

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

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2020

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 2020.

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.

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 following key financial information:

FFS

	2020	2019
Contributions from members	HK\$47.5 million	HK\$45.1 million
Net assets	HK\$451 million	HK\$400 million
Gross claims paid	HK\$5.8 million	HK\$4.7 million
Amount of insurance protection recoveries	Nil	Nil
Amount of claims recoveries	HK\$0.09 million	HK\$0.14 million
Number of outstanding claims *	2,392	1,864
Provision for outstanding claims *	HK\$444.6 million	HK\$387.5 million
Number of new claims received *	1,506	1,294

[* registered and potential claims]

IFS

	2020	2019
Contributions from members	HK\$95.1 million	HK\$90.3 million
Net assets	HK\$3,236 million	HK\$2,820 million
Gross claims (refunded)/paid	HK\$7,000	(HK\$0.38 million)
Number of outstanding claims	70	79
Amount of claims recoveries	Nil	Nil
Provision for outstanding claims	HK\$31.1 million	HK\$37.2 million
Number of new claims received	Nil	Nil

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.

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 and custodian, Auditors, Actuaries, Insurance broker and Risk Consultant 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 fair review of the Bureau's business (continued)

The Bureau continues to work closely with and support sister organisation Employees Compensation Insurer Insolvency Bureau ("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 close liaison and being able to speak with one voice on matters of mutual future impact.

The Bureau also continues to monitor the situation of COVID-19 noting that it has not had any material impact on its business.

A description of the principal risks and uncertainties facing the Bureau

The 2018 Actuarial Review highlighted a number of Liquidity and Insurance risks which were noted by Council and considered in the following detailed risk review. A professional external risk review was conducted during 2019 resulting in the establishment of a formal Risk Register reviewed annually and establishing that the identified risks of the Bureau fall within the categories of Operational, Market, Credit, Liquidity and Insurance and such are currently all considered to pose no more than an insignificant risk level to the Bureau. Council also reviews Risk and Fraud as a standing item of their quarterly meetings.

A detailed discussion on the main risks of the Bureau are set out in Management of insurance and financial risk, Note 3 on pages 17 to 24 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

Implementation of accounting standard HKFRS 17 will be required of the Bureau and a professional consultancy appointment is proceeding to enable this process and in liaison with the Bureau's External Auditor.

The Council 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 2020 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 7 to 36.

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:

Mr Andrew Wong Kwai Chuen	
Mr Jimmy Poon Wing Fai	(resigned on 1 January 2021)
Mr Chan Pui Leung	
Mr Lee Pak Kee	(resigned on 9 March 2020)
Mr Kelvin Cheung Kin Keung	(appointed on 23 March 2020)
Mr Hui Kam Kwai	
Ms Wong Chi Shun	
Mr Philip Graham Kent	
Mr Thomas Patrick Haddrill	

Messrs Hui Kam Kwai and Wong Chi Shun 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.

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



Chan Pui Leung
Chairman

Hong Kong, 9 April 2021



羅兵咸永道

Independent Auditor's Report

To the Members of Motor Insurers' Bureau of Hong Kong
(incorporated in Hong Kong with limited liability 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 36, which comprise:

- the statement of financial position as at 31 December 2020;
- 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 2020, 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 ("HKSA") 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.

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 HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.
- 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, 9 April 2021

MOTOR INSURERS' BUREAU OF HONG KONG

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2020 HK\$	2019 HK\$	2020 HK\$	2019 HK\$
Revenue					
Members' contributions		47,546,286	45,140,723	95,092,556	90,281,449
Non-members' contributions		134,925	134,918	-	-
		<u>47,681,211</u>	<u>45,275,641</u>	<u>95,092,556</u>	<u>90,281,449</u>
Other income/(loss)					
Net realised and unrealized gain on financial instruments at fair value through profit or loss		86,518,461	68,417,815	319,624,400	248,807,702
Other investment income		2,167,307	5,129,693	7,862,779	18,633,561
Interest income on deposits		188	10,585	220	17,644
Rental income	9	-	-	700,413	1,366,938
Other sundry income	7	800,000	780,000	-	-
		<u>89,485,956</u>	<u>74,338,093</u>	<u>328,187,812</u>	<u>268,825,845</u>
Less: Incurred claims					
Gross claims paid / (refunded)		5,751,504	4,670,460	6,889	(380,420)
Claims recoveries		(89,800)	(140,800)	-	-
Net claims paid / (refunded)		5,661,704	4,529,660	6,889	(380,420)
Movement in provision for outstanding claims		57,091,000	35,691,000	(6,009,000)	(307,000)
	13	<u>62,752,704</u>	<u>40,220,660</u>	<u>(6,002,111)</u>	<u>(687,420)</u>
Less: Expenses					
Excess of loss reinsurance		13,704,026	13,251,990	-	-
Other expenses:					
Accountancy and secretarial fees		1,308,600	1,434,000	2,219,200	2,400,800
Audit fees		226,410	210,000	226,410	210,000
Consultancy, legal and professional fees		371,820	796,603	434,720	799,824
Depreciation	9	54,465	55,198	54,465	55,976
Investment expenses		2,655,784	3,058,783	6,979,777	8,733,363
Staff costs	8	4,500,942	4,299,228	2,118,217	2,021,634
Others		987,389	974,623	890,777	852,443
		<u>10,105,410</u>	<u>10,828,435</u>	<u>12,923,566</u>	<u>15,074,040</u>
Total expenses		<u>23,809,436</u>	<u>24,080,425</u>	<u>12,923,566</u>	<u>15,074,040</u>
Surplus for the year		<u>50,605,027</u>	<u>55,312,649</u>	<u>416,358,913</u>	<u>344,720,674</u>
Other comprehensive surplus		-	-	-	-
Total comprehensive surplus for the year		<u>50,605,027</u>	<u>55,312,649</u>	<u>416,358,913</u>	<u>344,720,674</u>

The notes on pages 11 to 36 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2020	2019	2020	2019
		HK\$	HK\$	HK\$	HK\$
ASSETS					
Non-current assets					
Property, plant and equipment	9	164,316	218,781	164,316	218,781
Current assets					
Financial assets at fair value through profit or loss	11	883,525,786	774,300,807	3,235,789,971	2,829,339,132
Contributions and other receivables	12	11,722,601	12,486,517	27,223,103	26,669,900
Bank balances and cash	10	6,167,073	6,146,742	5,720,940	3,407,926
		901,415,460	792,934,066	3,268,734,014	2,859,416,958
Total assets		901,579,776	793,152,847	3,268,898,330	2,859,635,739
EQUITY					
Retained surplus		450,613,365	400,008,338	3,236,193,737	2,819,834,824
LIABILITIES					
Current liabilities					
Provision for outstanding claims	13	444,550,000	387,459,000	31,148,000	37,157,000
Accounts payable	14	-	-	30,880	30,880
Other creditors and accruals		6,416,411	5,685,509	1,525,713	2,613,035
Total liabilities		450,966,411	393,144,509	32,704,593	39,800,915
Total equity and liabilities		901,579,776	793,152,847	3,268,898,330	2,859,635,739

Approved and authorised for issue by the Council Members on 9 April 2021.



.....
Council Member



.....
Council Member

The notes on pages 11 to 36 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 2020**

	First Fund Scheme HK\$	Insolvency Fund Scheme HK\$
Total retained surplus:		
Balance at 1 January 2019	344,695,689	2,475,114,150
Total comprehensive surplus for the year	55,312,649	344,720,674
Balance at 31 December 2019 and 1 January 2020	400,008,338	2,819,834,824
Total comprehensive surplus for the year	50,605,027	416,358,913
Balance at 31 December 2020	450,613,365	3,236,193,737

The notes on pages 11 to 36 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	First Fund Scheme		Insolvency Fund Scheme	
		2020 HK\$	2019 HK\$	2020 HK\$	2019 HK\$
Operating activities					
Total comprehensive surplus for the year		50,605,027	55,312,649	416,358,913	344,720,674
Adjustments for:					
- Investment expenses		2,655,784	3,058,783	6,979,777	8,733,363
- Interest income on deposits		(188)	(10,585)	(220)	(17,644)
- Depreciation		54,465	55,198	54,465	55,976
- Other investment income		(2,167,307)	(5,129,693)	(7,862,779)	(18,633,561)
- Net realised and unrealised gains on financial assets and financial liabilities at fair value through profit or loss		(86,518,461)	(68,417,815)	(319,624,400)	(248,807,702)
Operating (loss) / surplus before changes in working capital		(35,370,680)	(15,131,463)	95,905,756	86,051,106
Decrease / (Increase) in contributions and other receivables		765,554	(746,389)	(547,575)	(298,602)
Increase / (Decrease) in provision for outstanding claims		57,091,000	35,691,000	(6,009,000)	(307,000)
Increase / (Decrease) in other creditors and accruals		730,902	619,980	(1,087,322)	423,139
Net cash inflow from operating activities		23,216,776	20,433,128	88,261,859	85,868,643
Investing activities					
Payment for purchase of fixed assets	9	-	-	-	-
Purchases of financial instruments (net)		(22,768,303)	(26,784,218)	(87,011,029)	(107,591,651)
Investment expenses		(2,655,784)	(3,058,783)	(6,979,777)	(8,733,363)
Interest income on deposits		188	10,585	220	17,644
Other investment income		2,167,307	5,129,693	7,862,779	18,633,561
Net cash outflow from investing activities		(23,256,592)	(24,702,723)	(86,127,807)	(97,673,809)
Net (decrease) / increase in cash and cash equivalents		(39,816)	(4,269,595)	2,134,052	(11,805,166)
Cash and cash equivalents at 1 January		6,258,893	10,528,488	3,795,477	15,600,643
Cash and cash equivalents at 31 December	10	6,219,077	6,258,893	5,929,529	3,795,477

The notes on pages 11 to 36 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

Standards affected	New standard and amendments relate to	Applicable for financial year beginning on/after
HKAS 1 and HKAS 8	Definition of Material (amendments)	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting (amendments)	1 January 2020

The preceding new amendments to standards have been adopted for the first time for the financial year ended 31 December 2020 and have no material impact on the Bureau.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

- (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 2020 reporting periods and have not been early adopted by the Bureau. With the exception detailed below, these standards are not expected to have a material impact on the Bureau in the current or future reporting periods and on foreseeable future transactions.

Standards affected	New standards or amendments to existing standards	Applicable for financial year beginning on/after
HKFRS 17	Insurance Contracts (new standard)	1 January 2023

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 2023. Early adoption is permitted. The Bureau is currently undertaking a process to implement the accounting standard 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.

(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.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(b) Revenue recognition (continued)

- (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

Other sundry income 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 6 $\frac{2}{3}$ 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.

(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.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(d) Insurance contracts (continued)

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

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.

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.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(e) Financial instruments (continued)

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.

Impairment

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.

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.

(j) Comparative figures

Comparative figures have been adjusted, where necessary, to conform to the basis of presentation and the classification used in the current year, unless otherwise noted in the notes to the accounts.

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.

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)

(a) Interest rate risk

As at 31 December 2020, the investment portfolio of the Bureau comprises funds which holds bonds of approximately HK\$607 million (2019: HK\$543 million) for the First Fund Scheme and HK\$2,215 million (2019: HK\$1,980 million) for the Insolvency Fund Scheme. Interest rate movements can have a material impact on the carrying values of these funds.

(b) Credit risk

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

- reinsurers share of insurance liabilities for the First Fund Scheme. The First Fund Scheme protection programme is provided by an authorised insurer by purchase of reinsurance. The Bureau is not an insurer and therefore does not have the ability to effect such transactions but takes an active interest in the process as it is a critical protection mechanism for the Fund.
- 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.

The investment guidelines stipulate that 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 borrower or issuer (and its agencies).

The Bureau manages its credit risk through collective investment vehicles that invest in a diversified portfolio of bond instruments. All credit risks are assumed indirectly through exposure to these vehicles.

As of 31 December 2020, indirect credit risks of the Bureau's Fixed Income Portfolio were diversified across various countries and sectors, with highest exposure to the United States, Japan and Italy. The percentage contributions of duration by these issuers accounted for 51.1% of the Fixed Income Portfolio. Elsewhere, the Bureau's exposure was the highest to the United Kingdom and France, which respectively accounted for 7.9% and 5.3% of the Fixed Income Portfolio.

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)

The above statistics are very similar to that as of 31 December 2019, where the Bureau's Fixed Income Portfolio was also most exposed to bonds issued by the United States, Japan and Italy, which accounted for 59.4% of the portfolio, followed by France and the United Kingdom, which respectively accounted for 5.3% and 5.2% of the portfolio.

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.

(c) Currency risk

The Bureau's exposures to foreign exchange risk arise primarily from purchased financial assets that are denominated in currencies other than Hong Kong dollars. As at 31 December 2020, the Bureau did not have significant exposures to foreign exchange risk, as all the financial assets held by the Bureau were either denominated in Hong Kong dollars or US dollars (against which Hong Kong dollars are pegged).

(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\$6,167,073 (2019: HK\$6,146,742) and financial assets at fair value through profit or loss of HK\$883,525,786 (2019: HK\$774,300,807) under First Fund Scheme, and a cash balance of HK\$5,720,940 (2019: HK\$3,407,926) and financial assets at fair value through profit or loss of HK\$3,235,789,971 (2019: HK\$2,829,339,132) 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

2020

	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:					
Other payable and accruals	6,416,411	-	6,416,411	-	-
	<u>6,416,411</u>	<u>-</u>	<u>6,416,411</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	444,550,000	-	444,550,000	-	-
	<u>444,550,000</u>	<u>-</u>	<u>444,550,000</u>	<u>-</u>	<u>-</u>

2019

	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:					
Other payable and accruals	5,685,509	-	5,685,509	-	-
	<u>5,685,509</u>	<u>-</u>	<u>5,685,509</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	387,459,000	-	387,459,000	-	-
	<u>387,459,000</u>	<u>-</u>	<u>387,459,000</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

2020

	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:					
Other payable and accruals	1,556,593	-	1,556,593	-	-
	<u>1,556,593</u>	<u>-</u>	<u>1,556,593</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	31,148,000	-	31,148,000	-	-
	<u>31,148,000</u>	<u>-</u>	<u>31,148,000</u>	<u>-</u>	<u>-</u>

2019

	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:					
Other payable and accruals	2,643,915	-	2,643,915	-	-
	<u>2,643,915</u>	<u>-</u>	<u>2,643,915</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	37,157,000	-	37,157,000	-	-
	<u>37,157,000</u>	<u>-</u>	<u>37,157,000</u>	<u>-</u>	<u>-</u>

(e) Price risk

As at 31 December 2020, the Bureau is directly exposed to price risk related to funds and indirectly to the equity securities that the funds invest in. A 10% increase in the market values of the funds would result in a gain of approximately HK\$88 million (2019: HK\$77 million) for First Fund Scheme and HK\$324 million (2019: HK\$283 million) for Insolvency Fund Scheme.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (continued)

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.

The following table presents the Bureau's financial assets that are measured at fair value at 31 December 2020. All debt securities and term deposits held by the Bureau meet the qualification of and are included in level 1. There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

Financial assets

(i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 11)				
- Cash	52,004	-	-	52,004
- Unit trusts	883,473,782			883,473,782
Total financial assets	883,525,786	-	-	883,525,786

(ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 11)				
- Cash	208,589	-	-	208,589
- Unit trusts	3,235,581,382			3,235,581,382
Total financial assets	3,235,789,971	-	-	3,235,789,971

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 2019.

Financial assets

(i) First Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 11)				
- Cash	112,151	-	-	112,151
- Unit trusts	774,188,656	-	-	774,188,656
Total financial assets	774,300,807	-	-	774,300,807

(ii) Insolvency Fund Scheme

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 11)				
- Cash	387,551	-	-	387,551
- Unit trusts	2,828,951,581	-	-	2,828,951,581
Total financial assets	2,829,339,132	-	-	2,829,339,132

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\$44 million (2019: HK\$39 million) for First Fund Scheme and by HK\$3 million (2019: HK\$4 million) for Insolvency Fund Scheme in 2020.

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 13). 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\$800,000 (2019: HK\$780,000) received from the ECIIB in respect of services rendered under the cost service agreement.

8 Staff cost

	First Fund Scheme		Insolvency Fund Scheme	
	2020 HK\$	2019 HK\$	2020 HK\$	2019 HK\$
Salaries and wages	4,250,178	4,142,913	1,996,469	1,949,540
Contributions to defined contribution plan	96,368	95,448	37,151	36,794
Other staff benefits	154,396	60,867	84,597	35,300
	<u>4,500,942</u>	<u>4,299,228</u>	<u>2,118,217</u>	<u>2,021,634</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\$
Cost:					
At 1 January 2020	1,142,144	256,939	90,530	511,249	2,000,862
Additions	-	-	-	-	-
At 31 December 2020	<u>1,142,144</u>	<u>256,939</u>	<u>90,530</u>	<u>511,249</u>	<u>2,000,862</u>
Accumulated depreciation and impairment:					
At 1 January 2020	951,840	256,939	71,620	501,682	1,782,081
Charge for the year	46,447	-	5,033	2,985	54,465
At 31 December 2020	<u>998,287</u>	<u>256,939</u>	<u>76,653</u>	<u>504,667</u>	<u>1,836,546</u>
Net book value:					
At 31 December 2020	<u>143,857</u>	<u>-</u>	<u>13,877</u>	<u>6,582</u>	<u>164,316</u>
At 31 December 2019	<u>190,304</u>	<u>-</u>	<u>18,910</u>	<u>9,567</u>	<u>218,781</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\$
Cost:						
At 1 January 2020	99,982,750	1,701,447	279,355	90,530	581,202	102,635,284
Additions	-	-	-	-	-	-
At 31 December 2020	99,982,750	1,701,447	279,355	90,530	581,202	102,635,284
Accumulated depreciation and impairment:						
At 1 January 2020	99,982,750	1,511,142	279,355	71,620	571,636	102,416,503
Charge for the year	-	46,447	-	5,033	2,985	54,465
At 31 December 2020	99,982,750	1,557,589	279,355	76,653	574,621	102,470,968
Net book value:						
At 31 December 2020	-	143,858	-	13,877	6,581	164,316
At 31 December 2019	-	190,305	-	18,910	9,566	218,781

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 2020, the Bureau had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2020 HK\$	2019 HK\$
Within 1 year	1,176,042	745,256
Between 1 and 2 years	476,000	462,042
	<u>1,652,042</u>	<u>1,207,298</u>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

10 Cash and cash equivalents

	First Fund Scheme		Insolvency Fund Scheme	
	2020 HK\$	2019 HK\$	2020 HK\$	2019 HK\$
Bank balances and cash				
- bank balances	6,164,073	6,143,742	5,720,940	3,407,926
- petty cash	3,000	3,000	-	-
Financial assets				
- cash deposits (Note 11)	52,004	112,151	208,589	387,551
Cash and cash equivalents	<u>6,219,077</u>	<u>6,258,893</u>	<u>5,929,529</u>	<u>3,795,477</u>

Bank balances and cash are measured at amortised cost.

11 Financial assets at fair value through profit or loss

(a) First Fund Scheme

	2020 HK\$	2019 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	102,089,639	89,047,032
- Listed equities	249,174,342	209,276,598
- Cash deposits	26,845,794	23,145,799
Bond funds registered outside Hong Kong		
- Listed bonds	505,364,007	452,719,227
Cash deposits with custodian (Note 10)	52,004	112,151
	<u>883,525,786</u>	<u>774,300,807</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	
	2020 HK\$	2019 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	140,994,633	119,832,862
Schroder Balanced Investment Fund	237,115,142	201,636,567
PIMCO Global Bond Fund	336,878,127	302,160,708
JPM Aggregate Bond Fund	168,485,880	150,558,519
	<u>883,473,782</u>	<u>774,188,656</u>

The above investments at 31 December 2020 were classified as financial assets at fair value through profit and loss.

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 (continued)

These investments include 3,702,590 units of Schroder Stable Growth Funds (2019: 3,603,996 units), 3,169,989 units of Schroder Balanced Investment Fund (2019: 3,168,393 units), 1,198,195 units of PIMCO Global Bond Fund (2019: 1,151,063 units) and 155,632 units of JPM Aggregate Bond Fund (2019: 149,395 units).

The maximum exposure to loss is HK\$883,473,782 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\$7,114 million to HK\$9,044 million, the size of the Schroder Balanced Investment Funds ranges from HK\$7,651 million to HK\$8,796 million, the size of the PIMCO Global Bond Funds ranges from US\$14,004 million to US\$16,515 million and the size of the JPM Aggregate Bond Funds ranges from US\$1,696 million to US\$3,126 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

	2020 HK\$	2019 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	377,570,198	325,348,107
- Listed equities	921,550,966	764,626,778
- Cash deposits	99,286,978	84,567,017
Bond funds registered outside Hong Kong		
- Listed bonds	1,837,173,240	1,654,409,679
Cash deposits with custodian (Note 10)	208,589	387,551
	<u>3,235,789,971</u>	<u>2,829,339,132</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	
	2020 HK\$	2019 HK\$
Investment Funds, at market value:		
Schroder Stable Growth Fund	520,787,908	437,829,640
Schroder Balanced Investment Fund	877,620,234	736,712,262
PIMCO Global Bond Fund	1,225,084,022	1,104,481,759
JPM Aggregate Bond Fund	612,089,218	549,927,920
	<u>3,235,581,382</u>	<u>2,828,951,581</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 2020 were classified as financial assets at fair value through profit and loss.

These investments include 13,676,153 units of Schroder Stable Growth Fund (2019: 13,167,809 units), 11,732,891 units of Schroder Balanced Investment Fund (2019: 11,576,245 units), 4,357,332 units of PIMCO Global Bond Fund (2019: 4,207,458 units) and 565,392 units of JPM Aggregate Bond Fund (2019: 545,676 units).

The maximum exposure to loss is HK\$3,235,581,382 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\$7,114 million to HK\$9,044 million, the size of the Schroder Balanced Investment Funds ranges from HK\$7,651 million to HK\$8,796 million, the size of the PIMCO Global Bond Funds ranges from US\$14,004 million to US\$16,515 million and the size of the JPM Aggregate Bond Funds ranges from US\$1,696 million to US\$3,126 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 Contributions and other receivables

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 2020 (2019: nil).

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

13 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 2020.

(a) First Fund Scheme

	2020 HK\$	2019 HK\$
Notified claims	322,602,000	290,792,000
Incurred but not reported	57,260,000	54,079,000
Future indirect claims handling expenses	7,597,000	6,897,000
	<hr/>	<hr/>
Total at beginning of year	387,459,000	351,768,000
	<hr/>	<hr/>
Cash paid for claims settlements in the year	(5,661,704)	(4,529,660)
Increase in liabilities during the year	62,752,704	40,220,660
	<hr/>	<hr/>
Total at end of year	444,550,000	387,459,000
	<hr/> <hr/>	<hr/> <hr/>
Represents:		
Notified claims	396,212,000	322,602,000
Incurred but not reported	39,621,000	57,260,000
Future indirect claims handling expenses	8,717,000	7,597,000
	<hr/>	<hr/>
	444,550,000	387,459,000
	<hr/> <hr/>	<hr/> <hr/>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

13 Provision for outstanding claims (continued)

(a) First Fund Scheme (continued)

The following table presents the claims development as at 31 December 2020.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
	HK\$'000							
Estimate of cumulative claims								
- At end of the year of notification	120,192	112,256	107,495	128,324	126,953	184,438	203,132	
- one year later	56,067	62,269	66,287	77,617	73,535	126,009		
- two years later	26,930	50,062	40,919	44,062	51,405			
- three years later	16,463	37,338	18,958	30,130				
- four years later	13,238	26,482	7,941					
- five years later	10,366	22,931						
- six years later	9,558							
Current estimate of cumulative claims	9,558	22,931	7,941	30,130	51,405	126,009	203,132	451,106
Cumulative payments to date	(8,021)	(14,684)	(2,118)	(4,414)	(4,570)	(4,878)	(701)	(39,386)
Outstanding claims	1,537	8,247	5,823	25,716	46,835	121,131	202,431	411,720
Provision for outstanding claims in respect of prior years								32,830
Total provision for outstanding claims in the balance sheet								444,550

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

13 Provision for outstanding claims (continued)

(a) First Fund Scheme (continued)

The following table presents the claims development as at 31 December 2019.

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
	HK\$'000							
Estimate of cumulative claims								
- At end of the year of notification	112,822	120,192	112,256	107,495	128,324	126,953	184,438	
- one year later	73,893	56,067	62,269	66,287	77,617	73,535		
- two years later	45,022	26,930	50,062	40,919	44,062			
- three years later	29,734	16,463	37,338	18,958				
- four years later	21,925	13,238	26,482					
- five years later	21,521	10,366						
- six years later	18,301							
Current estimate of cumulative claims	18,301	10,366	26,482	18,958	44,062	73,535	184,438	376,142
Cumulative payments to date	(7,541)	(8,021)	(14,656)	(2,016)	(4,288)	(3,486)	(1,137)	(41,145)
Outstanding claims	10,760	2,345	11,826	16,942	39,774	70,049	183,301	334,997
Provision for outstanding claims in respect of prior years								52,462
Total provision for outstanding claims in the balance sheet								387,459

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

13 Provision for outstanding claims (continued)

(b) Insolvency Fund Scheme

	2020 HK\$	2019 HK\$
Notified claims	33,116,000	33,390,000
Incurred but not reported	3,312,000	3,339,000
Future indirect claims handling expenses	729,000	735,000
	<hr/>	<hr/>
Total at beginning of year	37,157,000	37,464,000
Cash (paid) / refunded for claims settlements in the year	(6,889)	380,420
Decrease in liabilities during the year	(6,002,111)	(687,420)
	<hr/>	<hr/>
Total at end of year	31,148,000	37,157,000
	<hr/> <hr/>	<hr/> <hr/>
Represents:		
Notified claims	27,761,000	33,116,000
Incurred but not reported	2,776,000	3,312,000
Future indirect claims handling expenses	611,000	729,000
	<hr/>	<hr/>
	31,148,000	37,157,000
	<hr/> <hr/>	<hr/> <hr/>

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

13 Provision for outstanding claims (continued)

(b) Insolvency Fund Scheme (continued)

The following table presents the claims development as at 31 December 2020.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
	HK\$'000							
Estimate of cumulative claims								
- At end of the year of notification	717	-	-	-	-	-	-	
- one year later	273	-	-	-	-	-		
- two years later	228	-	-	-	-			
- three years later	228	-	-	-				
- four years later	228	-	-					
- five years later	228	-						
- six years later	228							
Current estimate of cumulative claims	228	-	-	-	-	-	-	228
Cumulative payments to date	(58)	-	-	-	-	-	-	(58)
Outstanding claims	170	-	-	-	-	-	-	170
Provision for outstanding claims in respect of prior years								30,978
Total provision for outstanding claims in the balance sheet								31,148

The above is presented on a gross basis and no reinsurance arrangement signed for Insolvency Fund Scheme for the year ended 31 December 2020.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

13 Provision for outstanding claims (continued)

(b) Insolvency Fund Scheme (continued)

The following table presents the claims development as at 31 December 2019.

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
	HK\$'000							
Estimate of cumulative claims								
- At end of the year of notification	5,146	717	-	-	-	-	-	
- one year later	3,010	273	-	-	-	-		
- two years later	2,761	228	-	-	-			
- three years later	2,761	228	-	-				
- four years later	2,761	228	-					
- five years later	2,761	228						
- six years later	2,761							
Current estimate of cumulative claims	2,761	228	-	-	-	-	-	-
Cumulative payments to date	(1,784)	(58)	-	-	-	-	-	(1,842)
Outstanding claims	977	170	-	-	-	-	-	1,147
Provision for outstanding claims in respect of prior years								36,010
Total provision for outstanding claims in the balance sheet								37,157

The above is presented on a gross basis and no reinsurance arrangement signed for Insolvency Fund Scheme for the year ended 31 December 2019.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

13 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 2020 of approximately HK\$0.9 billion (2019: HK\$0.9 billion). The outstanding claims liability as at 31 December 2020 amounted to HK\$31 million (2019: HK\$37 million).

14 Accounts payable

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

15 Approval of financial statements

The financial statements were approved by the Council on 9 April 2021.