

**MOTOR INSURERS' BUREAU OF HONG KONG**  
**(Limited by guarantee)**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2016**

## MOTOR INSURERS' BUREAU OF HONG KONG

### REPORT OF THE COUNCIL MEMBERS

The Council Members have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2016

#### Principal activities and business review

##### *A fair review of the Bureau's business*

The Bureau has a limited scope as a specific public service dictated by its Articles of Association in administering two funds, namely the First Fund Scheme ("FFS") and the Insolvency Fund Scheme ("IFS") for the satisfaction of claims liabilities to certain motor vehicle accident victims under the circumstances as set out in Legal status, Note 1 on pages 11 to 12 to the Financial Statements which forms part of this Business Review and as also detailed in the Bureau's website at [www.mibhk.com.hk](http://www.mibhk.com.hk).

There were no significant developments in the business of the Bureau during the year and it remains in good financial health as summarized by the below key financial information.

#### FFS

	2016	2015
Contributions from members	HK\$40.4 million	HK\$40.2 million
Net assets	HK\$327.1 million	HK\$287.3 million
Gross claims paid	HK\$15.2 million	HK\$11.4 million
Amount of reinsurance recoveries	Nil	HK\$5 million
Amount of claims recoveries	HK\$0.04 million	HK\$0.2 million
Number of outstanding claims *	1,169	1,165
Provision for outstanding claims *	HK\$296.7 million	HK\$313 million
Number of new claims received *	780	816

[\* registered and potential claims]

#### IFS

	2016	2015
Contributions from members	HK\$80.7 million	HK\$80.5 million
Net assets	HK\$2,049 million	HK\$1,912.7 million
Gross claims paid	HK\$1.2 million	HK\$1.8 million
Number of outstanding claims	94	107
Amount of claims recoveries	Nil	Nil
Provision for outstanding claims	HK\$51.4 million	HK\$54.4 million
Number of new claims received ~	Nil	Nil

[~ estimate]

The Bureau maintains a high level of Corporate Governance through its Audit Committee and has complied with the relevant laws and regulations for its business throughout the year.

The Bureau maintains a steady workforce headed by the General Manager and Senior Advisor and there were no changes in these key personnel during the year.

The Bureau has in place a formal channel for employees or the public to communicate their complaints and concerns with nothing of note to report.

The Bureau reviews its key external service providers including Secretaries, Legal advisers, Investment managers, consultant & custodian, Actuaries and Reinsurance broker on a regular basis and its relationships with them remained strong throughout the year.

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **REPORT OF THE COUNCIL MEMBERS (CONTINUED)**

#### **Principal activities and business review (continued)**

##### *A description of the principal risks and uncertainties facing the Bureau*

A detailed discussion on the main risks of the Bureau are set out in Management of insurance and financial risk, Note 3 on pages 16 to 26 to the Financial Statements which forms part of this Business Review.

##### *Particulars of important events affecting the Bureau that have occurred since the end of the financial year*

The Council is not aware of any important events affecting the business of the Bureau that have occurred since the end of the financial year.

##### *An indication of likely future developments in the Bureau's business*

The Council continues to monitor with interest developments in respect of the Independent Insurance Authority which is not expected to have a material impact on the Bureau.

The Council also continues to consider the Policyholders' Protection Fund where it is expected that potentially the Bureau will further extend the IFS subject to Members' agreement.

#### **Financial statements**

The results of the Bureau for the year ended 31 December 2016 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 7 to 34.

#### **Property, plant and equipment**

Details of movements in property, plant and equipment are set out in note 8 to the financial statements.

#### **General reserve and retained surplus**

Movements in retained surplus during the year are set out in the statement of changes in equity.

#### **Council Members**

The Council Members during the financial year and up to the date of this report are:

Ms Agnes Choi Heung Kwan	
Mr Andrew Wong Kwai Chuen	
Ms Chi Shun Wong	(appointed on 14 February 2017)
Mr Jimmy Poon Wing Fai	
Mr Kam Kwai Hui	(appointed on 30 June 2016)
Mr Kenneth John Reid	
Mr Kin Nam Yu	(resigned on 1 June 2016)
Mr Kok Ho Wong	(resigned on 1 February 2017)
Mr Mark John Walker	
Mr Pui Leung Chan	
Mr Pak Kee Lee	(appointed on 31 May 2016)

## **REPORT OF THE COUNCIL MEMBERS (CONTINUED)**

### **Council Members (continued)**

Messrs Kenneth John Reid, Agnes Choi Heung Kwan and Andrew Wong Kwai Chuen are to retire at the forthcoming annual general meeting in accordance with article 37(a) of the Bureau's Articles of Association and, being eligible, offer themselves for re-election.

Messrs Kam Kwai Hui and Chi Shun Wong having been appointed to fill casual vacancies during the year and up to the date of this report, retire at the forthcoming annual general meeting in accordance with article 35 of the Bureau's Article of Association and, being eligible, offers themselves for re-election.

All other remaining Council Members continue in office.

### **Council member's interests in contracts**

No contract of significance to which the Bureau was a party and in which a Council Member of the Bureau had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Bureau a party to any arrangements to enable the Council Members of the Bureau to acquire benefits by means of the acquisition of shares in or debentures of any body corporate.


### **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bureau were entered into or existed during the year.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire, and being eligible, offer themselves for re-appointment.

By order of the Council



Kenneth John Reid  
Chairman

Hong Kong, 11 April 2017

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MOTOR INSURERS' BUREAU OF HONG KONG**

(Incorporated in Hong Kong and limited by guarantee)

**Opinion**

*What we have audited*

The financial statements of Motor Insurers' Bureau of Hong Kong ("the Bureau") set out on pages 7 to 34, which comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

*Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bureau as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

*Independence*

We are independent of the Bureau in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

**Other Information**

The Council Members are responsible for the other information. The other information comprises the information included in the report of the Council Members, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MOTOR INSURERS' BUREAU OF HONG KONG**

(Incorporated in Hong Kong and limited by guarantee)

**Responsibilities of Council Members and Those Charged with Governance for the Financial Statements**

The Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bureau's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council Members.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MOTOR INSURERS' BUREAU OF HONG KONG**

(Incorporated in Hong Kong and limited by guarantee)

- Conclude on the appropriateness of the Council Members' 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 Bureau's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bureau 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

  
**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 11 April 2017

**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2016	2015	2016	2015
		HK\$	HK\$	HK\$	HK\$
<b>Revenue</b>					
Members' contributions		40,369,368	40,177,048	80,738,975	80,474,865
Non-members' contributions		131,859	129,423	-	-
		<u>40,501,227</u>	<u>40,306,471</u>	<u>80,738,975</u>	<u>80,474,865</u>
<b>Other income</b>					
Net realised and unrealised gain /(loss) on financial instruments at fair value through profit or loss and financial liabilities		13,673,564	(13,717,287)	37,887,803	(42,849,720)
Other investment income		8,238,372	8,329,746	29,930,672	27,907,220
Interest income on deposits		174	181	308	301
Rental income		-	-	1,195,951	1,113,784
		<u>21,912,110</u>	<u>(5,387,360)</u>	<u>69,014,734</u>	<u>(13,828,415)</u>
<b>Less: Incurred claims</b>					
Gross claims paid		15,184,668	11,418,783	1,246,053	1,830,406
Claims recoveries		(40,000)	(181,980)	-	-
Reinsurance recoveries		-	(5,043,345)	-	-
Net claims paid		15,144,668	6,193,458	1,246,053	1,830,406
Movement in provision for outstanding claims		(16,359,000)	(13,033,000)	(2,919,000)	(33,284,000)
	14	<u>(1,214,332)</u>	<u>(6,839,542)</u>	<u>(1,672,947)</u>	<u>(31,453,594)</u>
<b>Less: Expenses</b>					
Excess of loss reinsurance		13,429,498	15,178,011	-	-
Other expenses:					
Accountancy and secretarial fees		1,079,050	1,036,250	1,910,150	1,881,450
Audit fees		161,055	153,385	161,055	153,386
Consultancy, legal and professional fees		393,339	361,776	397,339	344,338
Depreciation	8	178,884	218,072	1,545,549	1,592,272
Fixed assets written off		470	120	469	120
Investment expenses		3,122,981	3,465,193	8,853,199	8,921,597
Staff costs	7	4,666,173	2,927,994	1,569,022	3,604,704
Others		743,970	635,556	651,416	652,923
		<u>10,345,922</u>	<u>8,798,346</u>	<u>15,088,199</u>	<u>17,150,790</u>
<b>Total expenses</b>		<u>23,775,420</u>	<u>23,976,357</u>	<u>15,088,199</u>	<u>17,150,790</u>
<b>Surplus for the year</b>		<u>39,852,249</u>	<u>17,782,296</u>	<u>136,338,457</u>	<u>80,949,254</u>
<b>Other comprehensive surplus</b>		-	-	-	-
<b>Total comprehensive surplus for the year</b>		<u>39,852,249</u>	<u>17,782,296</u>	<u>136,338,457</u>	<u>80,949,254</u>

The notes on pages 11 to 34 are an integral part of these financial statements.



**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2016	2015	2016	2015
		HK\$	HK\$	HK\$	HK\$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	141,341	308,150	1,508,010	3,041,483
<b>Current assets</b>					
Financial assets at fair value through profit or loss	10	645,683,462	612,220,087	2,147,865,716	2,010,533,778
Contributions and other receivables	13	57,840,110	52,520,317	129,269,891	111,487,739
Bank balances and cash	9	5,934,092	13,767,796	10,239,224	8,728,129
		<u>709,457,664</u>	<u>678,508,200</u>	<u>2,287,374,831</u>	<u>2,130,749,646</u>
<b>Total assets</b>		<u>709,599,005</u>	<u>678,816,350</u>	<u>2,288,882,841</u>	<u>2,133,791,129</u>
<b>EQUITY</b>					
Retained surplus		<u>327,126,287</u>	<u>287,274,038</u>	<u>2,049,049,676</u>	<u>1,912,711,219</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Financial liabilities	11	7,764,663	6,281,949	26,774,877	22,554,219
Provision for outstanding claims	14	296,679,000	313,038,000	51,448,000	54,367,000
Accounts payable	15	72,371,124	66,477,490	159,723,483	142,259,720
Other creditors and accruals		5,657,931	5,744,873	1,886,805	1,898,971
		<u>382,472,718</u>	<u>391,542,312</u>	<u>239,833,165</u>	<u>221,079,910</u>
<b>Total liabilities</b>		<u>382,472,718</u>	<u>391,542,312</u>	<u>239,833,165</u>	<u>221,079,910</u>
<b>Total equity and liabilities</b>		<u>709,599,005</u>	<u>678,816,350</u>	<u>2,288,882,841</u>	<u>2,133,791,129</u>

Approved and authorised for issue by the Council Members on 11 April 2017.

  
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Council Member

  
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Council Member

The notes on pages 11 to 34 are an integral part of these financial statements.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	First Fund Scheme HK\$	Insolvency Fund Scheme HK\$
Total retained surplus:		
Balance at 1 January 2015	269,491,742	1,831,761,965
Total comprehensive surplus for the year	17,782,296	80,949,254
Balance at 31 December 2015 and 1 January 2016	287,274,038	1,912,711,219
Total comprehensive surplus for the year	39,852,249	136,338,457
Balance at 31 December 2016	327,126,287	2,049,049,676

The notes on pages 11 to 34 are an integral part of these financial statements.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2016 HK\$	2015 HK\$	2016 HK\$	2015 HK\$
Operating activities					
Total comprehensive surplus for the year		39,852,249	17,782,296	136,338,457	80,949,254
Adjustments for:					
- Investment expenses		3,122,981	3,465,193	8,853,199	8,921,597
- Interest income on deposits		(174)	(181)	(308)	(301)
- Depreciation		178,884	218,072	1,545,549	1,592,272
- Other investment income		(8,238,372)	(8,329,746)	(29,930,672)	(27,907,220)
- Loss on write off of fixed assets		470	120	469	120
- Net realised and unrealised (gains) / losses on financial assets at fair value through profit or loss and financial liabilities		(13,673,564)	13,717,287	(37,887,803)	42,849,720
Operating surplus before changes in working capital		21,242,474	26,853,041	78,918,891	106,405,442
Increase in contributions and other receivables		(289,511)	(303,974)	(2,217,686)	(918,916)
Decrease in provision for outstanding claims		(16,359,000)	(13,033,000)	(2,919,000)	(33,284,000)
Decrease in other creditors and accruals		(86,942)	(988,337)	(12,166)	(900,011)
Net cash inflow from operating activities		4,507,021	12,527,730	73,770,039	71,302,515
Investing activities					
Payment for purchase of fixed assets	8	(12,545)	-	(12,545)	-
Purchases of financial instruments (net)		(17,319,316)	(15,692,444)	(90,924,105)	(95,276,322)
Investment expenses		(3,122,981)	(3,465,193)	(8,853,199)	(8,921,597)
Interest income on deposits		174	181	308	301
Other investment income		8,238,372	8,329,746	29,930,672	27,907,220
Net cash outflow from investing activities		(12,216,296)	(10,827,710)	(69,858,869)	(76,290,398)
Net (decrease)/increase in cash and cash equivalents		(7,709,275)	1,700,020	3,911,170	(4,987,883)
Cash and cash equivalents at 1 January		16,546,459	14,846,439	13,376,694	18,364,577
Cash and cash equivalents at 31 December	9	8,837,184	16,546,459	17,287,864	13,376,694

The notes on pages 11 to 34 are an integral part of these financial statements.

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1 Legal status**

Motor Insurers' Bureau of Hong Kong (the "Bureau") is a company limited by guarantee and was incorporated under the Hong Kong Companies Ordinance on 10th December 1980. The address of its registered office is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Under the provision of the Bureau's Articles of Association, every member shall, in the event of the Bureau being wound up, contribute such amount as may be required to meet the liabilities of the Bureau but not exceeding HK\$100 per member. The assets of the Bureau shall be applied solely towards the promotion of the objects of the Bureau as set out in the Bureau's Articles of Association and no part thereof shall be distributed to the members of the Bureau. All insurers authorised by law to carry on motor vehicle insurance business in Hong Kong must become members of the Bureau.

The First Fund Scheme was set up in accordance with an agreement entered into on 1 February 1981 between the Government of Hong Kong and the Bureau ("the First Fund Agreement") and also a Domestic Agreement entered into on 1st February 1981 between the Bureau and insurers authorised to carry on motor vehicle insurance business in Hong Kong. In accordance with the First Fund Agreement, the Bureau is liable for the settlement of all claims for damages for bodily injury or death arising out of any motor vehicle accidents, if judgement is obtained and either at the time of the accident giving rise to liability there is not in force a policy or such policy is ineffective for any reason other than the inability of the insurer to pay its debts by reason of its insolvency and any such judgement is not satisfied in full within 28 days.

The Insolvency Fund Scheme was set up in accordance with an agreement entered into on 1 November 1985 between the Government of Hong Kong and the Bureau ("the Insolvency Fund Agreement") and also a Domestic Agreement on the same date between the Bureau and insurers authorised to carry on motor vehicle insurance business in Hong Kong. In accordance with the Insolvency Fund Agreement, the Bureau is liable for the settlement of judgements that remain unsettled as a result of the insolvency of a motor insurer. The assets of the Insolvency Fund are to be kept separate from the Bureau's other assets and from any other funds subsequently set up.

The Government of Hong Kong and the Bureau came to an agreement to revise the Insolvency Fund Agreement and Domestic Agreement (effective 13 August 2009), to the effect that where any claim, in respect of a liability for damage to property of any third party caused by or arising out of the use of a motor vehicle in Hong Kong as insured by the Insurers, or in respect of a liability to indemnify, make contribution to, or pay damages to a person in respect of a relevant liability where another party has satisfied or is obligated to satisfy that liability pursuant to a policy of insurance, is not paid in full by the relevant Insurer solely by reason of the insolvency of the relevant Insurer, the Bureau may, at its absolute discretion and subject to the provisions of the Insolvency Fund Agreement, pay the claim to any persons entitled to such payment.

At the request of the Government of Hong Kong, the Bureau has made available, with effect from 1 January 2002, a limited facility out of the First Fund to satisfy the claims of third parties who have suffered death or bodily injury caused by a terrorism act through the use of a motor vehicle in Hong Kong. The Bureau's liability for such terrorist acts is limited to a maximum aggregate amount of HK\$200 million (or such other amount as may be agreed in writing from time to time between the Government of Hong Kong and the Bureau) or such lesser amount as shall stand to the credit of the First Fund in the books of account of the Bureau as at midnight on the 28th day after a judgement (whether in respect of a terrorist act or any other claims) is obtained.

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1 Legal status (continued)**

This is after making all appropriate provisions and reductions for actual liabilities of the Bureau under the First Fund Agreement which have been notified to the Bureau prior to the date of judgement of the relevant claim until such time as further funds shall at any time thereafter have been credited to the First Fund, in which event, and as from that time, the Bureau shall become liable for the unsatisfied portion of the relevant judgment.

The limited facility provides cover on a first come first served (by notification of court judgements) basis. The Bureau waives any rights to which it would be entitled under the First Fund Scheme's Domestic Agreement dated 1 February 1981 to recover from any insurer concerned any sums paid where the judgement is given in respect of bodily injury liability which arises out of a terrorist act.

#### **2 Principal accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

##### **(a) Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bureau's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### **Changes in accounting policy and disclosures**

##### **(i) New and amended standards adopted by the Bureau**

No standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are material to the Bureau.

##### **(ii) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bureau, except the following set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **2 Principal accounting policies (continued)**

##### **(a) Basis of preparation (continued)**

###### **Changes in accounting policy and disclosures (continued)**

###### **(ii) New standards and interpretations not yet adopted (continued)**

entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bureau is yet to assess HKFRS 9's full impact.

HKFRS 16 "Leases" will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Bureau's operating leases. As at the reporting date, the Bureau has non-cancellable operating lease commitments of HK\$1,198,288, see note 8. However, the Bureau has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Bureau's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Bureau does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Bureau.

## MOTOR INSURERS' BUREAU OF HONG KONG

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Principal accounting policies (continued)

##### (b) Revenue recognition

###### (i) Members' and non-members' contributions

Members' contributions received and receivable are recognised based on gross motor insurance premiums received and receivable by members from their policyholders.

###### (ii) Other investment income and interest income on deposits

Other investment income is recognised when the right to receive rebate of investment management expense from the investment manager. Interest income from bank deposits and debt securities is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable.

###### (iii) Rental income

Operating lease rental income is recognised on a straight-line basis.

###### (iv) Realised and unrealised gains/ (losses) on financial assets at fair value through profit or loss and financial liabilities

Gains or losses arising from disposals and changes in the fair values of financial assets at fair value through profit or loss and financial liabilities are recognized in the period in which they arise.

##### (c) Property, plant and equipment

Leasehold property classified as finance lease and all other property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bureau and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period in which they are incurred.

Amortisation on leasehold property classified as finance lease and depreciation on other fixed assets is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, as follows:

Leasehold property	20 years
Other fixed assets	6½ years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2 Principal accounting policies (continued)**

#### **(d) Insurance contracts**

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Bureau defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The Bureau believes that the facilities described in note 1 above meet the definition of insurance contracts.

Claims are charged to income as incurred based on the estimated liability for compensation owed to policyholders. They include claims settlement costs arising from events that have occurred up to the financial reporting date even if they have not yet been reported to the Bureau. The Bureau does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Bureau. For the claims incurred but not reported, statistical analyses are used, subject to maintaining a minimum provision of HK\$10 million.

#### **(e) Financial instruments at fair value through profit or loss**

Financial instruments at fair value through profit or loss comprise financial assets or liabilities designated at fair value through profit or loss upon initial recognition. Investments at fair value through profit or loss are classified in this category if they are acquired principally for trading. Assets or liabilities in this category are classified as current assets or liabilities.

Regular way purchases and sales of investments are recognized on trade-date – the date on which the Bureau commits to purchase or sell the asset. Financial instruments carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of comprehensive income.

Financial instruments are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the Bureau has transferred substantially all risks and rewards of ownership.

Gains and losses arising from changes in the fair value of the 'financial instruments at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise. Dividend income from financial instruments at fair value through profit or loss is recognised in the statement of comprehensive income when the Bureau's right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

#### **(f) Employee benefits**

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Contributions to the defined contribution retirement scheme are expensed as incurred.



## **NOTES TO THE FINANCIAL STATEMENTS**

### **2 Principal accounting policies (continued)**

#### **(g) Operating leases (Bureau as the lessor)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases (net of any incentives given to the lessee) are recognized in the statement of comprehensive income on a straight line basis over the period of the lease.

#### **(h) Translation of foreign currencies**

The financial statements are presented in Hong Kong dollars, which is the Bureau's functional currency and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

#### **(i) Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### **3 Management of insurance and financial risk**

#### **3.1 Financial risk factors**

The Bureau is exposed to financial risk through its financial assets. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from claims and from unanticipated volatility of return and other financial market driven events that can change the risk profile of the funds. The most important components of this financial risk are interest rate risk, credit risk, currency risk and price risk.

##### **(a) Interest rate risk**

The investment portfolio of the Bureau as at 31 December 2016 comprises bonds of approximately HK\$467 million (2015: HK\$459 million) for the First Fund Scheme and HK\$1,552 million (2015: HK\$1,504 million) for the Insolvency Fund Scheme. Interest rate movements can have a material impact on the carrying values of these bond funds.

The effective interest rates for the bond funds are approximately 1.97% (2015: 2.24%) for the First Fund Scheme and 2.24% (2015: 2.39%) for the Insolvency Fund Scheme.

The Bureau manages its interest rate risk for hedging and non-speculative purposes by entering into certain derivative transactions.

## MOTOR INSURERS' BUREAU OF HONG KONG

### NOTES TO THE FINANCIAL STATEMENTS

#### 3 Management of insurance and financial risk (continued)

##### 3.1 Financial risk factors (continued)

###### (b) Credit risk

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

- reinsurers' share of insurance liabilities for the First Fund Scheme; and
- counterparty risk with respect to investments in bond securities.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Bureau's primary liability to settle claims. If a reinsurer fails to pay a claim for any reason, the Bureau remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any reinsurance contracts.

In relation to the Bureau's investment portfolio, the Bureau manages the level of credit risk it accepts by implementing a set of investment guidelines.

No more than 5% of the Fund is to be held in any one security, other than a fund or a security representing a collective investment of other securities, unless the security represents an OECD sovereign borrowers where a limit of 20% shall apply. There shall be no restrictions on the obligations of the United States, the Government of Japan, the Republic of Germany, the United Kingdom, the Government of Canada, the Republic of France, the Republic of Italy, the Kingdom of Spain and the Netherlands.

Investments in bonds (debt securities) should have a minimum rating of BBB – as measured by Standard & Poor's or Baa3 as measured by Moody's (i.e. investment grade). Short term investments should be rated A1 (Standard & Poor's) or P1 (Moody's). The overall credit rating for the bond portfolios must be maintained at AA- (2015: AA-) or above as measured by Standard & Poor's or equivalent at all times. The allocation to BBB rated bonds as measured by Standard & Poor's or equivalent cannot exceed 5% above the weighting in the benchmark. The maximum holding for any single issuer with a credit rating of A+ or below as measured by Standard & Poor's or equivalent is restricted to 2% of the total portfolio.

As of 31 December 2016, credit risks of the Bureau's Global Bond portfolio were diversified across various countries and sectors with higher exposure to higher graded countries such as the United States and Japan. The percentage contributions of duration by issuer to the United States and Japan accounted for 52% and 52% of the First Fund Scheme and Insolvency Fund Scheme respectively. Peripheral European countries such as Italy and Spain accounted for less than 10% of the portfolios.

The Bureau has no significant concentration of credit risk.

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Management of insurance and financial risk (continued)

#### 3.1 Financial risk factors (continued)

##### (c) Currency risk

The Bureau's exposures to foreign exchange risk arise primarily from holding financial assets and financial liabilities that are denominated in currencies other than Hong Kong dollars. The above foreign currency exchange rate exposures are hedged through the use of derivatives (note 12).

The tables below summarize the Bureau's exposure to foreign currency exchange rate risk at 31 December 2016.

##### Financial Assets

###### (i) First Fund Scheme

###### 2016

	€	£	US\$	Other	Total
Debt securities	82,602,993	25,334,631	150,705,059	66,341,838	324,984,521
Cash at bank	307,520	78,799	2,086,683	429,993	2,902,995
Derivative financial instruments	1,117,039	415,045	1,479,221	5,006,102	8,017,407
Others	493,839	220,103	1,441,640	234,707	2,390,289
	<u>84,521,391</u>	<u>26,048,578</u>	<u>155,712,603</u>	<u>72,012,640</u>	<u>338,295,212</u>

###### 2015

	€	£	US\$	Other	Total
Debt securities	95,818,224	31,881,954	131,776,879	59,207,475	318,684,532
Cash at bank	106,328	244,794	2,075,489	273,803	2,700,414
Derivative financial instruments	383,999	1,223,919	-	1,000,417	2,608,335
Others	1,463,987	286,811	1,058,243	293,169	3,102,210
	<u>97,772,538</u>	<u>33,637,478</u>	<u>134,910,611</u>	<u>60,774,864</u>	<u>327,095,491</u>

###### (ii) Insolvency Fund Scheme

###### 2016

	€	£	US\$	Other	Total
Debt securities	242,264,340	90,463,406	555,747,990	186,913,618	1,075,389,354
Cash at bank	424,301	454,099	4,959,961	1,209,697	7,048,058
Derivative financial instruments	3,797,480	1,289,357	4,780,803	12,211,624	22,079,264
Others	1,528,268	646,887	5,736,031	640,034	8,551,220
	<u>248,014,389</u>	<u>92,853,749</u>	<u>571,224,785</u>	<u>200,974,973</u>	<u>1,113,067,896</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Management of insurance and financial risk (continued)**

**3.1 Financial risk factors (continued)**

**(c) Currency risk (continued)**

**Financial Assets (continued)**

**(ii) Insolvency Fund Scheme (continued)**

**2015**

	€	£	US\$	Other	Total
Debt securities	317,495,174	87,400,285	456,888,879	173,920,828	1,035,705,166
Cash at bank	340,288	955,858	1,795,830	987,610	4,079,586
Derivative financial instruments	1,477,374	3,083,193	-	3,055,300	7,615,867
Others	3,497,378	837,112	3,501,214	871,774	8,707,478
	<u>322,810,214</u>	<u>92,276,448</u>	<u>462,185,923</u>	<u>178,835,512</u>	<u>1,056,108,097</u>

**Financial Liabilities**

**(i) First Fund Scheme**

**2016**

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	2,564,900	-	3,085,405	132,686	5,782,991
Derivative financial instruments	814,000	231,174	518,458	88,674	1,652,306
Others	265,040	64,326	-	-	329,366
	<u>3,643,940</u>	<u>295,500</u>	<u>3,603,863</u>	<u>221,360</u>	<u>7,764,663</u>

**2015**

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	304,125	-	-	125,247	429,372
Derivative financial instruments	2,543,661	937,550	471,927	1,846,960	5,800,098
Others	-	52,479	-	-	52,479
	<u>2,847,786</u>	<u>990,029</u>	<u>471,927</u>	<u>1,972,207</u>	<u>6,281,949</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Management of insurance and financial risk (continued)**

**3.1 Financial risk factors (continued)**

**(c) Currency risk (continued)**

**Financial Liabilities (continued)**

**(ii) Insolvency Fund Scheme**

**2016**

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	230,213	-	19,902,117	-	20,132,330
Derivative financial instruments	2,054,233	847,639	1,730,447	706,525	5,338,844
Others	1,057,245	246,457	-	-	1,303,702
	<u>3,341,691</u>	<u>1,094,096</u>	<u>21,632,564</u>	<u>706,525</u>	<u>26,774,876</u>

**2015**

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	191,006	-	4,344,198	417,895	4,953,099
Derivative financial instruments	7,181,313	1,734,001	1,897,662	6,615,298	17,428,274
Others	-	172,846	-	-	172,846
	<u>7,372,319</u>	<u>1,906,847</u>	<u>6,241,860</u>	<u>7,033,193</u>	<u>22,554,219</u>

**(d) Liquidity risk**

The Bureau's exposures to liquidity risk arise primarily from the timing of cash outflows from the outstanding claims liabilities.

Surplus cash held by the Bureau over and above balance required for working capital management are deposited to bank as short term deposit. The financial assets held by the Bureau are assets that are traded in active markets and can be readily disposed of. At the reporting date, the Bureau had a cash balance of HK\$5,934,092 (2015: HK\$13,767,796) and financial assets at fair value through profit or loss of HK\$645,683,462 (2015: HK\$612,220,087) under First Fund Scheme, and a cash balance of HK\$10,239,224 (2015: HK\$8,728,129) and financial assets at fair value through profit or loss of HK\$2,147,865,716 (2015: HK\$2,010,533,778) under Insolvency Fund Scheme which in total contributed to a majority part of the total asset.

The tables below summarises the timing of cash flows arising from the Bureau's liabilities:

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

(i) First Fund Scheme

2016

	Carrying Amount HK\$	Contractual cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Financial liabilities	7,764,663	4,992,374	2,609,770	-	162,519
Other payable and accruals	78,029,055	-	78,029,055	-	-
	<u>85,793,718</u>	<u>4,992,374</u>	<u>80,638,825</u>	<u>-</u>	<u>162,519</u>

	Carrying Amount HK\$	Expected cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Provision for outstanding claims	296,679,000	-	296,679,000	-	-
	<u>296,679,000</u>	<u>-</u>	<u>296,679,000</u>	<u>-</u>	<u>-</u>

2015

	Carrying Amount HK\$	Contractual cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Financial liabilities	6,281,949	208,124	4,477,514	978,637	617,674
Other payable and accruals	72,222,363	-	72,222,363	-	-
	<u>78,504,312</u>	<u>208,124</u>	<u>76,699,877</u>	<u>978,637</u>	<u>617,674</u>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

(i) First Fund Scheme (continued)

2015 (continued)

	Carrying Amount HK\$	Expected cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Provision for outstanding claims	313,038,000	-	313,038,000	-	-

(ii) Insolvency Fund Scheme

2016

	Carrying Amount HK\$	Contractual cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Financial liabilities	26,774,877	1,303,702	4,086,827	-	21,384,348
Other payable and accruals	161,610,288	-	161,610,288	-	-
	188,385,165	1,303,702	165,697,115	-	21,384,348

	Carrying Amount HK\$	Expected cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Provision for outstanding claims	51,448,000	-	51,448,000	-	-

2015

	Carrying Amount HK\$	Contractual cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Financial liabilities	22,554,219	172,846	13,214,686	3,392,575	5,774,112
Other payables and accruals	144,158,691	-	144,158,691	-	-
	166,712,910	172,846	157,373,377	3,392,575	5,774,112

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Management of insurance and financial risk (continued)

#### 3.1 Financial risk factors (continued)

##### (d) Liquidity risk (continued)

##### (ii) Insolvency Fund Scheme (continued)

##### 2015 (continued)

	Carrying Amount HK\$	Expected cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Provision for outstanding claims	54,367,000	-	54,367,000	-	-

##### (e) Price risk

The Bureau is exposed to equity securities price risk. The Bureau manages its price risk by monitoring the percentage of allocation to equity securities in the investment portfolio. A 10% increase in the market values of the equity securities would result in a gain of HK\$13 million (2015: HK\$12 million) for First Fund Scheme and HK\$45 million (2015: HK\$40 million) for Insolvency Fund Scheme in 2016.

#### 3.2 Fair value estimation

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and unit trusts.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level includes the majority of the debt instruments and structured debt.
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt instruments with significant unobservable components.

The following table presents the Bureau's financial assets and liabilities that are measured at fair value at 31 December 2016.



## NOTES TO THE FINANCIAL STATEMENTS

### 3 Management of insurance and financial risk (continued)

#### 3.2 Fair value estimation (continued)

##### (i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 10)				
- Bond funds and accrued interest	226,180,459	100,582,743	-	326,763,202
- Cash	2,903,092	-	-	2,903,092
- Derivatives	-	8,588,173	-	8,588,173
- Unit trusts	307,428,995	-	-	307,428,995
<b>Total financial assets</b>	<b>536,512,546</b>	<b>109,170,916</b>	<b>-</b>	<b>645,683,462</b>

##### (ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 10)				
- Bond funds and accrued interest	709,273,793	372,646,460	-	1,081,920,253
- Cash	7,048,640	-	-	7,048,640
- Derivatives	-	24,099,585	-	24,099,585
- Unit trusts	1,034,797,238	-	-	1,034,797,238
<b>Total financial assets</b>	<b>1,751,119,671</b>	<b>396,746,045</b>	<b>-</b>	<b>2,147,865,716</b>

##### (i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 11)				
- Cash collaterals for swaps and foreign exchange trades	5,782,991	-	-	5,782,991
- Derivatives	-	1,981,672	-	1,981,672
<b>Total financial liabilities</b>	<b>5,782,991</b>	<b>1,981,672</b>	<b>-</b>	<b>7,764,663</b>

##### (ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 11)				
- Cash collaterals for swaps and foreign exchange trades	20,132,330	-	-	20,132,330
- Derivatives	-	6,642,547	-	6,642,547
<b>Total financial liabilities</b>	<b>20,132,330</b>	<b>6,642,547</b>	<b>-</b>	<b>26,774,877</b>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (continued)

3.2 Fair value estimation (continued)

The following table presents the Bureau's financial assets and liabilities that are measured at fair value at 31 December 2015.

(i) First Fund Scheme				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 10)				
- Bond funds and accrued interest	262,660,551	58,261,969	-	320,922,520
- Cash	2,778,663	-	-	2,778,663
- Derivatives	-	3,983,988	-	3,983,988
- Unit trusts	284,534,916	-	-	284,534,916
<b>Total financial assets</b>	<b>549,974,130</b>	<b>62,245,957</b>	<b>-</b>	<b>612,220,087</b>
(ii) Insolvency Fund Scheme				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 10)				
- Bond funds and accrued interest	834,122,820	208,377,706	-	1,042,500,526
- Cash	4,648,565	-	-	4,648,565
- Derivatives	-	13,548,200	-	13,548,200
- Unit trusts	949,836,487	-	-	949,836,487
<b>Total financial assets</b>	<b>1,788,607,872</b>	<b>221,925,906</b>	<b>-</b>	<b>2,010,533,778</b>
(i) First Fund Scheme				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 11)				
- Cash collaterals for swaps and foreign exchange trades	429,372	-	-	429,372
- Derivatives	-	5,852,577	-	5,852,577
<b>Total financial liabilities</b>	<b>429,372</b>	<b>5,852,577</b>	<b>-</b>	<b>6,281,949</b>
(ii) Insolvency Fund Scheme				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 11)				
- Cash collaterals for swaps and foreign exchange trades	4,953,099	-	-	4,953,099
- Derivatives	-	17,601,120	-	17,601,120
<b>Total financial liabilities</b>	<b>4,953,099</b>	<b>17,601,120</b>	<b>-</b>	<b>22,554,219</b>

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **3 Management of insurance and financial risk (continued)**

##### **3.3 Insurance risk**

The principal insurance risk that the Bureau faces is that the assets of the Funds are not adequate to discharge its obligations under the terms of the fund agreements. This may arise if the actual claims exceed the carrying amount of the insurance liabilities.

For the First Fund Scheme, the Bureau regularly engages qualified actuaries to review the solvency position of the Fund to make sure that the assets of the Fund are adequate to discharge its obligations under the terms of the First Fund Agreement (note 14). The Bureau also purchases excess-of-loss insurance to cover motor third party bodily injury losses originating from uninsured vehicle accidents, hit and run cases, any awards exceeding the original policy limit of HK\$100 million and terrorism coverage. The effect of such reinsurance arrangements is that the Bureau should not suffer an ultimate net loss of HK\$10 million for each and every loss and/or series of losses arising out of one event subject to the reinsurers' stipulated annual aggregate limit and index clause. If the event losses were to exceed HK\$350 million, the excess (not reinsured) would fall back on the Bureau. The loss for the Bureau for terrorist acts is HK\$100 million ultimate net loss each and every loss occurrence against the Bureau's maximum aggregate limit of HK\$200 million as agreed with the Government.

For the Insolvency Fund scheme, the Bureau manages the above insurance risk by reviewing the percentage rate of the contributions not less than annually, as assisted by independent actuaries as needed.

#### **4 Critical accounting estimates and judgements**

The Bureau makes estimates and assumptions that affect the reported amounts of its claims liabilities. Estimates and judgements 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.

For the First Fund Scheme, independent actuarial investigations were carried out periodically and this forms the basis of the estimate, and included stress testing of assumptions.

For the Insolvency Fund Scheme, the claims liabilities is estimated by reference to (i) the estimate of reported claims liabilities based on claims information submitted to the Bureau, (ii) the estimate of incurred-but-not-reported liabilities and (iii) future indirect claims handling expenses. This estimate of claims liability is subject to significant judgement made by the Bureau.

#### **5 Remuneration of Council Members of the Bureau**

In accordance with the Bureau's Articles of Association, the Council Members of the Bureau are not entitled to any remuneration or compensation for services rendered to the Bureau. Accordingly, none of the Council Members of the Bureau received or was due any remuneration during the year.

#### **6 Taxation**

The Bureau is exempt under Section 87 of the Hong Kong Inland Revenue Ordinance from payment of any tax chargeable under the Ordinance.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**7 Staff cost**

	First Fund Scheme		Insolvency Fund Scheme	
	2016 HK\$	2015 HK\$	2016 HK\$	2015 HK\$
Salaries and wages	4,510,003	2,836,621	1,517,574	3,486,049
Contributions to defined contribution plan	98,005	57,320	36,907	84,602
Other staff benefits	58,165	34,053	14,541	34,053
	<u>4,666,173</u>	<u>2,927,994</u>	<u>1,569,022</u>	<u>3,604,704</u>

**8 Property, plant and equipment**

**(a) First Fund Scheme**

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment and software	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost:					
At 1 January 2016	832,499	256,939	75,491	494,868	1,659,797
Additions	-	-	1,810	10,735	12,545
Write offs	-	-	(725)	(1,174)	(1,899)
At 31 December 2016	<u>832,499</u>	<u>256,939</u>	<u>76,576</u>	<u>504,429</u>	<u>1,670,443</u>
Accumulated depreciation and impairment:					
At 1 January 2016	731,303	235,686	63,880	320,778	1,351,647
Charge for the year	81,955	21,033	5,730	70,166	178,884
Write offs	-	-	(725)	(704)	(1,429)
At 31 December 2016	<u>813,258</u>	<u>256,719</u>	<u>68,885</u>	<u>390,240</u>	<u>1,529,102</u>
Net book value:					
At 31 December 2016	<u>19,241</u>	<u>220</u>	<u>7,691</u>	<u>114,189</u>	<u>141,341</u>
At 31 December 2015	<u>101,196</u>	<u>21,253</u>	<u>11,611</u>	<u>174,090</u>	<u>308,150</u>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

8 Property, plant and equipment (continued)

(b) Insolvency Fund Scheme

	Leasehold land and property HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Computer equipment and software HK\$	Total HK\$
Cost:						
At 1 January 2016	99,982,750	1,391,802	279,355	75,491	570,199	102,299,597
Additions	-	-	-	1,810	10,735	12,545
Write offs	-	-	-	(725)	(1,172)	(1,897)
At 31 December 2016	<u>99,982,750</u>	<u>1,391,802</u>	<u>279,355</u>	<u>76,576</u>	<u>579,762</u>	<u>102,310,235</u>
Accumulated depreciation and impairment:						
At 1 January 2016	97,249,417	1,290,606	258,103	63,879	396,109	99,258,114
Charge for the year	1,366,666	81,955	21,032	5,731	70,165	1,545,549
Write offs	-	-	-	(725)	(703)	(1,428)
At 31 December 2016	<u>98,616,083</u>	<u>1,372,561</u>	<u>279,135</u>	<u>68,885</u>	<u>465,571</u>	<u>100,802,235</u>
Net book value:						
At 31 December 2016	<u>1,366,667</u>	<u>19,241</u>	<u>220</u>	<u>7,691</u>	<u>114,191</u>	<u>1,508,010</u>
At 31 December 2015	<u>2,733,333</u>	<u>101,196</u>	<u>21,252</u>	<u>11,612</u>	<u>174,090</u>	<u>3,041,483</u>

The leasehold property is situated in Hong Kong and is held on a long lease of more than 50 years. The Bureau believes that the lease payments for the leasehold land and leasehold property cannot be separated reliably. Accordingly, the carrying values of both the land element and property element are reported as property, plant and equipment.

Operating leases

The Bureau leased out leasehold properties under operating lease. The lease runs for a period of two years for Room 901 and 903. The lease does not include contingent rentals.

As at 31 December 2016, the Bureau had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2016 HK\$	2015 HK\$
Within one year	1,082,688	620,784
Later than one year and not later than five years	115,600	389,088
	<u>1,198,288</u>	<u>1,009,872</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**9 Cash and cash equivalents**

	First Fund Scheme		Insolvency Fund Scheme	
	2016 HK\$	2015 HK\$	2016 HK\$	2015 HK\$
Bank balances and cash				
- bank balances	5,931,092	13,764,796	10,239,224	8,728,129
- petty cash	3,000	3,000	-	-
Financial assets				
- cash deposits (note 10)	2,903,092	2,778,663	7,048,640	4,648,565
Cash and cash equivalents	<u>8,837,184</u>	<u>16,546,459</u>	<u>17,287,864</u>	<u>13,376,694</u>

**10 Financial assets at fair value through profit or loss**

**(a) First Fund Scheme**

	2016 HK\$	2015 HK\$
Mutual funds registered in Hong Kong		
- Listed bonds	142,032,196	140,275,713
- Listed equities	133,116,755	119,789,200
- Cash deposits	32,280,044	24,470,003
Listed bonds outside Hong Kong	324,984,521	318,684,532
Cash deposits with custodian (note 9)	2,903,092	2,778,663
Accrued interest on bond funds	1,778,681	2,237,988
Forward foreign exchange contracts	6,233,894	1,536,281
Swaps	1,206,859	1,103,068
Future contracts	545,987	116,266
Margin variation receivable	570,767	823,382
Swaptions	-	239,153
Options	30,666	165,838
	<u>645,683,462</u>	<u>612,220,087</u>

The Bureau had investments in the following investment funds. These investment funds manage assets on behalf of third party investors. These funds are financed through the issue of units/shares to investors.

	2016 HK\$	Fair value 2015 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	154,229,459	141,755,223
Schroder Capital Stable Fund	153,199,536	142,779,693
	<u>307,428,995</u>	<u>284,534,916</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**10 Financial assets at fair value through profit or loss (continued)**

(a) First Fund Scheme (continued)

The above investments at 31 December 2016 were classified as financial assets at fair value through profit and loss.

These investments include 5,727,050 units of Schroder Stable Growth Funds (2015: 5,427,076 units) and 6,687,016 units of Schroder Capital Stable Fund (2015: 6,334,503 units).

The maximum exposure to loss is HK\$307,428,995 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds ranges from HK\$6,603 million to HK\$7,461 million and the size of the Schroder Capital Stable Funds ranges from HK\$2,528 million to HK\$2,780 million. During the year, the Bureau did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

(b) Insolvency Fund Scheme

	2016 HK\$	2015 HK\$
Mutual funds registered in Hong Kong		
- Listed bonds	477,041,527	468,269,388
- Listed equities	449,102,001	399,881,161
- Cash deposits	108,653,710	81,685,938
Listed bonds outside Hong Kong	1,075,389,354	1,035,705,166
Cash deposits with custodian (note 9)	7,048,640	4,648,565
Accrued interest on bond funds	6,530,899	6,795,360
Forward foreign exchange contracts	16,023,188	3,960,430
Swaps	3,846,193	5,707,995
Future contracts	2,103,573	623,510
Margin variation receivable	2,020,321	1,912,118
Swaptions	1	773,877
Options	106,309	570,270
	<u>2,147,865,716</u>	<u>2,010,533,778</u>

The Bureau had investments in the following investment funds. These investment funds manage assets on behalf of third party investors. These funds are financed through the issue of units/shares to investors.

	Fair value	
	2016 HK\$	2015 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	519,157,058	474,370,067
Schroder Capital Stable Fund	515,640,180	475,466,420
	<u>1,034,797,238</u>	<u>949,836,487</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**10 Financial assets at fair value through profit or loss (continued)**

(b) Insolvency Fund Scheme (continued)

The above investments at 31 December 2016 were classified as financial assets at fair value through profit and loss.

These investments include 19,278,019 units of Schroder Stable Growth Fund (2015: 18,161,182 units) and 22,507,210 units of Schroder Capital Stable Fund (2015:21,094,340 units).

The maximum exposure to loss is HK\$1,034,797,238 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds ranges from HK\$6,603 million to HK\$7,461 million and the size of the Schroder Capital Stable Funds ranges from HK\$2,528 million to HK\$2,780 million. During the year, the Bureau did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

**11 Financial liabilities**

(a) First Fund Scheme

	2016 HK\$	2015 HK\$
Cash collaterals for swaps and foreign exchange trades	5,782,991	429,372
Forward foreign exchange contracts	941,008	3,349,841
Swaps	236,329	1,324,114
Future contracts	440,378	523,011
Swaptions	-	447,487
Margin variation payable	329,366	52,479
Option	34,591	155,645
	<u>7,764,663</u>	<u>6,281,949</u>

(b) Insolvency Fund Scheme

	2016 HK\$	2015 HK\$
Cash collaterals for swaps and foreign exchange trades	20,132,330	4,953,099
Forward foreign exchange contracts	2,565,658	9,407,975
Swaps	1,252,018	4,548,897
Future contracts	1,401,653	1,474,346
Swaptions	-	1,488,841
Margin variation payable	1,303,702	172,846
Option	119,516	508,215
	<u>26,774,877</u>	<u>22,554,219</u>



**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**12 Derivative financial instruments**

(a) First Fund Scheme

	2016 Contract/ notional amount HK\$	2015 Contract/ notional amount HK\$
Forward foreign exchange contracts	483,836,100	603,443,571
Swaps	57,879,506	122,615,232
Swaptions	2,874,059	83,814,471
Future contracts	75,557,661	80,912,574
Option	343,461	1,141,484

(b) Insolvency Fund Scheme

	2016 Contract/ notional amount HK\$	2015 Contract/ notional amount HK\$
Forward foreign exchange contracts	1,533,814,744	1,595,468,694
Swaps	180,291,970	414,967,999
Swaptions	7,664,157	270,743,864
Futures contracts	105,619,449	52,005,447
Option	1,185,757	3,737,102

No hedge accounting is used to account for the above contracts.

**13 Contributions and other receivables**

Other receivable includes amount receivable of HK\$47,683,534 and HK\$104,744,051 (2015: HK\$42,642,545 and HK\$89,166,701) for sale of investments for the First Fund Scheme and Insolvency Fund Scheme, respectively, before year end. The fair values of the receivable balances are estimated to be approximately equal to the carrying amounts of these balances.

This is no concentration of credit risk with respect to these receivables.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**14 Provision for outstanding claims**

(a) First Fund Scheme

	2016 HK\$	2015 HK\$
Notified claims	256,273,000	267,888,000
Incurred but not reported	50,627,000	51,789,000
Future indirect claims handling expenses	6,138,000	6,394,000
	<u>313,038,000</u>	<u>326,071,000</u>
Total at beginning of year	313,038,000	326,071,000
Cash paid for claims settlements in the year	(15,144,668)	(6,193,458)
Decrease in liabilities during the year	(1,214,332)	(6,839,542)
	<u>296,679,000</u>	<u>313,038,000</u>

Represents:

Notified claims	241,693,000	256,273,000
Incurred but not reported	49,169,000	50,627,000
Future indirect claims handling expenses	5,817,000	6,138,000
	<u>296,679,000</u>	<u>313,038,000</u>

An actuarial investigation of the First Fund is carried out every two to three years or at a more frequent interval if the economic/financial situation deteriorated to ensure that the assets of the Fund are adequate to discharge its obligations under the terms of the First Fund Agreement. The Bureau has engaged Deloitte Advisory (Hong Kong) Limited to undertake a review on the funding position at 31 December 2016.

(b) Insolvency Fund Scheme

	2016 HK\$	2015 HK\$
Notified claims	39,524,000	69,188,000
Incurred but not reported	13,777,000	16,744,000
Future indirect claims handling expenses	1,066,000	1,719,000
	<u>54,367,000</u>	<u>87,651,000</u>
Total at beginning of year	54,367,000	87,651,000
Cash paid for claims settlements in the year	(1,246,053)	(1,830,406)
Decrease in liabilities during the year	(1,672,947)	(31,453,594)
	<u>51,448,000</u>	<u>54,367,000</u>

Represents:

Notified claims	36,922,000	39,524,000
Incurred but not reported	13,517,000	13,777,000
Future indirect claims handling expenses	1,009,000	1,066,000
	<u>51,448,000</u>	<u>54,367,000</u>

## **MOTOR INSURERS' BUREAU OF HONG KONG**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **14 Provision for outstanding claims (continued)**

##### **(b) Insolvency Fund Scheme (continued)**

Under the Insolvency Fund Agreement, the Bureau is liable for the settlement of certain judgements that remained unsettled as a result of the insolvency of Anglo Starlite Insurance Company Limited (In Liquidation) ("Anglo Starlite").

The Bureau estimated a total incurred claims liability for Anglo Starlite as at 31 December 2016 of approximately HK\$0.9 billion (2015: HK\$0.9 billion). The outstanding claims liability as at 31 December 2016 amounted to HK\$39 million (2015: HK\$42 million).

The Bureau may receive a partial recovery as a creditor upon settlement of the Anglo Starlite Liquidation. However no receivable has been recognized in the Statement of Financial Position as at 31 December 2016 on the basis that the potential recovery cannot be measured reliably at this stage.

#### **15 Accounts payable**

The balance represents the amounts payable to settle the purchases of investments made before year end.

#### **16 Approval of financial statements**

The financial statements were approved by the Council on 11 April 2017.