,532)</u>	<u>(642,184,966)</u>	<u>(2,308,963,435)</u>
Net exposure	<u>836,086,302</u>	<u>255,230,107</u>	<u>(17,683,867)</u>	<u>1,073,632,542</u>
2021				
Cash and cash equivalents	519,284,851	197,010,961	94,290,414	810,586,226
Financial assets	699,224,229	104,423,389	–	803,647,618
Mortgage loans	25,528,801	–	–	25,528,801
Insurance and other receivables	99,141,945	105,390,071	81,707,179	286,239,195
Derivative financial instruments	4,639	–	–	4,639
Reinsurers' share of technical reserves	492,806,736	290,122,673	351,843,880	1,134,773,289
	<u>1,835,991,201</u>	<u>696,947,094</u>	<u>527,841,473</u>	<u>3,060,779,768</u>
Insurance and other payables	(280,629,675)	(41,373,952)	(14,002,272)	(336,005,899)
Technical reserves	(828,047,432)	(372,331,803)	(471,212,692)	(1,671,591,927)
	<u>(1,108,677,107)</u>	<u>(413,705,755)</u>	<u>(485,214,964)</u>	<u>(2,007,597,826)</u>
Net exposure	<u>727,314,094</u>	<u>283,241,339</u>	<u>42,626,509</u>	<u>1,053,181,942</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(c) *Market risk* (continued)

(i) Currency risk (continued)

If the foreign currencies exchange rate change against the Singapore dollar by 5% (2021: 5%), with all other variables including tax rate being held constant, the effects arising from the net position will be as follows:

	2022 Profit after tax	Increase /(Decrease) 2022 Equity	2021 Profit after tax	2021 Equity
Foreign currencies against SGD	5%	5%	5%	5%
- Strengthened	6,328,061	6,328,061	9,411,390	9,411,390
- Weakened	(6,328,061)	(6,328,061)	(9,411,390)	(9,411,390)

(ii) Price risk

The Company is not exposed to equity price risk as all investments are debt securities.

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk primarily arising from its interest-bearing short-term bank deposits, interest-bearing debt securities and interest-bearing loans and receivables. Strict investment guidelines are used to monitor the risks in the Company's investments.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(c) *Market risk (continued)*

(iii) Interest rate risk (continued)

The tables below set out the Company's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the maturity date.

	Variable rates		Fixed rates				Non-interest bearing	Total
	Amount	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	\$		
2022								
Cash and cash equivalents	–	961,740,438	–	–	–	33,682,934	995,423,372	
Insurance and other receivables	–	–	–	–	–	354,138,458	354,138,458	
Mortgage loans	6,225,624	–	–	–	773,401	–	6,999,025	
Derivative financial instruments	–	–	–	–	–	8,349,998	8,349,998	
Financial assets	75,727,315	70,501,646	31,543,153	404,458,229	169,407,280	–	751,637,623	
2021								
Cash and cash equivalents	–	776,885,068	5,530,675	–	–	28,170,483	810,586,226	
Insurance and other receivables	–	–	–	–	–	286,239,195	286,239,195	
Mortgage loans	14,725,623	10,000,000	–	–	803,178	–	25,528,801	
Derivative financial instruments	–	–	–	–	–	4,639	4,639	
Financial assets	70,002,908	74,035,700	55,212,036	390,657,936	213,739,038	–	803,647,618	

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(c) *Market risk* (continued)

(iii) Interest rate risk (continued)

If interest rates increase by 200 basis points (“bp”), with all other variables including tax rate being held constant, the profit after tax will be higher by \$1,360,419 (2021: \$1,406,494). A 200 bp decrease will have an equal but opposite effect on profit after tax.

Other comprehensive income would have been higher/lower by \$38,382,191 (2021: \$45,066,630) as a result of market value fluctuations on the debt securities portfolio based on the above movements in interest rates.

(d) *Liquidity risk*

The Company manages liquidity risk by maintaining sufficient cash and marketable securities to meet normal operating commitments. The Company’s cash management process assesses the liquidity of assets held to ensure that assets can be realised on a reasonably timely basis to settle insurance liabilities.

The Company is required to satisfy the solvency requirements prescribed by the Singapore Insurance Act. The Company will assess at each quarter as well as annually whether solvency requirements have been met as part of their reporting process to the Monetary Authority of Singapore, which is the regulatory body for insurance companies in Singapore. Appropriate actions are taken by management to ensure the Company maintains a sound financial position throughout the year and in the long term.

Management believes that the Company’s liquid assets and net cash from operations will enable it to meet any foreseeable cash requirements.

The table below analyses contractual maturities of the liabilities of the Company into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(d) *Liquidity risk (continued)*

	Carrying amount	Contractual cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	\$	\$	\$	\$	\$	\$
2022						
Insurance and other payables	453,712,393	453,712,393	423,616,355	14,631,452	13,783,428	1,681,158
Lease liabilities	6,302,546	6,728,645	1,957,277	1,830,577	2,940,791	–
Technical reserves - loss reserves, net of reinsurers' share	470,363,927	490,232,846	246,533,371	119,009,283	109,716,127	14,974,065
	<u>470,363,927</u>	<u>490,232,846</u>	<u>246,533,371</u>	<u>119,009,283</u>	<u>109,716,127</u>	<u>14,974,065</u>
2021						
Insurance and other payables	336,005,899	336,005,899	307,409,774	10,922,933	14,936,690	2,736,502
Lease liabilities	648,288	652,848	634,848	18,000	–	–
Technical reserves - loss reserves, net of reinsurers' share	433,972,557	437,014,676	216,253,767	102,116,401	102,772,121	15,872,387
	<u>433,972,557</u>	<u>437,014,676</u>	<u>216,253,767</u>	<u>102,116,401</u>	<u>102,772,121</u>	<u>15,872,387</u>

(e) *Capital risk*

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to comply with capital adequacy requirements prescribed by the Singapore Insurance Act as an authorised insurer to carry on insurance business in or from Singapore, so that it can continue to provide returns for shareholders, by pricing products and services commensurate with the level of risk.

Regulatory capital requirements require the Company to hold assets sufficient to cover liabilities. The Company will assess at each quarter as well as annually whether the capital adequacy requirements as defined by the Singapore Insurance Act have been met as part of their reporting process to the Monetary Authority of Singapore.

The table below shows the minimum amount of capital that must be held by the Company in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

	2022	2021
Capital Adequacy Ratio Held	557%	599%
Minimum regulatory Capital Adequacy Ratio	100%	100%

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(e) *Capital risk (continued)*

In addition, MAS may prescribe different fund solvency requirements or capital adequacy requirements for different classes of insurance business and for different types of insurers from time to time. The Company is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2022 and 31 December 2021.

(f) *Accounting classifications and fair values*

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(f) Accounting classifications and fair values (continued)

2022	Note	Available-for-sale \$	Carrying amount			Fair value						
			Fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Total \$	Level 1 \$	Level 2 \$	Level 3 \$	Total \$		
Financial assets measured at fair value												
Financial assets, available for sale	10	751,637,623	-	-	-	751,637,623	710,863,688	40,773,935	-	-	-	751,637,623
Derivative financial instruments		-	8,349,998	-	-	8,349,998	-	8,349,998	-	-	-	8,349,998
		<u>751,637,623</u>	<u>8,349,998</u>	<u>-</u>	<u>-</u>	<u>759,987,621</u>						
Financial assets not measured at fair value												
Mortgage loans*	12	-	-	6,999,025	-	6,999,025	-	-	6,999,025	-	-	6,999,025
Other receivables**	11(b)	-	-	13,295,534	-	13,295,534	-	-	-	-	-	-
Cash and cash equivalents#	9	-	-	995,423,372	-	995,423,372	-	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>1,015,717,931</u>	<u>-</u>	<u>1,015,717,931</u>						
Financial liabilities not measured at fair value												
Other payables	14(b)	-	-	-	-	(21,809,689)	(21,809,689)	-	-	-	-	(21,809,689)

* Excludes prepayments

These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(f) Accounting classifications and fair values (continued)

2021	Note	Available-for-sale \$	Fair value through profit or loss \$	Carrying amount			Fair value					
				Loans and receivables \$	Other financial liabilities \$	Total \$	Level 1 \$	Level 2 \$	Level 3 \$	Total \$		
Financial assets measured at fair value												
Financial assets, available for sale	10	803,647,618	-	-	803,647,618	713,886,202	89,761,416	-	803,647,618			
Derivative financial instruments		-	4,639	-	-	-	4,639	-	-	4,639	-	4,639
		<u>803,647,618</u>	<u>4,639</u>	<u>-</u>	<u>-</u>	<u>803,652,257</u>						
Financial assets not measured at fair value												
Mortgage loans [#]	12	-	-	25,528,801	-	-	-	-	25,528,801			25,528,801
Other receivables ^{**}	11(b)	-	-	8,894,859	-	-	-	-	8,894,859			
Cash and cash equivalents [#]	9	-	-	810,586,226	-	-	-	-	810,586,226			
		<u>-</u>	<u>-</u>	<u>845,009,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>845,009,886</u>			
Financial liabilities not measured at fair value												
Other payables	14(b)	-	-	-	-	(18,157,839)			(18,157,839)			

* Excludes prepayments

These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

19. Management of insurance and financial risk (continued)

(g) *Measurement of fair values*

(i) Financial instruments measured at fair value

Debt securities

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of debt securities classified as financial assets, available-for-sale, financial assets at fair value through profit or loss and derivative financial instruments (total return swaps) are based on over-the-counter quotes at the reporting date. These are based on market observable inputs such as benchmark yields, reported trades and broker-dealer quotes available for these investments. These investments are included in Level 2.

Derivative financial instruments

The fair value of financial derivative instruments for disclosure purposes is estimated based on quoted market prices for dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(ii) Financial instruments not measured at fair value

The fair value of mortgage loans approximates their carrying amount.

20. Immediate and ultimate holding companies

Mitsui Sumitomo Insurance Company, Limited and MS&AD Insurance Group Holdings, Inc. both incorporated in Japan, are the Company's immediate and ultimate holding companies respectively.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

21. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms agreed between the parties.

(a) Transactions

	2022	2021
	\$	\$
<i>Immediate holding company</i>		
Premiums received/receivable	9,874,708	10,551,013
Reinsurance premiums paid/payable	–	(59)
Commissions paid	(1,052,520)	(1,036,693)
Claims paid	(68,748)	(128,437)
<i>Other related companies</i>		
Premiums received/receivable	48,777,519	41,242,529
Reinsurance premiums paid/payable	(491,246)	(509,960)
Commissions received	80,486	77,103
Commissions paid	(6,989,246)	(6,554,816)
Claims paid	(3,884,571)	(2,296,424)
Claims recovered	62,368	92
Management fees	(322,854)	(225,354)

(b) Key management personnel compensation

Key management personnel compensation is analysed as follows:

	2022	2021
	\$	\$
Salaries and other short-term employee benefits	6,223,516	6,253,268
Employer's contribution to defined contribution plans including Central Provident Fund	45,258	49,982
	<u>6,268,774</u>	<u>6,303,250</u>

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

22. Leases

Leases as lessee (FRS 116)

The Company leases properties consisting of office premises and expatriates' housing. The leases typically runs for a period of 2 to 3 years, with an option to renew the lease after that date. Lease payments are renegotiated every 2 to 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Right-of-use assets relates to leased properties that do not meet the definition of investment property.

	Leased premises	
	2022	2021
	\$	\$
Balance at 1 January	627,986	1,736,026
Depreciation charge for the year	(1,347,044)	(1,197,018)
Additions to right-of-use assets	6,742,354	141,319
Derecognition of right-of-use assets	–	(52,341)
Balance at 31 December	6,023,296	627,986

Lease liabilities

When measuring lease liabilities for leases that were entered during the year, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied is 3.7%.

Amounts recognised in profit or loss

	2022	2021
	\$	\$
Interest on lease liabilities	64,143	35,215

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

22. Leases (continued)

Amounts recognised in statement of cash flows

	2022	2021
	\$	\$
Total cash outflow for leases	<u>1,152,239</u>	<u>1,248,944</u>

Future minimum rental payments under non-cancellable operating leases are as follows:

	2022	2021
	\$	\$
Within one year	1,957,277	634,848
After one year but not more than five years	4,771,368	18,000
	<u>6,728,645</u>	<u>652,848</u>

23. New standards and interpretations not adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Company has not early adopted the new standards in preparing these financial statements.

The Company will apply FRS 117 and FRS 109 for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the Company's financial statements in the period of initial application.

Estimated impact of the adoption of FRS 117 and FRS 109

FRS 117 will replace FRS 4 Insurance Contracts for annual periods on or after 1 January 2023.

The Company has assessed the estimated impact that the initial application of FRS 117 (see 23(a)) and FRS 109 (see 23(b)) will have on its financial statements.

The Company will restate comparative information on adoption of FRS 117 (see 23(b)(vii)) and applied FRS 109 retrospectively (see 23(b)).

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

The assessment is preliminary because not all the transition work has been finalised. The actual impact of adopting FRS 117 and FRS 109 on 1 January 2023 and 2022 may change because:

- the Company is continuing to refine the new accounting processes and internal controls required for applying FRS 117 and FRS 109;
- although parallel runs were carried out in the year of 2022, the new systems and associated controls in place have not been operational for a more extended period;
- the Company has not finalised the testing and assessment of controls over its new systems and changes to its governance framework; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

a) FRS 117 Insurance Contracts

(i) *Identifying contracts in the scope of FRS 117*

FRS 117 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts.

When identifying contracts in the scope of FRS 117, in some cases the Company will have to assess whether a set or series of contracts needs to be treated as a single contract and whether embedded derivatives, investment components and goods and services components have to be separated and accounted for under another standard. For insurance and reinsurance contracts, the Company does not expect significant changes arising from the application of these requirements.

(ii) *Level of Aggregation*

Under FRS 117, insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different lines of business are expected to be in different portfolios. Each portfolio is then divided into annual cohorts (i.e. by year of issue) and each annual cohort into three groups:

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(ii) Level of Aggregation (continued)

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added. Groups of reinsurance contracts are established such that each group comprises a single contract.

The level of aggregation requirements of FRS 117 limit the offsetting of gains on groups of profitable contracts, which are generally deferred as a Contract Service Margin ("CSM"), against losses on groups of onerous contracts, which are recognised immediately (see 23(b)(iv)). Compared with the level at which the liability adequacy test is performed under FRS 4 (i.e. portfolio of contracts level), the level of aggregation under FRS 117 is more granular and is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner.

The Company's groups its insurance contracts by source of business ("direct and facultative" and "inward treaty") into various lines of business, segregated by onshore and offshore general insurance risks and further into seven portfolio currencies.

The portfolios determined are further separate by the profitability of each contract or contract groups as under:

- Onerous
- No significant possibility of becoming onerous
- Other remaining contracts

The company will determine the onerosity or profitability assessment on a per individual contract level then will group the insurance contracts into groups of contracts (GoC) depending on which profitability groups it belongs.

For reinsurance contracts held, the company expects either to incur a net cost of purchasing the reinsurance or make a net gain from purchasing the reinsurance. For some reinsurance contracts held, applying the requirements in FRS 117 will result in a group that comprises a single contract.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(iii) Contract Boundary

Under FRS 117, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in FRS 117.

Insurance Contract

For insurance contracts, cash flows are within the contract boundary if they arise from

- i) substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or
- ii) the Company has a substantive obligation to provide services.

The contract boundary will be determined by considering whichever of (i) or (ii) will result to the longest boundary. For the Company, usually the latter case (ii) applies. The contract boundary is also affected by whether the contract permits early termination by the Company by giving notice to policyholders (unilateral termination) and whether there is renewal option under the contract.

The Company will account for contracts with unilateral termination clause on the same basis as contracts without unilateral termination clause.

Reinsurance Contracts

The assessment of whether a cash flow is within the contract boundary of the reinsurance contract will be similar to that of the underlying direct contracts.

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

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(iii) Contract Boundary (continued)

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage

Some of the Company's quota share reinsurance contracts cover underlying contracts issued within the annual term on a risk-attaching basis and provide unilateral rights to both the Company and the reinsurer to terminate the attachment of new underlying contracts at any time by giving three months' notice to the other party. Currently, the measurement of these reinsurance contracts generally aligns with that of the underlying contracts and considers only underlying contracts already ceded at the measurement date.

(iv) Measurement Model

FRS 117 introduces a measurement model based on the estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk. For an explanation of how the measurement model is applied (see 23(v)).

Premium Allocation Approach ("PAA")

The PAA is an optional simplified measurement model in FRS 117 that is available for insurance and reinsurance contracts that meet the eligibility criteria. For an explanation of how the Company will apply the PAA, see (vi).

The Company expects that it will apply the PAA to all contracts because the following criteria are expected to be met at inception.

- Insurance contracts and loss-occurring reinsurance contracts: The coverage period of each contract in the group is one year or less. For contracts with coverage period greater than 1 year, the Company reasonably expects that the resulting measurement under PAA of the asset for remaining coverage ("LRC") would not differ materially from the result if the GMM (General Measurement Model) is applied.
- Risk-attaching reinsurance contracts: The Company reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result if the GMM is applied.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(v) *Measurement*

At initial recognition, for groups of contracts measured under the PAA that are not onerous, the liability for remaining coverage is measured at the premiums received on initial recognition.

The Company will not elect to recognise insurance acquisition cash flows as expenses when they are incurred. Accordingly, insurance acquisition cash flows will be amortised over time, in the same proportions as premium is earned.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided.

The Company expects that the time between providing each part of the services and the related premium due date will be predominantly no more than a year. Accordingly, as permitted under FRS 117, the Company will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group will recognise a loss in "profit or loss" and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows will be discounted (at current rates) if the liability for incurred claims is also discounted.

The Company will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

The Company will apply the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(vi) *Measurement – Significant judgement and estimates*

Estimates for future cash flows

In estimating future cash flows, the Company will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

When estimating future cash flows, the Company will take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted.

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows attributable to acquisition and other fulfilment activities will be allocated to groups of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics.

Discount rates

The Company uses the bottom-up approach to compute the discount rate. The bottom-up discount rate will be comprised of government bond risk free yield curve which will be extracted from the relevant source, and linearly interpolated as necessary to reflect the required time intervals.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(vi) Measurement – Significant judgement and estimates (continued)

Risk adjustments for non-financial risk

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Company would require for bearing non-financial risk and its degree of risk aversion. They will be determined and allocated to groups of contracts based on an analysis of the risk profiles of the groups.

The risk adjustments for liabilities for incurred claims will be determined using a confidence level technique.

To determine the risk adjustments for non-financial risk for reinsurance contracts, the Company will apply these techniques both gross and net of reinsurance on an undiscounted and discounted basis, to give both an undiscounted and discounted risk adjustment.

Applying a confidence level technique, the Company will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level will be 75 percent for liabilities for incurred claims.

(vii) Presentation and disclosure

FRS 117 will significantly change how insurance contracts and reinsurance contracts are presented and disclosed in the Company's financial statements.

Under FRS 117, portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances such as insurance receivables and payables will no longer be presented separately. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(vii) Presentation and disclosure (continued)

Under FRS 117, amounts recognised in the statement of profit or loss and OCI are disaggregated into:

- (a) an insurance service result, comprising insurance revenue and insurance service expenses; and
- (b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

Insurance service result

For contracts measured using the PAA, insurance revenue is recognised based on an allocation of expected premium receipts to each period of coverage, which is based on the expected timing of incurred insurance service expenses for certain property contracts and the passage of time for other contracts. The requirements in FRS 117 to recognise insurance revenue over the coverage period will generally result in slower revenue recognition compared with the Company's current practice of recognising revenue when the related premiums are written.

Expenses that relate directly to the fulfilment of contracts will be recognised in profit or loss as insurance service expenses, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented outside the insurance service result.

Amounts recovered from reinsurers and reinsurance expenses will no longer be presented separately in profit or loss, because they will be presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result, but information about these will be included in the disclosures.

The Company will choose not to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk recognised in profit or loss will be included in the insurance service result.

Insurance finance income and expenses

Under FRS 117, changes in the carrying amounts of groups of contracts arising from the effects of the time value of money, financial risk and changes therein are generally presented as insurance finance income or expenses.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

a) FRS 117 Insurance Contracts (continued)

(vii) *Presentation and disclosure (continued)*

Disclosure

FRS 117 requires new disclosures about amounts recognised in the financial statements, including detailed reconciliations of contracts, as well as disclosures about significant judgements made when applying FRS 117. Disclosures will generally be made at a more granular level than under FRS 4, providing more transparent information for assessing the effects of contracts on the financial statements.

(viii) *Transition*

Changes in accounting policies resulting from the adoption of FRS 117 will be applied using a full retrospective approach to the extent practicable, except as described below. Under the full retrospective approach, at 1 January 2023 the Company will:

- identify, recognise and measure each group of insurance contracts, reinsurance contracts as if FRS 117 had always been applied;
- identify, recognise and measure any assets for insurance acquisition cash flows as if FRS 117 had always been applied, except that they will not be tested for recoverability before 1 January 2023;

If it is impracticable to apply a full retrospective approach to a group of contracts or to an asset for insurance acquisition cash flows, then the Company will choose between the modified retrospective approach and the fair value approach.

b) FRS 109 Financial Instruments

FRS 109 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Company will apply FRS 109 for the first time on 1 January 2023.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

b) FRS 109 Financial Instruments (continued)

(i) Financial assets - Classification

The classification of financial assets under FRS 109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. FRS 109 includes three principal measurement categories for financial assets — measured at amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”) — and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

b) FRS 109 Financial Instruments (continued)

(i) *Financial assets – Classification (continued)*

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an instrument-by-instrument basis.

Under FRS 109, derivatives embedded in contracts where the host is a financial asset in the scope of FRS 109 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impact assessment

FRS 109 will affect the classification and measurement of financial assets the Company's held at 1 January 2023 as follows.

- Derivative assets, which are generally classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under FRS 109.
- Debt investments that are classified as available-for-sale under IAS 39 may, under FRS 109, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- Held-to-maturity investments and loans and receivables measured at amortised cost under IAS 39 will generally also be measured at amortised cost under FRS 109.

In view that a majority of the Company's financial assets are measured at fair value both before and after transition to FRS 109, the new classification requirements are not expected to have a material impact on the Company's total equity at 1 January 2023 or 2022.

(ii) *Financial assets – impairment*

FRS 109 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

b) FRS 109 Financial Instruments (continued)

(ii) Financial assets – impairment (continued)

The new impairment model will apply to the Company's financial assets measured at amortised cost and debt investments at FVOCI.

FRS 109 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company will measure loss allowances at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised will be 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date, which the Company considers to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade'; and
- debt securities for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort will be considered. This will include both qualitative and quantitative information and analysis based on the Company's experience, expert credit assessment and forward-looking information.

MS FIRST CAPITAL INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

23. New standards and interpretations not adopted (continued)

Estimated impact of the adoption of FRS 117 and FRS 109 (continued)

b) FRS 109 Financial Instruments (continued)

(ii) Transition

Changes in accounting policies resulting from the adoption of FRS 109 will be applied retrospectively with effect from 1 January 2023, except as described below.

- IFRS 9 does not apply to financial assets that had already been derecognised at 1 January 2023; and
- The determination of the business model within which a financial asset is held have to be made on the basis of the facts and circumstances that exist at 1 January 2023.

If a financial asset has low credit risk at 1 January 2023, then the Company will determine that the credit risk on the asset has not increased significantly since initial recognition

24. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Directors on 27 March 2023.