

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

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2018**

# 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 2018

### 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 other than an agreement with the Employees Compensation Insurer Insolvency Bureau ("ECIIB"). The Bureau remains in good financial health as summarized by the following key financial information:

#### FFS

	2018	2017
Contributions from members	HK\$42.2 million	HK\$41.8 million
Net assets	HK\$344.7 million	HK\$373.7 million
Gross claims paid	HK\$13.1 million	HK\$4.4 million
Amount of reinsurance recoveries	Nil	HK\$0.5 million
Amount of claims recoveries	HK\$0.03 million	HK\$0.03 million
Number of outstanding claims *	1,588	1,377
Provision for outstanding claims *	HK\$351.8 million	HK\$330.7 million
Number of new claims received *	971	928

[\* registered and potential claims]

#### IFS

	2018	2017
Contributions from members	HK\$84.5 million	HK\$81.4 million
Net assets	HK\$2,475 million	HK\$2,448 million
Gross claims (refunded)/paid	(HK\$0.05 million)	HK\$0.2 million
Number of outstanding claims	83	91
Amount of claims recoveries	Nil	Nil
First and final ordinary dividend from Anglo Starlite Insurance Company Limited (In Liquidation).	Nil	HK\$107.2 million
Provision for outstanding claims	HK\$37.5 million	HK\$49.7 million
Number of new claims received ~	Nil	Nil

[~ estimate]

The Bureau maintains a high level of Corporate Governance through its Audit Committee, Senior Advisor and Secretary 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.

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

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

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

*A fair review of the Bureau's business (continued)*

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

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

The Bureau works closely with and supports sister organization ECIIB via an at cost service agreement effective from 1 January 2018 as both Bureaus consider there is common ground and mutual benefit to be gained from closer liaison and being able to speak with one voice on matters of mutual future impact.

*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 20 to 32 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 Insurance Authority ("the IA") which is not expected to have a material impact on the Bureau and liaison continues with the IA.

The Council also continues to consider the Policyholders' Protection Scheme 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 2018 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 7 to 45.

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

Details of movements in property, plant and equipment are set out in note 9 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.

## MOTOR INSURERS' BUREAU OF HONG KONG

### REPORT OF THE COUNCIL MEMBERS (CONTINUED)

#### Council Members

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

Ms Agnes Choi Heung Kwan	(resigned on 1 January 2018)
Mr Andrew Wong Kwai Chuen	
Ms Chi Shun Wong	
Mr Thomas Patrick Haddrill	
Mr Jimmy Poon Wing Fai	
Mr Kam Kwai Hui	
Mr Kenneth John Reid	(resigned on 19 December 2018)
Mr Pak Kee Lee	
Mr Mark John Walker	(resigned on 25 January 2019)
Mr Pui Leung Chan	
Mr Philip Graham Kent	(appointed on 2 January 2019)

Messrs Kam Kwai Hui, Chi Shun Wong and Thomas Patrick Haddrill 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.

Mr Philip Graham Kent having been appointed to fill casual vacancy during the year and up to the date of this report, retires at the forthcoming annual general meeting in accordance with article 35 of the Bureau's Article of Association and, being eligible, offers himself 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.

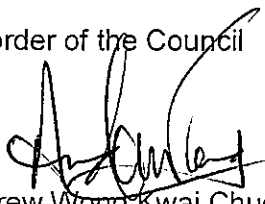
#### Management contracts

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



Andrew Wong Kwai Chuen  
Chairman

Hong Kong, 11 April 2019.

**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 45, which comprise:

- the statement of financial position as at 31 December 2018;
- 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 2018, 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 ("HKSAAs") 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)

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- 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 2019

**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2018 HK\$	2017 HK\$	2018 HK\$	2017 HK\$
<b>Revenue</b>					
Members' contributions		42,232,530	41,840,761	84,451,648	81,354,583
Non-members' contributions		131,154	132,883	-	-
		<u>42,363,684</u>	<u>41,973,644</u>	<u>84,451,648</u>	<u>81,354,583</u>
<b>Other (loss)/income</b>					
Net realised and unrealised (loss) / gain on financial instruments at fair value through profit or loss		(24,447,723)	56,900,036	(89,189,326)	191,529,579
Other investment income		8,920,333	8,496,071	33,029,614	31,558,090
Interest income on deposits		2,748	190	3,327	257
Rental income		-	-	1,345,232	1,228,596
Other sundry income	7	760,000	-	-	107,193,924
		<u>(14,764,642)</u>	<u>65,396,297</u>	<u>(54,811,153)</u>	<u>331,510,446</u>
<b>Less: Incurred claims</b>					
Gross claims paid / (refunded)		13,110,652	4,356,238	(52,680)	212,751
Claims recoveries		(29,500)	(33,000)	-	-
Reinsurance recoveries		-	(497,241)	-	-
Net claims paid / (refunded)		<u>13,081,152</u>	<u>3,825,997</u>	<u>(52,680)</u>	<u>212,751</u>
Movement in provision for outstanding claims		21,062,000	34,027,000	(12,261,000)	(1,723,000)
	15	<u>34,143,152</u>	<u>37,852,997</u>	<u>(12,313,680)</u>	<u>(1,510,249)</u>
<b>Less: Expenses</b>					
Excess of loss reinsurance		12,537,993	12,432,581	-	-
Other expenses:					
Accountancy and secretarial fees		1,173,650	1,122,250	2,018,750	1,944,050
Audit fees		200,000	169,108	200,000	169,108
Consultancy, legal and professional fees		342,650	529,080	346,650	532,247
Depreciation	9	94,599	115,768	94,599	1,481,659
Fixed assets written off		-	5,334	-	5,334
Investment expenses		2,550,635	3,190,176	9,775,873	9,692,119
Staff costs	8	4,738,690	4,589,437	1,340,038	1,296,375
Others		818,354	793,127	686,107	682,070
		<u>9,918,578</u>	<u>10,514,280</u>	<u>14,462,017</u>	<u>15,802,962</u>
<b>Total expenses</b>		<u>22,456,571</u>	<u>22,946,861</u>	<u>14,462,017</u>	<u>15,802,962</u>
<b>(Loss) / Surplus for the year</b>		<u>(29,000,681)</u>	<u>46,570,083</u>	<u>27,492,158</u>	<u>398,572,316</u>
<b>Other comprehensive surplus</b>		-	-	-	-
<b>Total comprehensive (loss) / surplus for</b>		<u>(29,000,681)</u>	<u>46,570,083</u>	<u>27,492,158</u>	<u>398,572,316</u>

The notes on pages 11 to 45 are an integral part of these financial statements.

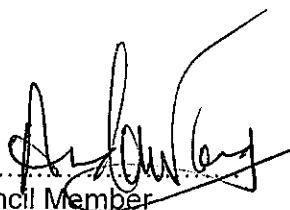


**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2018	2017	2018	2017
		HK\$	HK\$	HK\$	HK\$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	273,979	225,660	274,757	226,438
<b>Current assets</b>					
Financial assets at fair value through profit or loss	11	739,575,300	735,168,438	2,706,325,729	2,602,489,153
Contributions and other receivables	14	64,881,631	56,059,932	100,301,733	189,841,639
Bank balances and cash	10	5,582,506	4,708,827	3,933,726	3,398,611
		810,039,437	795,937,197	2,810,561,188	2,795,729,403
<b>Total assets</b>		<b>810,313,416</b>	<b>796,162,857</b>	<b>2,810,835,945</b>	<b>2,795,955,841</b>
<b>EQUITY</b>					
Retained surplus		344,695,689	373,696,370	2,475,114,150	2,447,621,992
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Financial liabilities at fair value through profit and loss	12	5,859,962	5,874,763	21,116,380	20,803,846
Provision for outstanding claims	15	351,768,000	330,706,000	37,464,000	49,725,000
Accounts payable	16	102,924,236	81,064,039	274,951,519	275,695,998
Other creditors and accruals		5,065,529	4,821,685	2,189,896	2,109,005
<b>Total liabilities</b>		<b>465,617,727</b>	<b>422,466,487</b>	<b>335,721,795</b>	<b>348,333,849</b>
<b>Total equity and liabilities</b>		<b>810,313,416</b>	<b>796,162,857</b>	<b>2,810,835,945</b>	<b>2,795,955,841</b>

Approved and authorised for issue by the Council Members on 11 April 2019.

  
.....  
Council Member

  
.....  
Council Member

The notes on pages 11 to 45 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 2018**

	First Fund Scheme HK\$	Insolvency Fund Scheme HK\$
Total retained surplus:		
Balance at 1 January 2017	327,126,287	2,049,049,676
Total comprehensive surplus for the year	46,570,083	398,572,316
Balance at 31 December 2017 and 1 January 2018	<u>373,696,370</u>	<u>2,447,621,992</u>
Total comprehensive (loss) / surplus for the year	(29,000,681)	27,492,158
Balance at 31 December 2018	<u><u>344,695,689</u></u>	<u><u>2,475,114,150</u></u>

The notes on pages 11 to 45 are an integral part of these financial statements.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2018 HK\$	2017 HK\$	2018 HK\$	2017 HK\$
Operating activities					
Total comprehensive (loss) / surplus for the year		(29,000,681)	46,570,083	27,492,158	398,572,316
Adjustments for:					
- Investment expenses		2,550,635	3,190,176	9,775,873	9,692,119
- Interest income on deposits		(2,748)	(190)	(3,327)	(257)
- Depreciation		94,599	115,768	94,599	1,481,659
- Other investment income		(8,920,333)	(8,496,071)	(33,029,614)	(31,558,090)
- Loss on write off of fixed assets		-	5,334	-	5,334
- Net realised and unrealised loss / (gains) on financial assets and financial liabilities at fair value through profit or loss		24,447,723	(56,900,036)	89,189,326	(191,529,579)
Operating (loss) / surplus before changes in working capital		(10,830,805)	(15,514,936)	93,519,015	186,663,502
(Increase) / Decrease in contributions and other receivables		(1,678,950)	83,204	(2,619,682)	738,638
Increase / (Decrease) in provision for outstanding claims		21,062,000	34,027,000	(12,261,000)	(1,723,000)
Increase / (Decrease) in other creditors and accruals		243,844	(836,246)	80,892	222,200
Net cash inflow from operating activities		8,796,089	17,759,022	78,719,225	185,901,340
Investing activities					
Payment for purchase of fixed assets	9	(142,918)	(206,441)	(142,918)	(206,441)
Purchases of financial instruments (net)		(11,951,150)	(24,242,849)	(95,522,278)	(215,560,465)
Proceeds from trade in of fixed assets		-	1,020	-	1,020
Investment expenses		(2,550,635)	(3,190,176)	(9,775,873)	(9,692,119)
Interest income on deposits		2,748	190	3,327	257
Other investment income		8,920,333	8,496,071	33,029,614	31,558,090
Net cash outflow from investing activities		(5,721,622)	(19,142,185)	(72,408,128)	(193,899,658)
Net increase / (decrease) in cash and cash equivalents		3,074,467	(1,383,163)	6,311,097	(7,998,318)
Cash and cash equivalents at 1 January		7,454,021	8,837,184	9,289,546	17,287,864
Cash and cash equivalents at 31 December	10	10,528,488	7,454,021	15,600,643	9,289,546

The notes on pages 11 to 45 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 policies**

- (i) New standards, amendments to standards and interpretations adopted by the Bureau

The Bureau has adopted the requirements of HKFRS 9 'Financial Instruments' from 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

## MOTOR INSURERS' BUREAU OF HONG KONG

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Principal accounting policies (continued)

##### (a) Basis of preparation

##### Changes in accounting policies (continued)

- (i) New standards, amendments to standards and interpretations adopted by the Bureau (continued)

Classification and measurement of debt assets is under HKFRS 9 driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest ("SPPI"). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss impairment model.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and did not have any impact on the opening balance sheet or retained earnings as at the date of initial application. The Bureau's Financial instruments at fair value through profit or loss continue to be classified as fair value through profit or loss and other financial assets which are held to collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

The new accounting policies are set out in note 2(f) below.

##### *Classification and measurement*

On 1 January 2018, the Bureau classifies its investments based on both the Bureau's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The financial assets at fair value through profit or loss are managed and performance is evaluated on a fair value basis. The Bureau is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the Bureau's debt securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale.

The collection of contractual cash flows is only incidental to achieving the Bureau's business model's objective. Consequently, all investments continue to be measured at fair value through profit or loss. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

## MOTOR INSURERS' BUREAU OF HONG KONG

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Principal accounting policies (continued)

##### (a) Basis of preparation

##### Changes in accounting policies (continued)

- (i) New standards, amendments to standards and interpretations adopted by the Bureau (continued)

##### *Impairment of financial assets*

The Bureau's financial assets within Contributions and other receivables, cash and bank balance are carried at amortised cost and are subject to HKFRS 9's new expected credit loss model.

The Bureau was required to revise its impairment methodology under HKFRS 9. Due to the nature of these financial assets, applying the expected credit risk model did not result in the recognition of a loss allowance on 1 January 2018 (previous loss allowance was nil) and no further increase in the allowance by the year ended on 31 December 2018.

No other standards, amendments and interpretations which are effective for the year beginning on 1 January 2018 are material to the Bureau.

- (ii) New standards, amendments to standards and interpretations not yet adopted by the Bureau

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bureau.

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 new standard is mandatory for financial years commencing on or after 1 January 2019.

HKFRS 17, 'Insurance Contracts' will replace the current HKFRS 4 'Insurance Contracts'. HKFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. Additionally, HKFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. The standard is effective for accounting periods beginning on or after 1 January 2021. Early adoption is permitted. The Bureau is yet to assess the impact of HKFRS 17.

There are no other HKFRSs, amendments to HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Bureau. The Bureau is yet to assess the impact of these.

## 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 instruments at fair value through profit or loss

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

###### (v) Other sundry income

The amount in 2017 represents the first and final ordinary dividend declared on the Bureau's claims against Anglo Starlite Insurance Company Limited (In Liquidation). It is recognised when the amount can be measured reliably and it is probable that the economic benefits will flow to the Bureau.

##### (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.



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

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

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

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

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.

##### **(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. The Bureau maintains a provision for claims incurred but not reported.

##### **(e) Financial instruments**

###### **Classification**

From 1 January 2018, the Bureau classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit and loss, and
- those to be measured at amortised cost.

The Bureau classifies its investments based on both the Bureau's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The financial assets at fair value through profit or loss are managed and performance is evaluated on a fair value basis. The Bureau is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Bureau's debt securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Bureau reclassifies debt investments when and only when its business model for managing those assets changes.

## MOTOR INSURERS' BUREAU OF HONG KONG

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Principal accounting policies (continued)

##### (e) Financial instruments (continued)

From 1 January 2018, the Bureau classifies its derivative contracts that have a negative fair value as liabilities at fair value through profit and loss.

##### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date – the date on which the Bureau commits to purchase or sell the asset. Financial assets are derecognized when the right to receive cash flows from the financial assets have expired or have been transferred and the Bureau has transferred substantially all risks and rewards of ownership.

##### *Measurement*

At initial recognition, the Bureau measures financial assets and financial liabilities at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets and financial liabilities carried at fair value through profit and loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within net realised and unrealised (loss)/gain on financial instruments at fair value through profit and loss in the period in which they arise.

Dividend income from financial assets 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. Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bureau has receivables for sale of investments and payable to settle purchases of investments that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. The receivable from for sale of investments is held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost.

Contribution and other receivables also include members' contribution receivables. They are generally due for settlement within one month and therefore are all classified as current.

Members' contribution receivables are recognised initially at the amount of consideration that is unconditional. The Bureau holds the members' contribution receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 2 Principal accounting policies (continued)

#### (e) Financial instruments (continued)

##### *Impairment*

From 1 January 2018, for Members' contribution receivables and receivable for sale of investments, the Bureau applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

##### *Fair value*

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

##### Accounting policies applied until 31 December 2017

The Bureau has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Bureau's previous accounting policy.

Until 31 December 2017 financial assets at fair value through profit or loss comprised assets or liabilities designated at fair value through profit and loss upon initial recognition. Investments at fair value through profit and loss were classified in this category if they were acquired principally for trading. Assets or liabilities in this category were classified as current assets or liabilities.

Regular way purchases and sales of investments were 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 were initially recognized at fair value and transaction costs were expensed in the statement of comprehensive income.

Financial instruments were derecognized when the right to receive cash flows from the investments had expired or had been transferred and the Bureau had 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 were 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 was recognised in the statement of comprehensive income when the Bureau's right to receive payments was established.

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

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

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

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

##### **(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.

##### **(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.

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 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 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, liquidity risk and price risk.

##### (a) Interest rate risk

The investment portfolio of the Bureau as at 31 December 2018 comprises bonds of approximately HK\$393 million (2017: HK\$370 million) for the First Fund Scheme and HK\$1,466 million (2017: HK\$1,336 million) for the Insolvency Fund Scheme. Interest rate movements can have a material impact on the carrying values of these bonds.

The effective interest rates for the bonds are approximately 1.71% (2017: 1.81%) for the First Fund Scheme and 1.76% (2017: 2%) for the Insolvency Fund Scheme.

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

##### (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 and indirect credit risk with respect to investments in funds that holds bonds.

The Bureau is also exposed to counterparty credit risk on Bank balances and cash and financial assets within Contributions and other receivables.

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.

## 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 (continued)

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- (2017: 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 2018, direct credit risks of the Bureau's bonds were diversified across various countries and sectors, with highest exposure to higher graded regions such as the United States, Hong Kong and Germany. The percentage contributions of duration by these issuers accounted for 74% and 72% of the First Fund Scheme and Insolvency Fund Scheme respectively. Elsewhere, the Bureau's exposure was the highest to Denmark and United Kingdom, which respectively accounted for 13% and 11% of the First Fund Scheme; and 13% and 12% of the Insolvency Fund Scheme.

The Bureau measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. The Bureau considers the probability of default to be close to zero as the counterparties of Bank balances and cash and Contributions and other receivables have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on expected credit losses as any such impairment would be wholly insignificant to the Bureau.

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 13).

The tables below summarize the Bureau's exposure to foreign currency exchange rate risk at 31 December 2018.

**Financial Assets**

**(i) First Fund Scheme**

2018

	€	£	US\$	Other	Total
Debt securities	104,218,615	23,049,368	184,790,683	53,446,659	365,505,325
Cash at bank	278,309	319,447	3,688,495	210,014	4,496,265
Derivative financial instruments	696,983	190,179	1,743,568	2,013,641	4,644,371
Others	1,233,251	254,550	895,263	275,956	2,659,020
	<u>106,427,158</u>	<u>23,813,544</u>	<u>191,118,009</u>	<u>55,946,270</u>	<u>377,304,981</u>

**(i) First Fund Scheme**

2017

	€	£	US\$	Other	Total
Debt securities	103,000,211	27,489,715	144,782,117	51,818,510	327,090,553
Cash at bank	209,650	303,466	1,688,462	473,984	2,675,562
Derivative financial instruments	430,681	59,853	1,132,945	822,995	2,446,474
Others	692,980	260,552	1,160,657	402,066	2,516,255
	<u>104,333,522</u>	<u>28,113,586</u>	<u>148,764,181</u>	<u>53,517,555</u>	<u>334,728,844</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**

2018

	€	£	US\$	Other	Total
Debt securities	372,116,743	78,753,158	623,640,249	276,495,182	1,351,005,332
Cash at bank	1,065,258	1,165,977	8,069,847	647,688	10,948,770
Derivative financial instruments	2,578,002	674,410	6,811,993	4,652,679	14,717,084
Others	3,757,273	789,360	3,660,199	716,316	8,923,148
	<u>379,517,276</u>	<u>81,382,905</u>	<u>642,182,288</u>	<u>282,511,865</u>	<u>1,385,594,334</u>

2017

	€	£	US\$	Other	Total
Debt securities	359,575,243	92,562,134	576,554,609	142,933,925	1,171,625,911
Cash at bank	337,990	539,195	4,157,247	752,793	5,787,225
Derivative financial instruments	2,089,158	220,380	4,476,795	3,756,833	10,543,166
Others	2,772,303	818,499	3,867,997	1,113,115	8,571,914
	<u>364,774,694</u>	<u>94,140,208</u>	<u>589,056,648</u>	<u>148,556,666</u>	<u>1,196,528,216</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**

**(i) First Fund Scheme**

2018

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	188,604	-	1,487,577	-	1,676,181
Derivative financial instruments	1,241,312	128,589	1,459,439	747,231	3,576,571
Others	-	54,388	269,041	-	323,429
	<u>1,429,916</u>	<u>182,977</u>	<u>3,216,057</u>	<u>747,231</u>	<u>5,576,181</u>

2017

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	-	-	912,849	126,368	1,039,217
Derivative financial instruments	1,242,783	741,445	847,384	1,679,095	4,510,707
Others	-	21,737	-	917	22,654
	<u>1,242,783</u>	<u>763,182</u>	<u>1,760,233</u>	<u>1,806,380</u>	<u>5,572,578</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**

2018

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	949,717	-	1,879,044	-	2,828,761
Derivative financial instruments	5,061,108	578,650	5,753,435	5,414,867	16,808,060
Others	-	118,550	1,153,735	-	1,272,285
	<u>6,010,825</u>	<u>697,200</u>	<u>8,786,214</u>	<u>5,414,867</u>	<u>20,909,106</u>

2017

	€	£	US\$	Other	Total
Cash collaterals for swaps and foreign exchange trade	448,846	-	1,770,623	-	2,219,469
Derivative financial instruments	5,004,345	2,547,108	2,450,793	7,379,708	17,381,954
Others	-	145,842	-	3,332	149,174
	<u>5,453,191</u>	<u>2,692,950</u>	<u>4,221,416</u>	<u>7,383,040</u>	<u>19,750,597</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\$5,582,506 (2017: HK\$4,708,827) and financial assets at fair value through profit or loss of HK\$739,575,300 (2017: HK\$735,168,438) under First Fund Scheme, and a cash balance of HK\$3,933,726 (2017: HK\$3,398,611) and financial assets at fair value through profit or loss of HK\$2,706,325,729 (2017: HK\$2,602,489,153) under Insolvency Fund Scheme which in total contributed to a majority part of the total asset.

**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)**

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

**(i) First Fund Scheme**

**2018**

	Carrying Amount HK\$	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 at fair value through profit and loss	5,859,962	1,931,295	3,077,997	179,276	671,394
Other payable and accruals	107,989,765	-	107,989,765	-	-
	<u>113,849,727</u>	<u>1,931,295</u>	<u>111,067,762</u>	<u>179,276</u>	<u>671,394</u>
Provision for outstanding claims	<u>351,768,000</u>	<u>-</u>	<u>351,768,000</u>	<u>-</u>	<u>-</u>

**2017**

	Carrying Amount HK\$	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 at fair value through profit and loss	5,874,763	624,497	4,872,521	-	377,745
Other payable and accruals	85,885,724	-	85,885,724	-	-
	<u>91,760,487</u>	<u>624,497</u>	<u>90,758,245</u>	<u>-</u>	<u>377,745</u>
Provision for outstanding claims	<u>330,706,000</u>	<u>-</u>	<u>330,706,000</u>	<u>-</u>	<u>-</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)**

**(ii) Insolvency Fund Scheme**

2018

	Carrying Amount HK\$	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 at fair value through profit and loss	21,116,380	1,272,286	15,229,369	878,849	3,735,876
Other payable and accruals	277,141,415	-	277,141,415	-	-
	<u>298,257,795</u>	<u>1,272,286</u>	<u>292,370,784</u>	<u>878,849</u>	<u>3,735,876</u>
Provision for outstanding claims	<u>37,464,000</u>	<u>-</u>	<u>37,464,000</u>	<u>-</u>	<u>-</u>

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

2017

	Carrying Amount HK\$	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 at fair value through profit and loss	20,803,846	149,174	16,460,238	1,053,249	3,141,185
Other payable and accruals	277,805,003	-	277,805,003	-	-
	<u>298,608,849</u>	<u>149,174</u>	<u>294,265,241</u>	<u>1,053,249</u>	<u>3,141,185</u>
Provision for outstanding claims	<u>49,725,000</u>	<u>-</u>	<u>49,725,000</u>	<u>-</u>	<u>-</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)

###### (e) Price risk

The Bureau is directly exposed to price risk related to financial instruments at fair value through profit and loss and indirectly to the equity securities that the funds invest in. A 10% increase in the market values of the financial instruments at fair value through profit and loss would result in a gain of HK\$73 million (2017: HK\$73 million) for First Fund Scheme and HK\$269 million (2017: HK\$258 million) for Insolvency Fund Scheme in 2018.

##### 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).
- 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.

**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 2018.

(i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 11)				
- Bond and accrued interest	324,447,888	70,722,737	-	395,170,625
- Cash	4,945,982	-	-	4,945,982
- Derivatives	-	5,900,915	-	5,900,915
- Unit trusts	333,557,778	-	-	333,557,778
<b>Total financial assets</b>	<b>662,951,648</b>	<b>76,623,652</b>	<b>-</b>	<b>739,575,300</b>

(ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 11)				
- Bond and accrued interest	1,186,887,630	286,779,170	-	1,473,666,800
- Cash	11,666,917	-	-	11,666,917
- Derivatives	-	17,944,455	-	17,944,455
- Unit trusts	1,203,047,557	-	-	1,203,047,557
<b>Total financial assets</b>	<b>2,401,602,104</b>	<b>304,723,625</b>	<b>-</b>	<b>2,706,325,729</b>

(i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 12)				
- Cash collaterals for swaps and foreign exchange trades	1,959,962	-	-	1,959,962
- Derivatives	-	3,900,000	-	3,900,000
<b>Total financial liabilities</b>	<b>1,959,962</b>	<b>3,900,000</b>	<b>-</b>	<b>5,859,962</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 2018. (continued)

##### (ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 12)				
- Cash collaterals for swaps and foreign exchange trades	2,828,761	-	-	2,828,761
- Derivatives	-	18,287,619	-	18,287,619
<b>Total financial liabilities</b>	<b>2,828,761</b>	<b>18,287,619</b>	<b>-</b>	<b>21,116,380</b>

The following table presents the Bureau's financial assets and liabilities that are measured at fair value at 31 December 2017.

##### (i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 11)				
- Bond and accrued interest	283,877,556	88,522,432	-	372,399,988
- Cash	2,745,194	-	-	2,745,194
- Derivatives	-	2,769,063	-	2,769,063
- Unit trusts	357,254,193	-	-	357,254,193
<b>Total financial assets</b>	<b>643,876,943</b>	<b>91,291,495</b>	<b>-</b>	<b>735,168,438</b>

##### (ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (note 11)				
- Bond and accrued interest	1,017,743,011	327,223,052	-	1,344,966,063
- Cash	5,890,935	-	-	5,890,935
- Derivatives	-	11,446,309	-	11,446,309
- Unit trusts	1,240,185,846	-	-	1,240,185,846
<b>Total financial assets</b>	<b>2,263,819,792</b>	<b>338,669,361</b>	<b>-</b>	<b>2,602,489,153</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 2017. (continued)

##### (i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 12)				
- Cash collaterals for swaps and foreign exchange trades	1,039,216	-	-	1,039,216
- Derivatives	-	4,835,547	-	4,835,547
<b>Total financial liabilities</b>	<b>1,039,216</b>	<b>4,835,547</b>	<b>-</b>	<b>5,874,763</b>

##### (ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial liabilities (note 12)				
- Cash collaterals for swaps and foreign exchange trades	2,219,469	-	-	2,219,469
- Derivatives	-	18,584,377	-	18,584,377
<b>Total financial liabilities</b>	<b>2,219,469</b>	<b>18,584,377</b>	<b>-</b>	<b>20,803,846</b>

#### 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. A 10% increase in provision for outstanding claims, would negatively impact the (loss)/surplus for the year and the retained surplus by HK\$35 million (2017: HK\$33 million) for First Fund Scheme and by HK\$ 4 million (2017: HK\$5 million) for Insolvency Fund Scheme in 2018.

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 15). 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.



# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 3.3 Insurance risk (continued)

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.

Claims liabilities are 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.

### 7 Other sundry income

The amount represents fee income of HK\$760,000 (2017: Nil) received from the ECIIB in respect of services rendered under the cost service agreement.

During 2017, the amount represented the first and final ordinary dividend of 12.11 percent declared on 17 November 2017 on the Bureau's claims against Anglo Starlite Insurance Company Limited (In Liquidation).

### 8 Staff cost

	First Fund Scheme		Insolvency Fund Scheme	
	2018 HK\$	2017 HK\$	2018 HK\$	2017 HK\$
Salaries and wages	4,576,307	4,443,622	1,293,414	1,255,043
Contributions to defined contribution plan	99,796	98,785	30,977	30,578
Other staff benefits	62,587	47,030	15,647	10,754
	<u>4,738,690</u>	<u>4,589,437</u>	<u>1,340,038</u>	<u>1,296,375</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**9 Property, plant and equipment**

**a) First Fund Scheme**

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office Equipment HK\$	Computer equipment and software HK\$	Total HK\$
<b>Cost:</b>					
At 1 January 2018	1,008,810	256,939	85,686	506,509	1,857,944
Additions	133,334	-	4,844	4,740	142,918
At 31 December 2018	<u>1,142,144</u>	<u>256,939</u>	<u>90,530</u>	<u>511,249</u>	<u>2,000,862</u>
<b>Accumulated depreciation and impairment:</b>					
At 1 January 2018	858,946	256,939	61,554	454,845	1,632,284
Charge for the year	46,447	-	5,033	43,119	94,599
At 31 December 2018	<u>905,393</u>	<u>256,939</u>	<u>66,587</u>	<u>497,964</u>	<u>1,726,883</u>
<b>Net book value:</b>					
At 31 December 2018	<u>236,751</u>	<u>-</u>	<u>23,943</u>	<u>13,285</u>	<u>273,979</u>
At 31 December 2017	<u>149,864</u>	<u>-</u>	<u>24,132</u>	<u>51,664</u>	<u>225,660</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**9 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\$
<b>Cost:</b>						
At 1 January 2018	99,982,750	1,568,113	279,355	85,686	576,462	102,492,366
Additions	-	133,334	-	4,844	4,740	142,918
At 31 December 2018	99,982,750	1,701,447	279,355	90,530	581,202	102,635,284
<b>Accumulated depreciation and impairment:</b>						
At 1 January 2018	99,982,750	1,418,249	279,355	61,554	524,020	102,265,928
Charge for the year	-	46,447	-	5,033	43,119	94,599
At 31 December 2018	99,982,750	1,464,696	279,355	66,587	567,139	102,360,527
<b>Net book value:</b>						
At 31 December 2018	-	236,751	-	23,943	14,063	274,757
At 31 December 2017	-	149,864	-	24,132	52,442	226,438

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 Rooms 901 and 903. The lease does not include contingent rentals.

As at 31 December 2018, the Bureau had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2018 HK\$	2017 HK\$
Within one year	1,212,924	699,232
Later than one year and not later than five years	129,200	437,724
	1,342,124	1,136,956

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**10 Cash and cash equivalents**

	First Fund Scheme		Insolvency Fund Scheme	
	2018 HK\$	2017 HK\$	2018 HK\$	2017 HK\$
Bank balances and cash				
- bank balances	5,579,506	4,705,827	3,933,726	3,398,611
- petty cash	3,000	3,000	-	-
Financial assets				
- cash deposits (note 11)	4,945,982	2,745,194	11,666,917	5,890,935
Cash and cash equivalents	<u>10,528,488</u>	<u>7,454,021</u>	<u>15,600,643</u>	<u>9,289,546</u>

Bank balances and cash are measured at amortised cost.

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

a) First Fund Scheme

	2018 HK\$	2017 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	143,763,402	155,048,320
- Listed equities	145,097,634	170,052,996
- Cash deposits	44,696,742	32,152,877
Bonds outside Hong Kong	393,070,211	369,990,471
Cash deposits with custodian (note 10)	4,945,982	2,745,194
Accrued interest on bond funds	2,100,414	2,409,517
Forward foreign exchange contracts	2,030,424	1,208,243
Swaps	878,513	992,115
Future contracts	1,622,994	163,464
Margin variation receivable	748,836	322,589
Swaptions	618,403	73,453
Options	1,745	9,199
	<u>739,575,300</u>	<u>735,168,438</u>

Bonds outside Hong Kong include HK\$322,819,867 of listed bonds (2017: HK\$281,960,045) and HK\$70,250,344 (2017: HK\$88,030,426) of unlisted bonds.

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Financial assets at fair value through profit or loss (Continued)

#### a) First Fund Scheme

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	
	2018	2017
	HK\$	HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	167,194,470	181,797,841
Schroder Capital Stable Fund	166,363,308	175,456,352
	<u>333,557,778</u>	<u>357,254,193</u>

The above investments at 31 December 2018 were classified as financial assets at fair value through profit and loss.

These investments include 5,710,194 units of Schroder Stable Growth Funds (2017: 5,718,712 units) and 6,743,547 units of Schroder Capital Stable Fund (2017: 6,714,748 units).

The maximum exposure to loss is HK\$333,557,778 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds during 2018 ranges from HK\$9,100 million to HK\$7,625 million and the size of the Schroder Capital Stable Funds ranges from HK\$5,688 million to HK\$5,229 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.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**11 Financial assets at fair value through profit or loss (Continued)**

(b) Insolvency Fund Scheme

	2018 HK\$	2017 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	518,513,497	539,480,843
- Listed equities	522,122,640	589,088,277
- Cash deposits	162,411,420	111,616,726
Bonds outside Hong Kong	1,466,348,010	1,336,270,787
Cash deposits with custodian (note 10)	11,666,917	5,890,935
Accrued interest on bond funds	7,318,790	8,695,276
Forward foreign exchange contracts	4,654,250	5,878,050
Swaps	2,138,042	3,876,437
Future contracts	6,470,616	475,707
Margin variation receivable	2,435,344	903,145
Swaptions	2,239,804	282,087
Options	6,399	30,883
	<u>2,706,325,729</u>	<u>2,602,489,153</u>

Bonds outside Hong Kong include HK\$1,180,429,077 of listed bonds (2017: HK\$1,011,189,031) and HK\$285,918,933 (2017: HK\$325,081,756) of unlisted bonds.

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	
	2018 HK\$	2017 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	597,890,429	621,116,490
Schroder Capital Stable Fund	605,157,128	619,069,356
	<u>1,203,047,557</u>	<u>1,240,185,846</u>

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Financial assets at fair value through profit or loss (continued)

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

The above investments at 31 December 2018 were classified as financial assets at fair value through profit and loss.

These investments include 20,419,755 units of Schroder Stable Growth Fund (2017: 19,538,109 units) and 24,530,082 units of Schroder Capital Stable Fund (2017: 23,691,900 units).

The maximum exposure to loss is HK\$1,203,047,557 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds during the year ranges from HK\$9,100 million to HK\$7,625 million and the size of the Schroder Capital Stable Funds ranges from HK\$5,688 million to HK\$5,229 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.

### 12 Financial liabilities at fair value through profit and loss

#### (a) First Fund Scheme

	2018 HK\$	2017 HK\$
Cash collaterals for swaps and foreign exchange trades	1,959,962	1,039,216
Forward foreign exchange contracts	998,704	3,442,998
Swaps	387,535	904,131
Future contracts	1,543,038	343,502
Swaptions	527,004	67,630
Margin variation payable	323,429	22,654
Options	120,290	54,632
	<u>5,859,962</u>	<u>5,874,763</u>

#### (b) Insolvency Fund Scheme

	2018 HK\$	2017 HK\$
Cash collaterals for swaps and foreign exchange trades	2,828,761	2,219,469
Forward foreign exchange contracts	6,230,767	13,702,345
Swaps	1,820,573	3,194,107
Future contracts	6,647,299	1,091,569
Swaptions	1,867,041	259,911
Margin variation payable	1,272,285	149,174
Options	449,654	187,271
	<u>21,116,380</u>	<u>20,803,846</u>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**13 Derivative financial instruments**

**(a) First Fund Scheme**

	2018		
	Held as financial instruments through profit and loss		
	Contract/ gross notional amount	Assets	Liabilities
	HK\$	HK\$	HK\$
Forward foreign exchange contracts	538,018,692	2,030,424	998,704
Swaps	100,619,669	878,513	387,535
Swaptions	99,276,158	618,403	527,004
Future contracts	284,007,356	1,622,994	1,543,038
Options	930,813	1,745	120,290
	2017		
	Held as financial instruments through profit and loss		
	Contract/ gross notional amount	Assets	Liabilities
	HK\$	HK\$	HK\$
Forward foreign exchange contracts	733,383,909	1,208,243	3,442,998
Swaps	138,809,198	992,115	904,131
Swaptions	168,806,180	73,453	67,630
Future contracts	136,834,348	163,464	343,502
Options	337,932	9,199	54,632



**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**13 Derivative financial instruments (continued)**

**(b) Insolvency Fund Scheme**

	2018		
	Contract/ gross notional amount HK\$	Held as financial instruments through profit and loss	
		Assets	Liabilities
		HK\$	HK\$
Forward foreign exchange contracts	2,030,325,446	4,654,250	6,230,767
Swaps	371,822,370	2,138,042	1,820,573
Swaptions	358,584,229	2,239,804	1,867,041
Future contracts	1,018,661,187	6,470,616	6,647,299
Options	3,481,596	6,399	449,654

	2017		
	Contract/ gross notional amount HK\$	Held as financial instruments through profit and loss	
		Assets	Liabilities
		HK\$	HK\$
Forward foreign exchange contracts	2,404,314,763	5,878,050	13,702,345
Swaps	461,737,325	3,876,437	3,194,107
Swaptions	577,756,729	282,087	259,911
Future contracts	452,425,786	475,707	1,091,569
Options	1,145,215	30,883	187,271

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

# MOTOR INSURERS' BUREAU OF HONG KONG

## NOTES TO THE FINANCIAL STATEMENTS

### 14 Contributions and other receivables

Other receivable includes amount receivable of HK\$53,051,843 and HK\$73,596,505 (2017: HK\$45,946,887 and HK\$165,917,789) for sale of investments for the First Fund Scheme and Insolvency Fund Scheme, respectively. Contributions and other receivables are measured at amortised cost 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 significant concentration of credit risk with respect to these receivables. There is no loss allowance recognised as at 31 December 2018 (2017 – nil).

### 15 Provision for outstanding claims

An actuarial investigation of the solvency position of both funds is carried out every year to ensure that the assets of the funds are adequate to discharge its obligations under the terms of the fund agreements. The Bureau has engaged Deloitte Advisory (Hong Kong) Limited to undertake a review of the funding position at 31 December 2018.

#### (a) First Fund Scheme

	2018 HK\$	2017 HK\$
Notified claims	272,020,000	241,693,000
Incurred but not reported	52,202,000	49,169,000
Future indirect claims handling expenses	6,484,000	5,817,000
Total at beginning of year	330,706,000	296,679,000
Cash paid for claims settlements in the year	(13,081,152)	(4,323,238)
Increase in liabilities during the year	34,143,152	38,350,238
Total at end of year	351,768,000	330,706,000
Represents:		
Notified claims	290,792,000	272,020,000
Incurred but not reported	54,079,000	52,202,000
Future indirect claims handling expenses	6,897,000	6,484,000
	351,768,000	330,706,000

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**15 Provision for outstanding claims (continued)**

(a) First Fund Scheme (continued)

The following table presents the claims development as at 31 December 2018.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Estimate of cumulative claims								
- At end of the year of notification	99,636	112,822	120,192	112,256	107,495	128,324	126,953	807,678
- one year later	113,101	73,893	56,067	62,269	66,287	77,617		
- two years later	55,025	45,022	26,930	50,062	40,919			
- three years later	43,404	29,734	16,463	37,338				
- four years later	41,621	21,925	13,238					
- five years later	30,965	21,521						
- six years later	30,831							
Current estimate of cumulative claims	30,831	21,521	13,238	37,338	40,919	77,617	126,953	348,417
Cumulative payments to date	(8,851)	(7,541)	(8,021)	(13,978)	(1,504)	(3,711)	(1,533)	(45,139)
Outstanding claims	21,980	13,980	5,217	23,360	39,415	73,906	125,420	303,278
Provision for outstanding claims in respect of prior years								48,490
Total provision for outstanding claims in the balance sheet								351,768

The above is presented on a gross basis and any impact from reinsurance is considered immaterial for the purpose of the above disclosure.

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**15 Provision for outstanding claims (continued)**

**(b) Insolvency Fund Scheme**

	2018 HK\$	2017 HK\$
Notified claims	35,386,000	36,922,000
Incurred but not reported	13,364,000	13,517,000
Future indirect claims handling expenses	975,000	1,009,000
	<hr/>	<hr/>
Total at beginning of year	49,725,000	51,448,000
Cash refunded / (paid) for claims settlements in the year	52,680	(212,751)
Decrease in liabilities during the year	(12,313,680)	(1,510,249)
	<hr/>	<hr/>
Total at end of year	37,464,000	49,725,000
	<hr/> <hr/>	<hr/> <hr/>
Represents:		
Notified claims	33,390,000	35,386,000
Incurred but not reported	3,339,000	13,364,000
Future indirect claims handling expenses	735,000	975,000
	<hr/>	<hr/>
	37,464,000	49,725,000
	<hr/> <hr/>	<hr/> <hr/>

**MOTOR INSURERS' BUREAU OF HONG KONG**

**NOTES TO THE FINANCIAL STATEMENTS**

**15 Provision for outstanding claims (continued)**

(b) Insolvency Fund Scheme (continued)

The following table presents the claims development as at 31 December 2018.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Estimate of cumulative claims								
- At end of the year of notification	13,582	5,146	717	-	-	-	-	19,445
- one year later	14,004	3,010	273					
- two years later	8,927	2,761	228					
- three years later	8,633	2,761	228					
- four years later	8,161	2,761	228					
- five years later	8,161	2,761						
- six years later	8,161							
Current estimate of cumulative claims	8,161	2,761	228					11,150
Cumulative payments to date	(5,356)	(1,784)	(58)					(7,198)
Outstanding claims	2,805	977	170					3,952
Provision for outstanding claims in respect of prior years								33,512
Total provision for outstanding claims in the balance sheet								37,464

The above is presented on a gross basis and any impact from reinsurance is considered immaterial for the purpose of the above disclosure.

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

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

#### **15 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 2018 of approximately HK\$0.9 billion (2017: HK\$0.9 billion). The outstanding claims liability as at 31 December 2018 amounted to HK\$37 million (2017: HK\$38 million).

During 2017, the Bureau has received a partial recovery as a creditor upon settlement of the Anglo Starlite Liquidation, as disclosed under Note 7 to the Financial Statements.

#### **16 Accounts payable**

The balance represents the amounts payable to settle the purchases of investments made before year end. These are measured at amortised cost.

#### **17 Approval of financial statements**

The financial statements were approved by the Council on 11 April 2019.