

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

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2023

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 2023.

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 16 to 17 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. However, the Target Insurance Company Limited insolvency gathered pace in 2023 as also evidenced in the financial information below:

FFS

| | 2023 | 2022 |
|--|-------------------|-------------------|
| Contributions from members | HK\$50.4 million | HK\$10.8 million |
| Net assets | HK\$535.1million | HK\$371.6 million |
| Gross claims paid | HK\$9.87 million | HK\$4.2 million |
| Amount of insurance protection recoveries | Nil | Nil |
| Amount of claims recoveries | HK\$0.59 million | HK\$0.04 million |
| Number of outstanding claims * | 4,348 | 3,425 |
| Insurance contract liabilities (Note 15) * | HK\$316.7 million | HK\$407.5 million |
| Number of new claims received * | 1,849 | 1,875 |

[* registered and potential claims]

IFS

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Contributions from members | HK\$100.8 million | HK\$21.6 million |
| Net assets | HK\$2,278.4 million | HK\$2,403.7 million |
| Gross claims paid | HK\$326.1million | HK\$80 million |
| Amount of claims recoveries | HK\$13.2 million | HK\$5.6 million |
| Number of outstanding claims | 2,045 | 1,174 |
| Insurance contract liabilities (Note 15) * | HK\$546.2 million | HK\$466.9 million |
| Number of new claims received | 2,541 | 1,527 |

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 & 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 the Employees Compensation Insurer Insolvency Bureau ("ECIIB") via an at cost service agreement renewed effective from 1 January 2023 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 work with a professional consultancy in respect of the Implementation of accounting standard HKFRS17 and in liaison with the Bureau's External Auditor.

Environmental, Social and Governance (ESG) Beliefs Statement

The sole business of the Bureau is to provide a social service pertaining to its Articles and Agreements, it considers its Corporate Governance to be to valid levels appropriate to its mandate but with continuing review, and it adheres to sustainable investment practice.

Sustainable investment is defined as the integration of ESG considerations into the investment process, which takes a long-term view, and includes the consideration of real-world impacts and effective stewardship. The Bureau believes that sustainable investment is important to successful long-term investment outcomes. To ensure that sustainability is properly accounted for in the Funds, the Bureau looks to its advisors to provide advice on the Funds' high-level sustainable investment considerations and its fund managers to implement said considerations. The Bureau continues to monitor the fund managers' ESG process and the European Union Sustainable Finance Disclosure Regulation ("SFDR") classification noting no concerns to highlight at this time and will undertake a sustainable investment review of the Funds and their managers on a regular basis.

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 26 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 consider the Policyholders' Protection Scheme where it is expected that potentially the Bureau will further extend the IFS subject to Members' agreement.

MOTOR INSURERS' BUREAU OF HONG KONG
REPORT OF THE COUNCIL MEMBERS (CONTINUED)

Financial statements

The results of the Bureau for the year ended 31 December 2023 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 8 to 48.

Property, plant and equipment

Details of movements in property, plant and equipment are set out in Note 11 to the financial statements.

General reserve and retained surplus

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

Council Members

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

| | |
|----------------------------|--------------------------------|
| Mr Chan Pui Leung | |
| Mr Hui Kam Kwai | |
| Mr Kelvin Cheung Kin Keung | |
| Ms Karen Lee Kar Lun | |
| Mr Lau Hong Wai Bernard | (appointed on 19 January 2023) |
| Mr Philip Graham Kent | |
| Ms Sally Wan Yuen Wai | |
| Ms Wong Chi Shun | |
| Mr Andrew Wong Kwai Chuen | (resigned on 1 January 2023) |

Messrs Hui Kam Kwai, Kelvin Cheung Kin Keung and Philip Graham Kent 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.

MOTOR INSURERS' BUREAU OF HONG KONG

REPORT OF THE COUNCIL MEMBERS (CONTINUED)

Principal activities and business review (continued)

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



Hui Kam Kwai
Chairman

Hong Kong, 18 April 2024

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"), which are set out on pages 8 to 48 comprise:

- the statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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 2023, 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 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.

Independent Auditor's Report

To the Members of Motor Insurers' Bureau of Hong Kong
(incorporated in Hong Kong with limited liability by guarantee)

Other Information (Continued)

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.

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 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.



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Independent Auditor's Report

To the Members of Motor Insurers' Bureau of Hong Kong
(incorporated in Hong Kong with limited liability by guarantee)

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

- 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, 18 April 2024

MOTOR INSURERS' BUREAU OF HONG KONG

FIRST FUND SCHEME STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

| | Note | 2023 HK\$ | (Restated) 2022 HK\$ |
|---|------|--------------------|----------------------------|
| Members' contributions | | 50,388,525 | 10,816,905 |
| Non-members' contributions | | 95,143 | - |
| | | <u>50,483,668</u> | <u>10,816,905</u> |
| Insurance service expenses | 7 | 64,127,748 | 39,740,913 |
| Insurance service results | | <u>114,611,416</u> | <u>50,557,818</u> |
| Net realised and unrealised gain/(loss) on financial instruments at fair value through profit or loss | | 52,101,653 | (116,934,136) |
| Other investment income | | 2,047,865 | 2,051,247 |
| Interest income on deposits | | 52,865 | 4,687 |
| Net investment income/(loss) | | <u>54,202,383</u> | <u>(114,878,202)</u> |
| Finance income from contracts | | 1,289,391 | 1,074,145 |
| Net finance income | | <u>1,289,391</u> | <u>1,074,145</u> |
| Net insurance and investment result | | <u>170,103,190</u> | <u>(63,246,239)</u> |
| Other sundry income | 8 | 589,000 | 408,000 |
| Other operating expenses | 9 | (7,200,513) | (6,730,029) |
| Surplus/(loss) for the year | | <u>163,491,677</u> | <u>(69,568,268)</u> |
| Other comprehensive surplus | | <u>-</u> | <u>-</u> |
| Total comprehensive surplus/(loss) for the year | | <u>163,491,677</u> | <u>(69,568,268)</u> |

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

**INSOLVENCY FUND SCHEME
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

| | Note | 2023 HK\$ | (Restated) 2022 HK\$ |
|---|------|----------------------|----------------------------|
| Members' contributions | | 100,776,976 | 21,634,915 |
| Insurance service expenses | 7 | (404,825,829) | (527,194,068) |
| Insurance service results | | (304,048,853) | (505,559,153) |
| Net realised and unrealised gain/(loss) on financial instruments at fair value through profit or loss | | 183,747,482 | (442,399,035) |
| Other investment income | | 7,015,459 | 7,960,095 |
| Interest income on deposits | | 134,851 | 5,196 |
| Rental income | 11 | 530,943 | 1,003,622 |
| Net investment income/(loss) | | 191,428,735 | (433,430,122) |
| Finance income from contracts | | 2,630,586 | 88,060 |
| Net finance income | | 2,630,586 | 88,060 |
| Net insurance and investment result | | (109,989,532) | (938,901,215) |
| Other sundry income | 8 | 589,000 | 408,000 |
| Other operating expenses | 9 | (15,865,446) | (14,918,890) |
| Loss for the year | | (125,265,978) | (953,412,105) |
| Other comprehensive surplus | | - | - |
| Total comprehensive loss for the year | | (125,265,978) | (953,412,105) |

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

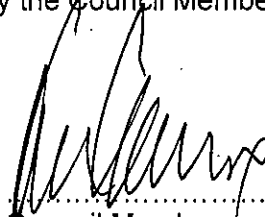
**FIRST FUND SCHEME
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023**

| | Note | 31 December 2023 HK\$ | (Restated) 31 December 2022 HK\$ | (Restated) 1 January 2022 HK\$ |
|---|------|--------------------------|--|--------------------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 11 | 133,847 | 184,506 | 144,326 |
| Current assets | | | | |
| Financial assets at fair value through profit or loss | 13 | 838,788,870 | 772,698,495 | 907,077,203 |
| Other receivables | 14 | 207,943 | 199,119 | 273,302 |
| Bank balances and cash | 12 | 15,781,638 | 9,667,677 | 14,157,110 |
| | | 854,778,451 | 782,565,291 | 921,507,615 |
| Total assets | | 854,912,298 | 782,749,797 | 921,651,941 |
| EQUITY | | | | |
| Retained surplus | | 535,117,261 | 371,625,584 | 441,193,852 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Insurance contract liabilities | 15 | 316,687,521 | 407,510,062 | 475,559,717 |
| Other creditors and accruals | | 3,107,516 | 3,614,151 | 4,898,372 |
| Total liabilities | | 319,795,037 | 411,124,213 | 480,458,089 |
| Total equity and liabilities | | 854,912,298 | 782,749,797 | 921,651,941 |

Approved and authorised for issue by the Council Members on 18 April 2024.



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Council Member



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Council Member

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

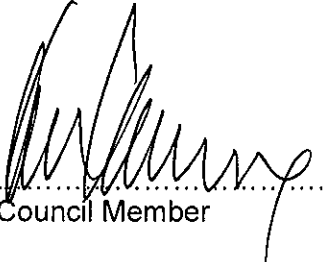
INSOLVENCY FUND SCHEME STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

| | Note | 31 December 2023 HK\$ | (Restated) 31 December 2022 HK\$ | (Restated) 1 January 2022 HK\$ |
|---|------|--------------------------|--|--------------------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 11 | 133,847 | 184,506 | 144,326 |
| Current assets | | | | |
| Financial assets at fair value through profit or loss | 13 | 2,768,917,332 | 2,844,197,588 | 3,374,255,090 |
| Other receivables | 14 | 3,448,918 | 19,918,139 | 4,564,449 |
| Bank balances and cash | 12 | 53,572,586 | 7,571,565 | 10,208,034 |
| | | <u>2,825,938,836</u> | <u>2,871,687,292</u> | <u>3,389,027,573</u> |
| Total assets | | <u>2,826,072,683</u> | <u>2,871,871,798</u> | <u>3,389,171,899</u> |
| EQUITY | | | | |
| Retained surplus | | <u>2,278,440,371</u> | <u>2,403,706,349</u> | <u>3,357,118,454</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Insurance contract liabilities | 15 | 546,189,556 | 466,889,976 | 29,827,686 |
| Accounts payable | | - | - | 30,880 |
| Other creditors and accruals | | 1,442,756 | 1,275,473 | 2,194,879 |
| | | <u>547,632,312</u> | <u>468,165,449</u> | <u>32,053,445</u> |
| Total liabilities | | <u>547,632,312</u> | <u>468,165,449</u> | <u>32,053,445</u> |
| Total equity and liabilities | | <u>2,826,072,683</u> | <u>2,871,871,798</u> | <u>3,389,171,899</u> |

Approved and authorised for issue by the Council Members on 18 April 2024.



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Council Member



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Council Member

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

**FIRST FUND SCHEME
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

| | |
|---|--------------|
| Total retained surplus: | HK\$ |
| Balance at 1 January 2022, as previously reported | 452,959,938 |
| Adjustment on initial application of HKFRS 17 | (11,766,086) |
| Balance at 1 January 2022 (Restated) | 441,193,852 |
| Total comprehensive loss for the year (Restated) | (69,568,268) |
| Balance at 31 December 2022 and 1 January 2023 (Restated) | 371,625,584 |
| Total comprehensive profit for the year | 163,491,677 |
| Balance at 31 December 2023 | 535,117,261 |

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

**INSOLVENCY FUND SCHEME
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

| | |
|---|---------------|
| Total retained surplus: | HK\$ |
| Balance at 1 January 2022, as previously reported | 3,367,422,645 |
| Adjustment on initial application of HKFRS 17 | (10,304,191) |
| Balance at 1 January 2022 (Restated) | 3,357,118,454 |
| Total comprehensive loss for the year (Restated) | (953,412,105) |
| Balance at 31 December 2022 and 1 January 2023 (Restated) | 2,403,706,349 |
| Total comprehensive loss for the year | (125,265,978) |
| Balance at 31 December 2023 | 2,278,440,371 |

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

FIRST FUND SCHEME STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

| | 2023 HK\$ | (Restated) 2022 HK\$ |
|---|--------------|----------------------------|
| Operating activities | | |
| Total comprehensive surplus/(loss) for the year | 163,491,677 | (69,568,268) |
| Adjustments for: | | |
| - Investment expenses | 2,554,193 | 2,582,072 |
| - Interest income on deposits | (52,865) | (4,687) |
| - Depreciation | 65,749 | 72,987 |
| - Loss on disposal of fixed assets | - | 6,673 |
| - Other investment income | (2,047,865) | (2,051,247) |
| - Net realised and unrealised (gains)/loss on financial assets and financial liabilities at fair value through profit or loss | (52,101,653) | 116,934,136 |
| Operating surplus before changes in working capital | 111,909,236 | 47,971,666 |
| (Increase) / Decrease in other receivables | (8,824) | 30,476 |
| Decrease in insurance contract liabilities | (90,822,541) | (68,049,655) |
| Decrease in other creditors and accruals | (506,635) | (1,284,221) |
| Net cash inflow/(outflow) from operating activities | 20,571,236 | (21,331,734) |
| Investing activities | | |
| Payment for purchase of fixed assets 11 | (15,090) | (121,340) |
| Sales proceed of fixed assets | - | 1,500 |
| Purchases of financial instruments (net) | (14,007,662) | 17,498,721 |
| Investment expenses | (2,554,193) | (2,582,072) |
| Interest income on deposits | 52,865 | 4,687 |
| Other investment income | 2,047,865 | 2,051,247 |
| Net cash (outflow)/inflow from investing activities | (14,476,215) | 16,852,743 |
| Net increase/(decrease) in cash and cash equivalents | 6,095,021 | (4,478,991) |
| Cash and cash equivalents at 1 January | 9,687,413 | 14,166,404 |
| Cash and cash equivalents at 31 December 12 | 15,782,434 | 9,687,413 |

The notes on pages 16 to 48 are an integral part of these financial statements.

MOTOR INSURERS' BUREAU OF HONG KONG

INSOLVENCY FUND SCHEME STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

| | | 2023 HK\$ | (Restated) 2022 HK\$ |
|---|----|---------------|----------------------------|
| Operating activities | | | |
| Total comprehensive loss for the year | | (125,265,978) | (953,412,105) |
| Adjustments for: | | | |
| - Investment expenses | | 6,580,462 | 7,253,506 |
| - Interest income on deposits | | (134,851) | (5,196) |
| - Depreciation | | 65,749 | 72,987 |
| - Loss on disposal of fixed assets | | - | 6,673 |
| - Other investment income | | (7,015,459) | (7,960,095) |
| - Net realised and unrealised (gains)/loss on financial assets and financial liabilities at fair value through profit or loss | | (183,747,482) | 442,399,035 |
| Operating loss before changes in working capital | | (309,517,559) | (511,645,195) |
| Decrease in other receivables | | 469,221 | 623,171 |
| Increase in insurance contract liabilities | | 79,299,580 | 437,062,290 |
| Increase / (Decrease) in other creditors and accruals | | 167,283 | (919,406) |
| Net cash outflow from operating activities | | (229,581,475) | (74,879,140) |
| Investing activities | | | |
| Payment for purchase of fixed assets | 11 | (15,090) | (121,340) |
| Sales proceed of fixed assets | | - | 1,500 |
| Purchases of financial instruments (net) | | 274,965,286 | 71,681,952 |
| Investment expenses | | (6,580,462) | (7,253,506) |
| Interest income on deposits | | 134,851 | 5,196 |
| Other investment income | | 7,015,459 | 7,960,095 |
| Net cash inflow from investing activities | | 275,520,044 | 72,273,897 |
| Net increase/(decrease) in cash and cash equivalents | | 45,938,569 | (2,605,243) |
| Cash and cash equivalents at 1 January | | 7,634,844 | 10,240,087 |
| Cash and cash equivalents at 31 December | 12 | 53,573,413 | 7,634,844 |

The notes on pages 16 to 48 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 1 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 Material accounting policies

The material 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 requirement of HKFRS 17 "Insurance Contracts" from 1 January 2023.

The Bureau has used the Premium Allocation Approach ("PAA") for measuring contracts as the respective Bureau's groups of contracts meet the PAA eligibility criteria because the measurement of the liability for remaining coverage would not differ materially from the one that would be produced applying the General Measurement Model ("GMM"). The Bureau also uses PAA for measuring contract with coverage period of one year or less.

The Bureau has applied the bottom-up approach in the determination of the discounts rates for different products.

Full retrospective approach

The Bureau has determined that reasonable and supportable information was available for all contracts in force at the transition date within three years prior to the transition.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

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

In addition, for contracts originated by the Bureau that are eligible for the PAA, the Bureau has concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the full retrospective application practicable and, hence the only available option for contracts issued by the Bureau.

Accordingly, the Bureau has identified, recognised and measured each group of contracts and each acquisition cash flows asset in this category as if HKFRS 17 had always applied (except that a retrospective impairment test has not been performed); derecognised any existing balances that would not exist if HKFRS 17 had always applied; and recognised any resulting net difference in equity.

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

Certain amendments to standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Bureau. These amendments are not expected to have a material impact on the entity in the current or future periods and on foreseeable future transactions.

(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 recognised in the period in which they arise.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(b) Revenue recognition (continued)

(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 historical 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 net of their residual values over their estimated useful lives as follows:

Leasehold property 20 years

Other fixed assets 6 $\frac{3}{4}$ 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 contracts under which the Bureau accepts significant insurance risk by agreeing to compensate if a specified uncertain future event occurs. 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 Material accounting policies (continued)

(d) Insurance contracts (continued)

Claims are charged to income as incurred based on the estimated liability for compensation. 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 has discounted 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.

Measurement

Fulfilment cash flows ("FCF")

Fulfilment cash flows within contract boundary

The FCF are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Bureau expects to collect from contributions and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- a. are based on a probability-weighted mean of the full range of possible outcomes;
- b. are determined from the perspective of the Bureau, provided that the estimates are consistent with observable market prices for market variables; and
- c. reflect conditions existing at the measurement date.

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates. For contracts measured under the PAA, unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the contracts requires significant judgement and estimation.

Risk of the Bureau's non-performance is not included in the measurement of groups of contracts issued. In the measurement of First Fund Scheme Protection insurance contracts held, the probability-weighted estimates of the present value of future cash flows include the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer.

Contract boundary

The Bureau uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of contracts.

Cash flows are within the boundary of a group of contract that the Bureau collects from contributions and pays out for claims, benefits and expenses.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(d) Insurance contracts (continued)

Initial and subsequent measurement – Groups of contracts measured under the PAA

The Bureau uses the PAA for measuring contracts with a coverage period of one year or less. This approach is used for originated contracts, because each of these contracts has a coverage period of one year or less.

First Fund Scheme Protection insurance contracts held provide coverage on the contracts originated from uninsured vehicle accidents, hit and run cases, any awards exceeding the original policy limit of HK\$100 million and terrorism coverage and are accounted for under the PAA.

The carrying amount of a group of contracts issued at the end of each reporting period is the sum of:

- a. the Liabilities for remaining coverage ("LRC"); and
- b. the Liabilities for incurred claims ("LIC"), comprising the FCF related to past service allocated to the Bureau at the reporting date.

For contracts issued, at each of the subsequent reporting dates, the LRC is:

- a. increased for contributions received in the period, excluding amounts that relate to contributions receivables included in the LIC;
- b. decreased for acquisition cash flows paid in the period;
- c. decreased for the amounts of expected contributions receipts recognised as revenue for the services provided in the period; and
- d. increased for the amortization of acquisition cash flows in the period recognised as insurance service expenses.

For First Fund Scheme Protection insurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- a. increased for ceding premiums paid in the period;
- b. increased for broker fees paid in the period; and
- c. decreased for the expected amounts of ceding premiums and broker fees recognised as insurance expenses for the services received in the period.

For contracts measured under the PAA, future cash flows are adjusted for the time value of money, since contracts issued by the Bureau and measured under the PAA typically have a settlement period of over one year.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(d) Insurance contracts (continued)

Insurance service result from contracts issued

Revenue

When the Bureau applies the premium allocation approach, revenue for the period is the amount of members' and non-members' contribution received and receivable which is allocated to the period on the basis of the passage of time.

Insurance service expenses

Insurance service expenses include the following:

- a. incurred claims and benefits, excluding investment components reduced by loss component allocations;
- b. other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than acquisition cash flows) derecognised at the date of initial recognition;
- c. acquisition cash flows amortisation;
- d. changes that relate to past service – changes in the FCF relating to the LIC; and
- e. changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses; and
- f. acquisition cash flows assets impairment, net of reversals

For contracts measured under the PAA, amortisation of acquisition cash flows is based on the passage of time.

Other expenses not meeting the above categories are included in other operating expenses in the statement of profit or loss.

Finance income or expenses

Finance income or expenses comprise the change in the carrying amount of the group of contracts arising from:

- a. the effect of the time value of money and changes in the time value of money; and
- b. the effect of financial risk and changes in financial risk.

For contracts measured under the PAA, the main amounts within finance income or expenses are:

- a. interest accreted on the LRC; and
- b. the effect of changes in interest rates and other financial assumptions.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(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 terms of the cash flows. 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 recognised on trade-date – the date on which the Bureau commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the 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.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

(e) Financial instruments (continued)

Measurement (continued)

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.

Other receivables and members' contributions receivables are generally due for settlement within one month and therefore are all classified as current.

Members' contributions receivables are recognised initially at the amount of consideration that is unconditional. The Bureau holds the members' contributions 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' contributions 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 recognised 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 recognised at fair value and transaction costs were expensed in the statement of comprehensive income.

Financial instruments were derecognised 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 Material 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 recognised 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.

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, price risk, currency risk and liquidity risk.

(a) Interest rate risk

As at 31 December 2023, the investment portfolio of the Bureau comprises funds which holds bonds of approximately HK\$603 million (2022: HK\$582 million) for the First Fund Scheme and HK\$1,987 million (2022: HK\$2,140 million) for the Insolvency Fund Scheme. Interest rate movements can have a material impact on the carrying values of these funds.

By investing in the bond funds managed by the investment managers, the Bureau manages its interest rate risk by allowing the investment managers to use certain derivatives to hedge the interest rate risk exposure associated with underlying debt securities of the bond funds where appropriate. The Bureau did not have any derivative transactions in 2023 and 2022.

(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:

- insurers share of insurance liabilities for the First Fund Scheme. The First Fund Scheme protection insurance 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.

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

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 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 2023, indirect credit risks of the Bureau's Fixed Income Portfolio were diversified across various countries and sectors, with highest exposure the United States, the European Monetary Union (EMU), and the United Kingdom. The percentage contributions of duration by these issuers accounted for 57.1% of the Fixed Income Portfolio. Elsewhere, the Bureau's exposure was the highest in Japan and Australia, which respectively accounted for 8.6% and 7.4% of the Fixed Income Portfolio.

The above statistics are similar to that as of 31 December 2022, where the Bureau's Fixed Income Portfolio was most exposed to bonds issued the United States, the European Monetary Union (EMU) and Japan, which accounted for 71.1% of the portfolio, followed by the United Kingdom and Australia, which respectively accounted for 5.4% and 3.7% 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) Price risk

As at 31 December 2023, 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\$84 million (2022: HK\$77 million) for First Fund Scheme and HK\$277 million (2022: HK\$284 million) for Insolvency Fund Scheme.

(d) 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 2023, 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).

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)

(e) 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\$15,781,638 (2022: HK\$9,667,677) and financial assets at fair value through profit or loss of HK\$838,788,870 (2022: HK\$772,698,495) under First Fund Scheme, and a cash balance of HK\$53,572,586 (2022: HK\$7,571,565) and financial assets at fair value through profit or loss of HK\$2,768,917,332 (2022: HK\$2,844,197,588) under Insolvency Fund Scheme which in total contributed to a majority part of the total asset.

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

(i) First Fund Scheme

2023

| | Carrying Amount HK\$ | Cash flows (undiscounted) | | | |
|--------------------------------|----------------------------|---------------------------|--------------------|------------------|---------------------|
| | | On demand HK\$ | 0-5 yrs HK\$ | 5-10 yrs HK\$ | Over 10 yrs HK\$ |
| Insurance contract liabilities | 316,687,521 | - | 316,687,521 | - | - |
| Other creditors and accruals | 3,107,516 | - | 3,107,516 | - | - |
| | <u>319,795,037</u> | <u>-</u> | <u>319,795,037</u> | <u>-</u> | <u>-</u> |

2022

| | Carrying Amount HK\$ | Cash flows (undiscounted) | | | |
|--------------------------------|----------------------------|---------------------------|--------------------|------------------|---------------------|
| | | On demand HK\$ | 0-5 yrs HK\$ | 5-10 yrs HK\$ | Over 10 yrs HK\$ |
| Insurance contract liabilities | 407,510,062 | - | 407,510,062 | - | - |
| Other creditors and accruals | 3,614,151 | - | 3,614,151 | - | - |
| | <u>411,124,213</u> | <u>-</u> | <u>411,124,213</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)

(e) Liquidity risk (continued)

(ii) Insolvency Fund Scheme

2023

| | Carrying Amount HK\$ | Cash flows (undiscounted) | | | |
|--------------------------------|----------------------------|---------------------------|--------------------|------------------|---------------------|
| | | On demand HK\$ | 0-5 yrs HK\$ | 5-10 yrs HK\$ | Over 10 yrs HK\$ |
| Insurance contract liabilities | 546,189,556 | - | 546,189,556 | - | - |
| Other creditors and accruals | 1,442,756 | - | 1,442,756 | - | - |
| | <u>547,632,312</u> | <u>-</u> | <u>547,632,312</u> | <u>-</u> | <u>-</u> |

2022

| | Carrying Amount HK\$ | Cash flows (undiscounted) | | | |
|--------------------------------|----------------------------|---------------------------|--------------------|------------------|---------------------|
| | | On demand HK\$ | 0-5 yrs HK\$ | 5-10 yrs HK\$ | Over 10 yrs HK\$ |
| Insurance contract liabilities | 466,889,976 | - | 466,889,976 | - | - |
| Other creditors and accruals | 1,275,473 | - | 1,275,473 | - | - |
| | <u>468,165,449</u> | <u>-</u> | <u>468,165,449</u> | <u>-</u> | <u>-</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

3 Management of insurance and financial risk (continued)

3.2 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 2023. 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 13) | | | | |
| - Cash | 796 | - | - | 796 |
| - Unit trusts | 838,788,074 | - | - | 838,788,074 |
| Total financial assets | 838,788,870 | - | - | 838,788,870 |

(ii) Insolvency Fund Scheme

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total balance HK\$ |
|-------------------------------|----------------------|-----------------|-----------------|-----------------------|
| Financial assets (Note 13) | | | | |
| - Cash | 827 | - | - | 827 |
| - Unit trusts | 2,768,916,505 | - | - | 2,768,916,505 |
| Total financial assets | 2,768,917,332 | - | - | 2,768,917,332 |

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 2022.

Financial assets

(i) First Fund Scheme

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total balance HK\$ |
|-------------------------------|--------------------|-----------------|-----------------|-----------------------|
| Financial assets (Note 13) | | | | |
| - Cash | 19,736 | - | - | 19,736 |
| - Unit trusts | 772,678,759 | - | - | 772,678,759 |
| Total financial assets | 772,698,495 | - | - | 772,698,495 |

(ii) Insolvency Fund Scheme

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total balance HK\$ |
|-------------------------------|----------------------|-----------------|-----------------|-----------------------|
| Financial assets (Note 13) | | | | |
| - Cash | 63,279 | - | - | 63,279 |
| - Unit trusts | 2,844,134,309 | - | - | 2,844,134,309 |
| Total financial assets | 2,844,197,588 | - | - | 2,844,197,588 |

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 insurance contract liabilities, would negatively impact the (loss)/surplus for the year and the retained surplus by HK\$32.8 million (2022: HK\$41.7 million) for First Fund Scheme and by HK\$56.9 million (2022: HK\$48.7 million) for Insolvency Fund Scheme in 2023.

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 First Fund Scheme Protection 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 insurance 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 insurers' stipulated annual aggregate limit and index clause. If the event losses were to exceed HK\$350 million, the excess (not insured) 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.

(a) Discount rate

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity contributions where applicable. The risk-free reference curve used by the Bureau is derived based on the data published by Hong Kong Monetary Authority, which provides benchmark yields for short and longer term debts at different term to maturities.

Discount rates applied for discounting of future cash flows are listed below:

| | | 2023 | | | | | | | | | |
|-----|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | 30 | 91 | 182 | 273 | 364 | 2 | 3 | 5 | 10 | 15 |
| | | days | days | days | days | days | years | years | years | years | years |
| FFS | | 4.62% | 4.47% | 4.23% | 4.08% | 3.97% | 3.39% | 3.36% | 3.05% | 3.23% | 3.70% |
| IFS | | 4.62% | 4.47% | 4.23% | 4.08% | 3.97% | 3.39% | 3.36% | 3.05% | 3.23% | 3.70% |

| | | 2022 | | | | | | | | | |
|-----|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | 30 | 91 | 182 | 273 | 364 | 2 | 3 | 5 | 10 | 15 |
| | | days | days | days | days | days | years | years | years | years | years |
| FFS | | 1.65% | 2.78% | 3.90% | 4.25% | 4.32% | 4.18% | 3.93% | 3.70% | 3.63% | 3.91% |
| IFS | | 1.65% | 2.78% | 3.90% | 4.25% | 4.32% | 4.18% | 3.93% | 3.70% | 3.63% | 3.91% |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements (continued)

(b) Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. Because the risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favourable and unfavourable outcomes in a way that reflects the Bureau's degree of risk aversion. The Bureau estimates an adjustment for non-financial risk separately from all other estimates. The Bureau does not consider the effect of First Fund Scheme Protection insurance in the risk adjustment for non-financial risk of the underlying insurance contracts.

The resulting amount of the calculated risk adjustment corresponds to the confidence level of 75% (2022: 75%)

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 Insurance service expenses

| | First Fund Scheme | | Insolvency Fund Scheme | |
|--|---------------------|---------------------|------------------------|--------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Incurred claims | (73,439,084) | (69,865,199) | 388,984,815 | 473,238,643 |
| Change in risk adjustment | (6,117,802) | 16,088,675 | 10,633,182 | 51,043,654 |
| Operating expenses allocated to insurance service expenses under HKFRS 17 (Note 9) | 15,429,138 | 14,035,611 | 5,207,832 | 2,911,771 |
| | <u>(64,127,748)</u> | <u>(39,740,913)</u> | <u>404,825,829</u> | <u>527,194,068</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

8 Other sundry income

The amount represents fee income received of HK\$589,000 (2022: HK\$408,000) for First Fund Scheme and HK\$589,000 (2022: HK\$408,000) for Insolvency Fund Scheme from the ECIB in respect of services rendered under the cost service agreement.

9 Other operating expenses

| | First Fund Scheme | | Insolvency Fund Scheme | |
|---|-------------------|-------------------|------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Accountancy and secretarial fees | 1,741,850 | 1,610,650 | 3,564,950 | 2,887,250 |
| Audit fees | 340,000 | 265,583 | 340,000 | 265,583 |
| Consultancy, legal and professional fees | 460,632 | 398,033 | 516,922 | 486,168 |
| Depreciation | 65,749 | 72,987 | 65,749 | 72,987 |
| Loss on disposal of fixed assets | - | 6,673 | - | 6,673 |
| Investment expenses | 2,554,193 | 2,582,072 | 6,580,462 | 7,253,506 |
| Staff cost (Note 10) | 2,433,937 | 1,786,197 | 8,480,186 | 5,857,133 |
| Scheme Protection insurance | 13,746,353 | 13,018,460 | - | - |
| Others | 1,286,937 | 1,024,985 | 1,525,009 | 1,001,361 |
| | <u>22,629,651</u> | <u>20,765,640</u> | <u>21,073,278</u> | <u>17,830,661</u> |
| Less: Operating expenses allocated to insurance service expenses under HKFRS 17 | (15,429,138) | (14,035,611) | (5,207,832) | (2,911,771) |
| | <u>7,200,513</u> | <u>6,730,029</u> | <u>15,865,446</u> | <u>14,918,890</u> |

10 Staff cost

| | First Fund Scheme | | Insolvency Fund Scheme | |
|--|-------------------|------------------|------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Salaries and wages | 2,327,663 | 1,697,135 | 7,944,153 | 5,361,148 |
| Contributions to defined contribution plan | 66,294 | 43,980 | 196,213 | 110,244 |
| Other staff benefits | 39,980 | 45,082 | 339,820 | 385,741 |
| | <u>2,433,937</u> | <u>1,786,197</u> | <u>8,480,186</u> | <u>5,857,133</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

11 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 2023 | 1,142,144 | 256,739 | 85,742 | 565,948 | 2,050,573 |
| Additions | - | - | 7,150 | 7,940 | 15,090 |
| Disposal | - | - | (4,250) | - | (4,250) |
| | <u>1,142,144</u> | <u>256,739</u> | <u>88,642</u> | <u>573,888</u> | <u>2,061,413</u> |
| At 31 December 2023 | 1,142,144 | 256,739 | 88,642 | 573,888 | 2,061,413 |
| | <u>1,142,144</u> | <u>256,739</u> | <u>88,642</u> | <u>573,888</u> | <u>2,061,413</u> |
| Accumulated depreciation and impairment: | | | | | |
| At 1 January 2023 | 1,091,181 | 255,464 | 43,099 | 476,323 | 1,866,067 |
| Charge for the year | 37,631 | 225 | 9,050 | 18,843 | 65,749 |
| Disposal | - | - | (4,250) | - | (4,250) |
| | <u>1,128,812</u> | <u>255,689</u> | <u>47,899</u> | <u>495,166</u> | <u>1,927,566</u> |
| At 31 December 2023 | 1,128,812 | 255,689 | 47,899 | 495,166 | 1,927,566 |
| | <u>1,128,812</u> | <u>255,689</u> | <u>47,899</u> | <u>495,166</u> | <u>1,927,566</u> |
| Net book value: | | | | | |
| At 31 December 2023 | 13,332 | 1,050 | 40,743 | 78,722 | 133,847 |
| | <u>13,332</u> | <u>1,050</u> | <u>40,743</u> | <u>78,722</u> | <u>133,847</u> |
| At 31 December 2022 | 50,963 | 1,275 | 42,643 | 89,625 | 184,506 |
| | <u>50,963</u> | <u>1,275</u> | <u>42,643</u> | <u>89,625</u> | <u>184,506</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

11 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 2023 | 99,982,750 | 1,701,447 | 279,155 | 85,742 | 579,993 | 102,629,087 |
| Additions | - | - | - | 7,150 | 7,940 | 15,090 |
| Disposal | - | - | - | (4,250) | - | (4,250) |
| At 31 December 2023 | 99,982,750 | 1,701,447 | 279,155 | 88,642 | 587,933 | 102,639,927 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2023 | 99,982,750 | 1,650,483 | 277,880 | 43,099 | 490,369 | 102,444,581 |
| Charge for the year | - | 37,631 | 225 | 9,050 | 18,843 | 65,749 |
| Disposal | - | - | - | (4,250) | - | (4,250) |
| At 31 December 2023 | 99,982,750 | 1,688,114 | 278,105 | 47,899 | 509,212 | 102,506,080 |
| Net book value: | | | | | | |
| At 31 December 2023 | - | 13,333 | 1,050 | 40,743 | 78,721 | 133,847 |
| At 31 December 2022 | - | 50,964 | 1,275 | 42,643 | 89,624 | 184,506 |

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 2023, the Bureau had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

| | 2023 HK\$ | 2022 HK\$ |
|-----------------------|----------------|----------------|
| Within 1 year | 518,784 | 401,247 |
| Between 1 and 2 years | 389,088 | - |
| | <u>907,872</u> | <u>401,247</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

12 Cash and cash equivalents

| | First Fund Scheme | | Insolvency Fund Scheme | |
|---------------------------|-------------------|------------------|------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Bank balances and cash | | | | |
| - bank balances | 15,777,638 | 9,664,677 | 53,572,586 | 7,571,565 |
| - petty cash | 4,000 | 3,000 | - | - |
| | <u>17,781,638</u> | <u>9,667,677</u> | <u>53,572,586</u> | <u>7,571,565</u> |
| Financial assets | | | | |
| - cash deposits (Note 13) | 796 | 19,736 | 827 | 63,279 |
| | <u>15,782,434</u> | <u>9,687,413</u> | <u>53,573,413</u> | <u>7,634,844</u> |

Bank balances and cash are measured at amortised cost.

13 Financial assets at fair value through profit or loss

(a) First Fund Scheme

| | 2023 | 2022 |
|---|--------------------|--------------------|
| | HK\$ | HK\$ |
| Mutual funds registered in Hong Kong containing | | |
| - Listed bonds | 97,797,627 | 125,842,706 |
| - Listed equities | 209,614,026 | 187,815,497 |
| - Cash deposits | 26,368,644 | 2,529,502 |
| Bond funds registered outside Hong Kong | | |
| - Listed bonds | 505,007,777 | 456,491,054 |
| Cash deposits with custodian (Note 12) | 796 | 19,736 |
| | <u>838,788,870</u> | <u>772,698,495</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 | |
|------------------------------------|--------------------|--------------------|
| | 2023 | 2022 |
| | HK\$ | HK\$ |
| Investment Funds, at market value: | | |
| Schroder Stable Growth Fund | 125,314,098 | 118,056,889 |
| Schroder Balanced Investment Fund | 208,466,199 | 198,130,816 |
| PIMCO Global Bond Fund | 336,595,084 | 301,601,356 |
| JPM Aggregate Bond Fund | 168,412,693 | 154,889,698 |
| | <u>838,788,074</u> | <u>772,678,759</u> |

The above investments at 31 December 2023 were classified as financial assets at fair value through profit and loss.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

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

(a) First Fund Scheme (continued)

These investments include 3,632,292 units of Schroder Stable Growth Funds (2022: 3,610,302 units), 2,993,484 units of Schroder Balanced Investment Fund (2022: 2,997,894 units), 1,259,672 units of PIMCO Global Bond Fund (2022: 1,220,155 units) and 160,630 units of JPM Aggregate Bond Fund (2022: 157,201 units).

The maximum exposure to loss is HK\$838,788,075 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\$6,906 million to HK\$7,650 million, the size of the Schroder Balanced Investment Funds ranges from HK\$7,576 million to HK\$8,401 million, the size of the PIMCO Global Bond Funds ranges from US\$11,706 million to US\$13,077 million and the size of the JPM Aggregate Bond Funds ranges from US\$2,777 million to US\$3,788 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

| | 2023 HK\$ | 2022 HK\$ |
|---|----------------------|----------------------|
| Mutual funds registered in Hong Kong containing | | |
| - Listed bonds | 323,903,112 | 465,784,789 |
| - Listed equities | 694,236,022 | 695,166,243 |
| - Cash deposits | 87,332,239 | 9,362,508 |
| Bond funds registered outside Hong Kong | | |
| - Listed bonds | 1,663,445,132 | 1,673,820,769 |
| Cash deposits with custodian (Note 12) | 827 | 63,279 |
| | <u>2,768,917,332</u> | <u>2,844,197,588</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 | |
|------------------------------------|----------------------|----------------------|
| | 2023 HK\$ | 2022 HK\$ |
| Investment Funds, at market value: | | |
| Schroder Stable Growth Fund | 415,645,604 | 438,870,650 |
| Schroder Balanced Investment Fund | 689,825,769 | 731,442,890 |
| PIMCO Global Bond Fund | 1,109,858,172 | 1,128,168,826 |
| JPM Aggregate Bond Fund | 553,586,960 | 545,651,943 |
| | <u>2,768,916,505</u> | <u>2,844,134,309</u> |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Insolvency Fund Scheme (continued)

The above investments at 31 December 2023 were classified as financial assets at fair value through profit and loss.

These investments include 12,047,699 units of Schroder Stable Growth Fund (2022: 13,421,121 units), 9,905,597 units of Schroder Balanced Investment Fund (2022: 11,067,376 units), 4,153,527 units of PIMCO Global Bond Fund (2022: 4,564,108 units) and 528,003 units of JPM Aggregate Bond Fund (2022: 553,794 units).

The maximum exposure to loss is HK\$2,768,916,505 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\$6,906 million to HK\$7,650 million, the size of the Schroder Balanced Investment Funds ranges from HK\$7,576 million to HK\$8,401 million, the size of the PIMCO Global Bond Funds ranges from US\$11,706 million to US\$13,077 million and the size of the JPM Aggregate Bond Funds ranges from US\$2,777 million to US\$3,788 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.

14 Other receivables

Other receivables include amount receivable of HK\$ Nil (2022: HK\$16,000,000) for sale of investments for Insolvency Fund Scheme before year end. Other receivables are measured at amortised cost. 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 2023 (2022: nil).

15 Insurance contract liabilities

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 2023.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(a) First Fund Scheme

| | 2023 HK\$ | 2022 HK\$ |
|--|---------------|--------------|
| Liabilities for incurred claims | | |
| Contributions receivable | (9,909,795) | (1,464,099) |
| Accrued expenses | 1,187,304 | 1,748,730 |
| Notified claims | 337,460,000 | 413,110,000 |
| Incurred but not reported | 33,746,000 | 41,311,000 |
| Future indirect claims handling expenses | 18,560,000 | 9,088,000 |
| Effect of discounting | (1,774,202) | (599,661) |
| Effect of risk adjustment | 28,240,755 | 12,365,747 |
| Total at beginning of year | 407,510,062 | 475,559,717 |
| Cash received from contribution in the year | 49,028,689 | 2,371,209 |
| Cash paid for claims settlements in the year | (9,283,063) | (4,191,864) |
| Decrease in liabilities during the year | (130,568,167) | (66,229,000) |
| Total at end of year | 316,687,521 | 407,510,062 |
| Represents: | | |
| Contributions receivable | (11,364,774) | (9,909,795) |
| Accrued expenses | 1,949,083 | 1,187,304 |
| Notified claims | 265,685,000 | 337,460,000 |
| Incurred but not reported | 26,568,000 | 33,746,000 |
| Future indirect claims handling expenses | 14,613,000 | 18,560,000 |
| Effect of discounting | (2,423,481) | (1,774,202) |
| Effect of risk adjustment | 21,660,693 | 28,240,755 |
| | 316,687,521 | 407,510,062 |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(a) First Fund Scheme (continued)

| | 2023 | | | | 2022 | | | |
|--|----------------|---------------------------------|---------------|---------------|----------------|---------------------------------|---------------|--------------|
| | LRC | LIC for contracts under the PAA | | Total | LRC | LIC for contracts under the PAA | | Total |
| | Excluding loss | Present value | Risk adj. for | | Excluding loss | Present value | Risk adj. for | |
| | comp. | of future cash | non-fin. risk | | comp. | of future cash | non-fin. risk | |
| | HK\$ | flows | HK\$ | HK\$ | HK\$ | flows | HK\$ | HK\$ |
| Insurance contract liabilities as at 1 January | - | 379,269,307 | 28,240,755 | 407,510,062 | - | 463,193,970 | 12,365,747 | 475,559,717 |
| Members' and non-members contributions | (50,483,668) | - | - | (50,483,668) | (10,816,905) | - | - | (10,816,905) |
| Insurance service expenses | | | | | | | | |
| Incurred claims and other insurance service expenses | - | 32,432,201 | - | 32,432,201 | - | 23,987,475 | - | 23,987,475 |
| Changes that relate to past service – changes in the FCF relating to the LIC | 11,364,774 | (11,364,774) | - | - | 9,909,795 | (9,909,795) | - | - |
| Adjustments to liabilities for incurred claims | - | (90,442,147) | (6,117,802) | (96,559,949) | - | (79,817,063) | 16,088,675 | (63,728,388) |
| Insurance service expenses | 11,364,774 | (69,374,720) | (6,117,802) | (64,127,748) | 9,909,795 | (65,739,383) | 16,088,675 | (39,740,913) |
| Insurance service result | (39,118,894) | (69,374,720) | (6,117,802) | (114,611,416) | (907,110) | (65,739,383) | 16,088,675 | (50,557,818) |
| Finance expenses from contracts issued | - | (827,131) | (462,260) | (1,289,391) | - | (860,478) | (213,667) | (1,074,145) |
| Total amounts recognised in comprehensive income | (39,118,894) | (70,201,851) | (6,580,062) | (115,900,807) | (907,110) | (66,599,861) | 15,875,008 | (51,631,963) |
| Cash flows | | | | | | | | |
| Contributions received | 39,118,894 | 9,909,795 | - | 49,028,689 | 907,110 | 1,464,099 | - | 2,371,209 |
| Claims and other insurance service expenses paid | - | (23,950,423) | - | (23,950,423) | - | (18,788,901) | - | (18,788,901) |
| Total cash flows | 39,118,894 | (14,040,628) | - | 25,078,266 | 907,110 | (17,324,802) | - | (16,417,692) |
| Insurance contract liabilities as at 31 December | - | 295,026,828 | 21,660,693 | 316,687,521 | - | 379,269,307 | 28,240,755 | 407,510,062 |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(a) First Fund Scheme (continued)

The following table presents the claims development as at 31 December 2023.

| | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</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 | 132,064 | 130,642 | 189,830 | 209,086 | 215,921 | 163,899 | 112,196 | |
| - one year later | 79,791 | 75,595 | 129,571 | 131,240 | 106,391 | 84,815 | | |
| - two years later | 45,232 | 52,782 | 75,428 | 79,990 | 58,394 | | | |
| - three years later | 30,886 | 30,093 | 45,950 | 46,572 | | | | |
| - four years later | 18,479 | 9,015 | 25,114 | | | | | |
| - five years later | 8,126 | 6,520 | | | | | | |
| - six years later | 8,150 | | | | | | | |
| Current estimate of cumulative claims | 8,150 | 6,520 | 25,114 | 46,572 | 58,394 | 84,815 | 112,196 | 341,761 |
| Cumulative payments to date | <u>(5,089)</u> | <u>(6,289)</u> | <u>(6,553)</u> | <u>(6,643)</u> | <u>(5,005)</u> | <u>(3,965)</u> | <u>(1,929)</u> | <u>(35,473)</u> |
| Gross cumulative claims liabilities | 3,061 | 231 | 18,561 | 39,929 | 53,389 | 80,850 | 110,267 | 306,288 |
| Gross cumulative claims liabilities in respect of prior years | | | | | | | | 578 |
| Other directly attributable expenses | | | | | | | | 1,949 |
| Effect of discounting | | | | | | | | (2,423) |
| Effect of the risk adjustment margin for non-financial risk | | | | | | | | 21,660 |
| Gross LIC for the contracts originated | | | | | | | | <u>328,052</u> |

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

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(a) First Fund Scheme (continued)

The following table presents the claims development as at 31 December 2022.

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</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 | 110,647 | 132,064 | 130,642 | 189,830 | 209,086 | 215,921 | 163,899 | |
| - one year later | 68,197 | 79,791 | 75,595 | 129,571 | 131,240 | 106,391 | | |
| - two years later | 42,079 | 45,232 | 52,782 | 75,428 | 79,990 | | | |
| - three years later | 19,457 | 30,886 | 30,093 | 45,950 | | | | |
| - four years later | 8,113 | 18,479 | 9,015 | | | | | |
| - five years later | 5,641 | 8,126 | | | | | | |
| - six years later | 3,259 | | | | | | | |
| Current estimate of cumulative claims | 3,259 | 8,126 | 9,015 | 45,950 | 79,990 | 106,391 | 163,899 | 416,630 |
| Cumulative payments to date | <u>(2,127)</u> | <u>(4,592)</u> | <u>(6,289)</u> | <u>(6,553)</u> | <u>(5,711)</u> | <u>(1,483)</u> | <u>(929)</u> | <u>(27,684)</u> |
| Gross cumulative claims liabilities | 1,132 | 3,534 | 2,726 | 39,397 | 74,279 | 104,908 | 162,970 | 388,946 |
| Gross cumulative claims liabilities in respect of prior years | | | | | | | | 820 |
| Other directly attributable expenses | | | | | | | | 1,187 |
| Effect of discounting | | | | | | | | (1,774) |
| Effect of the risk adjustment margin for non-financial risk | | | | | | | | 28,241 |
| Gross LIC for the contracts originated | | | | | | | | <u>417,420</u> |

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

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(b) Insolvency Fund Scheme

| | 2023 HK\$ | 2022 HK\$ |
|--|---------------|--------------|
| Liabilities for incurred claims | | |
| Contributions receivable | (19,819,584) | (2,916,039) |
| Claim recoveries | (427,000) | (12,157) |
| Accrued expenses | 10,458 | 17,691 |
| Claim payable | 4,620,278 | - |
| Notified claims | 366,402,000 | 19,995,000 |
| Incurred but not reported | 36,640,000 | 1,999,000 |
| Future indirect claims handling expenses | 20,152,000 | 440,000 |
| Effect of discounting | (1,967,549) | (2,752) |
| Effect of risk adjustment | 61,279,373 | 10,306,943 |
| Total at beginning of year | 466,889,976 | 29,827,686 |
| Cash received from contribution in the year | 98,294,021 | 4,316,527 |
| Cash paid for claims settlements in the year | (312,871,138) | (74,426,604) |
| Increase in liabilities during the year | 293,876,697 | 507,172,367 |
| Total at end of year | 546,189,556 | 466,889,976 |
| Represents: | | |
| Contributions receivable | (22,729,539) | (19,819,584) |
| Claim recoveries | - | (427,000) |
| Accrued expenses | 11,821 | 10,458 |
| Claim payable | 2,285,177 | 4,620,278 |
| Notified claims | 433,003,000 | 366,402,000 |
| Incurred but not reported | 43,300,000 | 36,640,000 |
| Future indirect claims handling expenses | 23,815,000 | 20,152,000 |
| Effect of discounting | (4,020,038) | (1,967,549) |
| Effect of risk adjustment | 70,524,135 | 61,279,373 |
| | 546,189,556 | 466,889,976 |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(b) Insolvency Fund Scheme (continued)

| | 2023 | | | | 2022 | | | |
|--|----------------|---------------------------------|---------------|---------------|----------------|---------------------------------|---------------|--------------|
| | LRC | LIC for contracts under the PAA | | | LRC | LIC for contracts under the PAA | | |
| | Excluding loss | Present value | Risk adj. for | Total | Excluding loss | Present value | Risk adj. for | Total |
| | comp. | of future cash | non-fin. risk | | comp. | of future cash | non-fin. risk | |
| | HK\$ | flows | HK\$ | HK\$ | HK\$ | flows | HK\$ | HK\$ |
| Insurance contract liabilities as at 1 January | - | 405,610,603 | 61,279,373 | 466,889,976 | - | 19,520,743 | 10,306,943 | 29,827,686 |
| Members' contributions | (100,776,976) | - | - | (100,776,976) | (21,634,915) | - | - | (21,634,915) |
| Insurance service expenses | | | | | | | | |
| Incurred claims and other insurance service expenses | - | 483,468,413 | - | 483,468,413 | - | 428,810,666 | - | 428,810,666 |
| Changes that relate to past service – changes in the FCF relating to the LIC | 22,729,539 | (22,729,539) | - | - | 20,246,584 | (20,246,584) | - | - |
| Adjustments to liabilities for incurred claims | - | (89,275,766) | 10,633,182 | (78,642,584) | - | 47,339,748 | 51,043,654 | 98,383,402 |
| Insurance service expenses | 22,729,539 | 371,463,108 | 10,633,182 | 404,825,829 | 20,246,584 | 455,903,830 | 51,043,654 | 527,194,068 |
| Insurance service result | (78,047,437) | 371,463,108 | 10,633,182 | 304,048,853 | (1,388,331) | 455,903,830 | 51,043,654 | 505,559,153 |
| Finance expenses from contracts issued | - | (1,242,166) | (1,388,420) | (2,630,586) | - | (16,836) | (71,224) | (88,060) |
| Total amounts recognised in comprehensive income | (78,047,437) | 370,220,942 | 9,244,762 | 301,418,267 | (1,388,331) | 455,886,994 | 50,972,430 | 505,471,093 |
| Cash flows | | | | | | | | |
| Contributions received | 78,047,437 | 20,246,584 | - | 98,294,021 | 1,388,331 | 2,928,196 | - | 4,316,527 |
| Claims and other insurance service expenses paid | - | (320,412,708) | - | (320,412,708) | - | (72,725,330) | - | (72,725,330) |
| Total cash flows | 78,047,437 | (300,166,124) | - | (222,118,687) | 1,388,331 | (69,797,134) | - | (68,408,803) |
| Insurance contract liabilities as at 31 December | - | 475,665,421 | 70,524,135 | 546,189,556 | - | 405,610,603 | 61,279,373 | 466,889,976 |

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(b) Insolvency Fund Scheme (continued)

The following table presents the claims development as at 31 December 2023.

| | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</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 | - | - | - | - | - | 480,365 | 265,098 | |
| - one year later | - | - | - | - | - | 622,345 | | |
| - two years later | - | - | - | - | | | | |
| - three years later | - | - | - | | | | | |
| - four years later | - | - | | | | | | |
| - five years later | - | | | | | | | |
| - six years later | | | | | | | | |
| Current estimate of cumulative claims | - | - | - | - | - | 622,345 | 265,098 | 887,443 |
| Cumulative payments to date | - | - | - | - | - | (313,251) | (74,074) | (387,325) |
| Gross cumulative claims liabilities | - | - | - | - | - | 309,094 | 191,024 | 500,118 |
| Gross cumulative claims liabilities in respect of prior years | | | | | | | | - |
| Other directly attributable expenses | | | | | | | | 12 |
| Claim payable | | | | | | | | 2,285 |
| Effect of discounting | | | | | | | | (4,020) |
| Effect of the risk adjustment margin for non-financial risk | | | | | | | | 70,524 |
| Gross LIC for the contracts originated | | | | | | | | 568,919 |

The above is presented on a gross basis and no insurance arrangement signed for Insolvency Fund Scheme for the year ended 31 December 2023.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (continued)

(b) Insolvency Fund Scheme (continued)

The following table presents the claims development as at 31 December 2022.

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</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 | - | - | - | - | - | - | 480,365 | |
| - one year later | - | - | - | - | - | - | | |
| - two years later | - | - | - | - | - | | | |
| - three years later | - | - | - | - | | | | |
| - four years later | - | - | - | | | | | |
| - five years later | - | - | | | | | | |
| - six years later | - | | | | | | | |
| Current estimate of cumulative claims | - | - | - | - | - | - | 480,365 | 480,365 |
| Cumulative payments to date | - | - | - | - | - | - | (74,415) | (74,415) |
| Gross cumulative claims liabilities | - | - | - | - | - | - | 405,950 | 405,950 |
| Gross cumulative claims liabilities in respect of prior years | | | | | | | | 17,244 |
| Other directly attributable expenses | | | | | | | | 11 |
| Claim payable | | | | | | | | 4,620 |
| Effect of discounting | | | | | | | | (1,967) |
| Effect of the risk adjustment margin for non-financial risk | | | | | | | | 61,279 |
| Gross LIC for the contracts originated | | | | | | | | 487,137 |

The above is presented on a gross basis and no insurance arrangement signed for Insolvency Fund Scheme for the year ended 31 December 2022.

MOTOR INSURERS' BUREAU OF HONG KONG

NOTES TO THE FINANCIAL STATEMENTS

15 Insurance contract liabilities (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 insolvencies of Anglo Starlite Insurance Company Limited (Dissolved) ("Anglo Starlite") and Target Insurance Company, Limited (In Liquidation) ("Target"). As at 31 December 2023, there is no outstanding claims for Anglo Starlite.

The Bureau estimated a total incurred claims liability for Anglo Starlite and Target as at 31 December 2023 of approximately HK\$864.9 million and HK\$820.3 million respectively (2022: HK\$879.8 million and HK\$425.9 million respectively). The outstanding claims liability for Anglo Starlite and Target as at 31 December 2023 amounted to HK\$Nil and HK\$500.1 million respectively (2022: HK\$17.2 million and HK\$406 million respectively).

16 Approval of financial statements

The financial statements were approved by the Council on 18 April 2024.