

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU
(Limited by guarantee)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2022

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

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 2022.

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 a fund, namely the Employees Compensation Insurer Insolvency Scheme to assume responsibility for the liabilities of insurers engaging in employees' compensation business that become insolvent on or after 1 April 2004, as set out in Legal status, Note 1 on page 11 to the Financial Statements which forms part of this Business Review and as also detailed in the Bureau's website at www.eciib.com.hk.

There were no significant developments in the business of the Bureau during the year, except for the activation of the Insolvency Fund following the notification of the insolvency of Target Insurance Company, Limited in July 2022 and it remains in good financial health as summarized by the below key financial information:

	2022	2021
Members' contributions	HK\$158.1 million	HK\$151.1 million
Net assets	HK\$2,479.3 million	HK\$2,815.8 million
Gross claims paid	HK\$17.3 million	Nil
Number of outstanding claims	358	Nil
Amount of claims recoveries	HK\$0.3 million	Nil
Provision for outstanding claims	HK\$113.1 million	Nil
Number of new claims received	397	Nil

The Bureau has complied with all relevant laws and regulations for its business throughout the year.

The Bureau reviews its key external service providers including Secretary, Legal Adviser, Investment managers, consultant and custodian, Auditors, Actuaries and Risk Consultant on a regular basis and its relationship with them remained strong throughout the year.

The Bureau has in place an agreement with Member, Chevalier Insurance Company Limited for provision of a standby facility for assistance with the administration of claims which was activated during the year.

The Council continues to work closely with and is supported by sister organisation, Motor Insurers' Bureau of Hong Kong via an at cost service agreement effective from 1 January 2018 as both Bureaus consider there is common ground and mutual benefit to be gained from close liaison and being able to speak with one voice on matters of mutual future impact.

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

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.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

REPORT OF THE COUNCIL MEMBERS (CONTINUED)

Environmental, Social and Governance (ESG) Beliefs Statement (continued)

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 has undertaken an initial exercise to understand the fund managers' sustainable investment process and position establishing 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 is set out in Management of insurance and financial risk, Note 3 on pages 16 to 20 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 Bureau 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.

Financial statements

The results of the Bureau for the year ended 31 December 2022 and the state of affairs of the Bureau as at that date are set out in the financial statements on pages 7 to 24.

Retained surplus

Movements in retained surplus during the year are set out in the statement of changes in equity on page 9.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

REPORT OF THE COUNCIL MEMBERS (CONTINUED)

Council Members

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

Mr Chan Pui Leung	
Mr Chen Zhao Nan	
Mr Cody Hui Ting Yui	(appointed on 27 May 2022)
Mr Hui Kam Kwai	
Mr Lau Hong Wai Bernard	(appointed on 19 January 2023)
Ms Lee Kar Lun Karen	
Mr Ng Wing Fat Ronnie	
Ms Wong Chi Shun	
Mr Andrew Wong Kwai Chuen	(resigned on 1 January 2023)
Mr Wong Kwok Tim	(resigned on 20 May 2022)

Messrs. Cody Hui Ting Yui and Lau Hong Wai Bernard having been appointed to fill a casual vacancy during the year and up to the date of this report, retire at the forthcoming annual general meeting in accordance with article 35(2) of the Bureau's Articles of Association and, being eligible, offers themselves for re-election.

Messrs. Chan Pui Leung and Lee Kar Lun Karen are to retire at the forthcoming annual general meeting in accordance with article 35(3) of the Bureau's Articles of Association and, being eligible, offer themselves for re-election.

All other remaining Council Members continue in office.

Council Member's interests in contracts

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

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

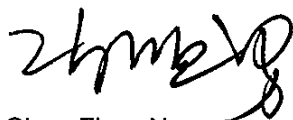
Management contracts

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

Auditors

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

By order of the Council



Chen Zhao Nan
Chairman

Hong Kong, 14 April 2023

Independent Auditor's Report

To the Members of Employees Compensation Insurer Insolvency Bureau
(incorporated in Hong Kong with limited liability by guarantee)

Opinion

What we have audited

The financial statements of Employees Compensation Insurer Insolvency Bureau (the "Bureau"), which are set out on pages 7 to 24, comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

A handwritten signature in black ink, appearing to read "Diana Chan", written over a light blue horizontal line.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 April 2023

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 HK\$	2021 HK\$
Revenue			
Members' contributions		158,094,676	151,089,411
		<u>158,094,676</u>	<u>151,089,411</u>
Other income			
Net realised and unrealised (losses) / gains on financial assets		(360,758,733)	41,403,197
Other investment income		6,383,744	7,207,834
Interest income on deposits		8,120	89
		<u>(354,366,869)</u>	<u>48,611,120</u>
Total revenue and other income		<u>(196,272,193)</u>	<u>199,700,531</u>
Less: Incurred claims			
Gross claims paid		17,268,667	-
Claims recoveries		(315,720)	-
Net claims paid		<u>16,952,947</u>	<u>-</u>
Movement in provision for outstanding claims		113,145,291	-
	10	<u>130,098,238</u>	<u>-</u>
Less: Expenses			
Investment management fees		5,208,556	5,722,316
Investment custody fees		902,903	932,683
Accountancy, taxation and secretarial fees		1,403,300	1,191,200
Claims handling fees		576,200	-
Legal and professional fees		556,547	2,314,250
Insurance		346,596	311,714
Audit fees		210,683	180,592
Administration fees		816,000	800,000
Others		138,161	80,178
Total expenses		<u>10,158,946</u>	<u>11,532,933</u>
(Deficit) / Surplus for the year		<u>(336,529,377)</u>	<u>188,167,598</u>
Other comprehensive surplus		-	-
Total comprehensive (deficit) / surplus for the year		<u>(336,529,377)</u>	<u>188,167,598</u>

The notes on pages 11 to 24 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

Approved and authorised for issue by the Council Members on 14 April 2023.

24/11/2018

Council Members

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EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

Total retained surplus:	HK\$
Balance at 1 January 2021	2,627,657,586
Total comprehensive surplus for the year	188,167,598
Balance at 31 December 2021 and 1 January 2022	2,815,825,184
Total comprehensive deficit for the year	(336,529,377)
Balance at 31 December 2022	2,479,295,807

The notes on pages 11 to 24 are an integral part of these financial statements.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 HK\$	2021 HK\$
Operating activities			
Total comprehensive (deficit) / surplus for the year		(336,529,377)	188,167,598
Adjustments for:			
- Investment expenses		6,111,459	6,654,999
- Interest income on deposits		(8,120)	(89)
- Other investment income		(6,383,744)	(7,207,834)
- Net realised and unrealised loss / (gains) on financial assets		360,758,733	(41,403,197)
Operating surplus before changes in working capital		23,948,951	146,211,477
(Increase) / Decrease in contributions and other receivables		(1,236,546)	2,340,859
Increase in provision for outstanding claims		113,145,291	-
(Decrease) / Increase in accrued expenses		(1,247,317)	1,405,075
Net cash inflow from operating activities		134,610,379	149,957,411
Investing activities			
Purchases of financial assets (net)		(126,266,646)	(157,115,909)
Dividend and other investment income received		6,383,744	7,207,834
Interest received on deposits		8,120	89
Net cash outflow from investing activities		(119,874,782)	(149,907,986)
Net increase in cash and cash equivalents		14,735,597	49,425
Cash and cash equivalents at 1 January		2,271,856	2,222,431
Cash and cash equivalents at 31 December	9	17,007,453	2,271,856

The notes on pages 11 to 24 are an integral part of these financial statements.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

1 Legal status

Employees Compensation Insurer Insolvency Bureau (the "Bureau") is a company limited by guarantee and was incorporated under the Hong Kong Companies Ordinance on 18 February 2003. 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 employees' compensation insurance business in Hong Kong are required to become members of the Bureau.

The Bureau was set up by the insurance industry to give effect to an agreement entered into on 21 February 2003 between the Government of the Hong Kong Special Administrative Region (the "Government") and the Bureau (the "Insolvency Fund Agreement").

In accordance with the Insolvency Fund Agreement, the Government and the Bureau have agreed to establish the Employees Compensation Insurer Insolvency Scheme to assume responsibility for the liabilities of insurers engaging in employee compensation business that become insolvent on or after 1 April 2004.

2 Principal accounting policies

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

(a) Basis of preparation

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

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

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies

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

No standards, amendments and interpretations which are effective for the year beginning on 1 January 2022 are material to the Bureau.

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

A number of new standards and amendments to standards have been issued but are not effective for annual periods beginning after 1 January 2022, and have not been early adopted. The Bureau has assessed the impact of these new standards and amendments to standards and they are not expected to have a material impact on the financial position or results of the Bureau, except for the adoption of HKFRS 17 "Insurance Contracts", which will be effective for annual reporting periods beginning on 1 January 2023. This standard sets out the requirements that Bureau should apply in accounting for insurance contract it issues and apply retrospectively.

The Bureau's HKFRS 17 implementation is progressing as planned. The Bureau expects that the implementation will be fully completed based on planned timetable.

Estimated impact of the adoption of HKFRS 17

The overall impact of the initial application of HKFRS 17 is an expected increase of the Bureau's equity upon transition.

In measuring the insurance balances, the key assumptions the Bureau has applied are:

- the Bureau expects to use 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 applies the bottom-up approach in the determination of the discounts rates for different products.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

The estimated impact is preliminary because not all the HKFRS 17 implementation work has been finalised. The actual impact of adopting HKFRS 17 on 1 January 2022 may change because:

- the Bureau is continuing to refine the new accounting processes and internal controls required for applying HKFRS 17; and
- the new accounting policies, assumptions, judgements and estimation techniques are subject to change until the Bureau finalises its first financial statements that include the date of initial application.

Transition approach

The Bureau expects to apply the full retrospective approach when it is practicable.

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

(b) Revenue recognition

(i) Members' contributions

Members' contributions received and receivable are recognised based on gross employees' compensation 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) Realised and unrealised gains/ (losses) on financial instruments at fair value through profit or loss

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

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(c) Insurance contracts

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

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

(d) Financial assets

Classification

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. Consequently, all investments are measured at fair value through profit or 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 a financial asset at its 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 carried at fair value through profit and loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets 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 at fair value through profit or loss category are presented in the statement of comprehensive income within net realised and unrealised (loss)/gains on financial assets 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.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(d) Financial assets (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.

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

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

Impairment

For Members' contribution receivables, 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 assets 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 assets 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.

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

Gains and losses arising from changes in the fair value of the 'financial assets 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 assets 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.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

2 Principal accounting policies (continued)

(e) 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.

(f) 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.

(g) Comparative figures

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

3 Management of Insurance and financial risk

3.1.1 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

The investment portfolio of the Bureau as at 31 December 2022 comprises funds which holds bonds of approximately HK\$1,924 million (2021: HK\$1,977 million). Interest rate movements can have a material impact on the carrying values of these bond 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 2022 and 2021.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of Insurance and financial risk

3.1.1 Financial risk factors (continued)

(b) Credit risk

The Bureau has exposures to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. This includes indirect credit risk with respect to investments in funds that holds bonds of HK\$1,924 million (2021: HK\$1,977 million). The Bureau is also exposed to counterparty credit risk on Bank balances and cash and Contributions and other receivables.

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

The investment guidelines stipulate that no more than 5% of the Fund is to be held in any one security, other than a fund or a security representing a collective investment of other securities, unless the security represents an OECD sovereign borrower or issuer (and its agencies).

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

As of 31 December 2022, indirect credit risks of the Bureau's Fixed Income Portfolio were diversified across various countries and sectors, with highest exposure to the United States, the European Monetary Union (EMU), and Japan. The percentage contributions of duration by these issuers accounted for 71.1% of the Fixed Income Portfolio. Elsewhere, the Bureau's exposure was the highest to the United Kingdom and Australia, which respectively accounted for 5.4% and 3.7% of the Fixed Income Portfolio.

The above statistics are similar to that as of 31 December 2021, where the Bureau's Fixed Income Portfolio was most exposed to bonds issued by the United States, Japan and the European Monetary Union (EMU), which accounted for 54.8% of the portfolio, followed by China and Italy, which respectively accounted for 6.8% and 6.0% 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.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of Insurance and financial risk (continued)

3.1.1 Financial risk factors (continued)

(c) Price risk

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\$255 million in 2022 (2021: HK\$279 million).

(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 2022, 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).

(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\$16,979,313 (2021: HK\$2,243,953) and financial assets at fair value through profit or loss of HK\$2,545,553,900 (2021: HK\$2,786,157,209) under Insolvency Fund Scheme, which contributed to a majority part of the total asset.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of Insurance and financial risk (continued)

3.1.1 Financial risk factors (continued)

(e) Liquidity risk (continued)

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

2022

	Carrying Amount HK\$	Cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Other payable and accruals	1,106,115	-	1,106,115	-	-
	<u>1,106,115</u>	<u>-</u>	<u>1,106,115</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	113,145,291	-	113,145,291	-	-
	<u>113,145,291</u>	<u>-</u>	<u>113,145,291</u>	<u>-</u>	<u>-</u>

2021

	Carrying Amount HK\$	Cash flows (undiscounted)			
		On demand HK\$	0-5 yrs HK\$	5-10 yrs HK\$	Over 10 yrs HK\$
Carrying value and cash flows arising from:					
Other payable and accruals	2,353,432	-	2,353,432	-	-
	<u>2,353,432</u>	<u>-</u>	<u>2,353,432</u>	<u>-</u>	<u>-</u>
Provision for outstanding claims	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

3 Management of Insurance and financial risk (continued)

3.1.2 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).

The following tables present the Bureau's financial assets that are measured at fair value at 31 December 2022. 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.

As at 31 December 2022:

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 7)				
- Cash	28,140	-	-	28,140
- Unit trusts	2,545,525,760	-	-	2,545,525,760
Total financial assets	2,545,553,900	-	-	2,545,553,900

As at 31 December 2021:

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
Financial assets (Note 7)				
- Cash	27,903	-	-	27,903
- Unit trusts	2,786,129,306	-	-	2,786,129,306
Total financial assets	2,786,157,209	-	-	2,786,157,209

3.2 Insurance risk and capital risk management

Capital comprises all components of equity as shown in the statement of financial position. The principal insurance and capital risk that the Bureau faces is that the assets of the Bureau are not adequate to discharge its obligations under the terms of the fund agreement. This may arise if the actual claims exceed the carrying amount of the assets available.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements

Management of the Bureau is not aware of any significant areas where critical judgments are involved in applying the Bureau's accounting policies for the years ended 31 December 2022 and 2021.

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 Financial assets at fair value through profit or loss

	2022 HK\$	2021 HK\$
Mutual funds registered in Hong Kong containing		
- Listed bonds	410,868,574	340,101,445
- Listed equities	613,205,863	784,761,106
- Cash deposits	8,258,665	24,128,818
Bond funds registered outside Hong Kong		
- Listed bonds	1,513,192,658	1,637,137,937
Cash deposits with custodian (Note 9)	28,140	27,903
	<u>2,545,553,900</u>	<u>2,786,157,209</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	
	2022 HK\$	2021 HK\$
Investment funds, at market value:		
Schroder Stable Growth Fund	386,304,153	423,838,428
Schroder Balanced Investment Fund	646,028,949	725,152,941
PIMCO Global Bond Fund	1,008,216,519	1,089,471,050
JPM Aggregate Bond Fund	504,976,139	547,666,887
	<u>2,545,525,760</u>	<u>2,786,129,306</u>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

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

These investments include 11,813,583 units of Schroder Stable Growth Fund (2021: 10,834,316 units), 9,774,988 units of Schroder Balanced Investment Fund (2021: 9,235,264 units), 4,078,830 units of PIMCO Global Bond Fund (2021: 3,909,963 units) and 512,512 units of JPM Aggregate Bond Fund (2021: 501,335 units).

The maximum exposure to loss is HK\$2,545,525,760 which represents the fair value of the investments in investment funds.

The size of the Schroder Stable Growth Funds during 2022 ranges from HK\$6,714 million to HK\$9,016 million, the size of the Schroder Balanced Investment Fund ranges from HK\$6,987 million to HK\$8,563 million, the size of the PIMCO Global Bond Funds ranges from US\$10,606 million to US\$13,513 million and the size of the JPM Aggregate Bond Funds ranges from US\$1,940 million to US\$2,578 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.

8 Contributions and other receivables

Contributions and other receivables are measured at amortised cost. The fair values of the receivables are estimated to be approximately equal to the carrying amounts of these balances.

There is no significant concentration of credit risk with respect to these receivables. There is no loss allowance recognised as at 31 December 2022 (2021: nil).

9 Cash and cash equivalents

	2022 HK\$	2021 HK\$
Bank balances and cash		
- Bank balances	16,979,313	2,243,953
Financial asset		
- Cash deposits (Note 7)	28,140	27,903
Cash and cash equivalents	<u>17,007,453</u>	<u>2,271,856</u>

Bank balances and cash are measured at amortised cost.

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

10 Provision for outstanding claims

Under the Insolvency Fund Agreement, the Bureau is liable for the settlement of certain judgements that remained unsettled as a result of the insolvency of Target Insurance Company Limited ("Target") in 2022. The Bureau recognised a claims liability of HK\$ 113,145,291 for Target claims incurred but not reported to the Bureau.

	2022 HK\$	2021 HK\$
Notified claims	-	-
Incurred but not reported	-	-
Future indirect claims handling expenses	-	-
	<hr/>	<hr/>
Total at beginning of year	-	-
Cash paid for claims settlements in the year	(16,952,947)	-
Increase in liabilities during the year	130,098,238	-
	<hr/>	<hr/>
Total at end of year	113,145,291	-
	<hr/>	<hr/>
Represents:		
Notified claims	100,842,506	-
Incurred but not reported	10,084,250	-
Future indirect claims handling expenses	2,218,535	-
	<hr/>	<hr/>
	113,145,291	-
	<hr/>	<hr/>

EMPLOYEES COMPENSATION INSURER INSOLVENCY BUREAU

NOTES TO THE FINANCIAL STATEMENTS

10 Provision for outstanding claims (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	-	-	-	-	-	-	130,098	
- one year later	-	-	-	-	-	-		
- two years later	-	-	-	-	-			
- three years later	-	-	-	-				
- four years later	-	-	-					
- five years later	-	-						
- six years later	-							
Current estimate of cumulative claims	-	-	-	-	-	-	130,098	130,098
Cumulative payments to date	-	-	-	-	-	-	(16,953)	(16,953)
Outstanding claims	-	-	-	-	-	-	113,145	113,145
Provision for outstanding claims in respect of prior years								-
Total provision for outstanding claims in the balance sheet							113,145	

The above is presented on a gross basis for the year ended 31 December 2022 (2021: Nil).

11 Approval of financial statements

The financial statements were approved by the Council on 14 April 2023.