

PROTECTION AND COMPENSATION FUND

Annual Report and Financial Statements
31 December 2015

PROTECTION AND COMPENSATION FUND
Annual Report and Financial Statements - 31 December 2015

	Pages
Committee members' report	1 - 2
Independent auditor's report	3 - 4
Income and expenditure account	5
Balance sheet	6
Statement of changes in funds	7
Cash flow statement	8
Accounting policies	9 - 11
Notes to the financial statements	12 - 16

Committee members' report

The members present their report and the audited financial statements of the Fund for the year ended 31 December 2015.

Principal activity

The income and expenditure account for the year is set out on page 5.

The principal activities of the Fund are to make payments in respect of claims against locally licensed insurance companies which remained unpaid by reason of the insolvency of such companies, and to compensate victims of road traffic accidents in circumstances as specified by the Protection and Compensation Fund Regulations, 2003, enacted by LN 435 of 2003 under the Insurance Business Act, 1998 (previously the Insurance Business Security Fund Regulations, 1986).

Committee members

The members of the Management Committee during the year were as follows:

Joseph Borg Bartolo – Chairman
Benny Borg Bonello
David G. Curmi
Joseph Felice Pace
Joseph Naudi Montaldo
Michelle Whitehead
John P. Bonett

Every member of the Committee shall hold office for such period and upon such terms and conditions as may be determined by the Malta Financial Services Authority and as indicated in the letter of appointment, such term of office being not less than one year and not more than three years. Every member of the Committee shall be eligible for re-appointment.

Statement of committee members' responsibilities

The committee members are required by the Protection and Compensation Fund Regulations, 2003 to prepare financial statements that give a true and fair view of the state of affairs of the Fund as at the end of each financial period and of the income and expenditure for that period.

In preparing the financial statements, the committee members are responsible for:

- ensuring that the financial statements have been drawn up in accordance with the Protection and Compensation Fund Regulations, 2003;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Fund will continue in business as a going concern.

The committee members are also responsible for designing, implementing and maintaining internal control as the committee members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Protection and Compensation Fund Regulations, 2003. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Committee members' report - continued

Statement of committee members' responsibilities - continued

Auditors

PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution proposing their reappointment will be put before the members at the next annual general meeting.

By order of the committee



Joseph Borg Bartolo
Chairman

Malta Financial Services Authority
Notabile Road
Mriehel

26 May 2016



David G. Curmi
Committee member



Independent auditor's report

To the Members of the Protection and Compensation Fund

Report on the Financial Statements for the year ended 31 December 2015

We have audited the financial statements of the Protection and Compensation Fund on pages 5 to 16 which comprise the balance sheet as at 31 December 2015, the income and expenditure account, statements of changes in funds and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Members' responsibility for the financial statements

As explained more comprehensively in the Statement of committee members' responsibilities on page 1, the members of the Management Committee are responsible for the preparation of financial statements that give a true and fair view in accordance with the Protection and Compensation Fund Regulations, 2003, and for such internal control as the committee members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Management Committee, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Protection and Compensation Fund for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the accounting policies described on pages 9 to 11 of the financial statements.



Independent auditor's report - continued

To the Members of the Protection and Compensation Fund

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to the accounting policies on pages 9 to 11 of the financial statements, which describe the basis of accounting. The financial statements are prepared to assist the Protection and Compensation Fund to comply with the financial reporting provisions of the Protection and Compensation Fund Regulations, 2003. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the members of the Protection and Compensation Fund and should not be distributed to or be used by parties other than the members of the Protection and Compensation Fund.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Lucienne Pace Ross', is written over the printed name.

Lucienne Pace Ross
Partner

26 May 2016

Income and expenditure account

	Notes	Year ended 31 December	
		2015 €	2014 €
Income	2	157,608	149,483
Expenditure	3	(16,256)	(18,309)
Surplus for the year		141,352	131,174

Balance sheet

	Notes	As at 31 December	
		2015 €	2014 €
ASSETS			
Fixed assets			
Financial assets			
Investments – available-for-sale	4	3,856,935	3,541,226
Total non-current assets		3,856,935	3,541,226
Current assets			
Trade and other debtors	5	82,497	226,562
Motor Accident Fund			
- Security Fund	6	27,503	28,361
- Protection and Compensation Funds	6	1,716,370	1,835,468
Cash at bank and in hand	11	1,799,227	1,219,063
Total current assets		3,625,597	3,309,454
Total assets		7,482,532	6,850,680
LIABILITIES			
Funds and reserves			
Protection and Compensation Funds - Insolvency Fund			
- General Business Fund	8	1,819,665	1,639,582
- Life Business Fund	8	2,217,631	1,968,535
		4,037,296	3,608,117
Accumulated Fund		729,626	588,273
Revaluation reserve	9	913,001	597,292
Total funds and reserves		5,679,923	4,793,682
Creditors: amounts falling due within one year			
Trade and other creditors	7	1,802,609	2,056,998
Total liabilities		7,482,532	6,850,680

The financial statements on pages 5 to 16 were authorised for issue by the members of the Management Committee on 26 May 2016 and were signed on its behalf by:

Joseph Borg Bartolo
Chairman

David G. Curmi
Committee member

Statement of changes in funds

	Notes	Protection and compensation funds €	Accumulated fund €	Revaluation reserve €	Total €
Balance at 1 January 2014		3,246,132	457,099	149,079	3,852,310
Net contributions levied during the year	8	361,985	-	-	361,985
Fair value movements - available-for-sale investments	9	-	-	448,213	448,213
Net income recognised directly in funds		361,985	-	448,213	810,198
Surplus for the financial year		-	131,174	-	131,174
Balance at 31 December 2014		3,608,117	588,273	597,292	4,793,682
Balance at 1 January 2015		3,608,117	588,273	597,292	4,793,682
Net contributions levied during the year	8	429,179	-	-	429,179
Fair value movements - available-for-sale investments	9	-	-	315,709	315,709
Net income recognised directly in funds		429,179	-	315,709	744,888
Surplus for the financial year		-	141,352	-	141,352
Balance at 31 December 2015		4,037,296	729,625	913,001	5,679,922

Cash flow statement

	Notes	Year ended 31 December	
		2015 €	2014 €
Operating activities			
Cash generated from operations	10	150,985	124,217
Financing activities			
Purchase of investments	4	-	(1,049,535)
Levies collected	8	429,179	361,985
Net cash (used-in)/generated from financing activities		429,179	(687,550)
Movement in cash and cash equivalents		580,164	(563,333)
Cash and cash equivalents at beginning of year		1,219,063	1,782,396
Cash and cash equivalents at end of year	11	1,799,227	1,219,063

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1. Basis of preparation

The financial statements are prepared under the historical cost convention and have been prepared in accordance with the Protection and Compensation Fund Regulations, 2003.

2. Protection and Compensation Fund / Security Fund

Article 49 of the Insurance Business Act provides for the establishment of the Protection and Compensation Fund to be utilised to make payments in respect of claims which remain unpaid by reason of the insolvency of the insurer ("General Insurance Fund" and "Life Insurance Fund" shown on the balance sheet), and to compensate victims of specified road traffic accidents ("Motor Accident Fund" shown on the balance sheet). The Protection and Compensation Fund/Security Fund shown on the balance sheet comprise levies collected from members, less claims paid and provisions for outstanding/potential claims.

The 'Security Fund' shown in the balance sheet represents the Fund set up under the Insurance Business Security Fund Regulations, 1986 (which were repealed by the Protection and Compensation Fund Regulations, 2003). The deficit as at 31 December represents contributions collected short of outstanding provisions. The cost of the eventual settlement of these claims is recoverable from members in accordance with the Regulations.

The 'Protection and Compensation Fund' shown in the balance sheet represents the fund set up under the Protection and Compensation Fund Regulations, 2003. Under these Regulations, contributions in respect of claims which remain unpaid by reason of insolvency of the insurer are required to be pre-funded to the Protection and Compensation Fund for the purposes of the "General Insurance Fund" and the "Life Insurance Fund" at a rate of 0.125 per cent of the gross premium income of the protected risks by the insurer for the year ending last before the beginning of that calendar year. A sum not exceeding 5% of the total amount of contributions payable to the Fund (as may be determined by the Management Committee) shall be at the disposal of the Committee to meet expenses incurred by the administration of the Fund. A further post-funded contribution will be required by every insurer carrying on business of motor insurance to be utilised exclusively for the payment of compensation of motor accidents in a similar way to contributions collected for the "Security Fund".

In accordance with Article 31(4) of Protection and Compensation Regulations, 2003, all assets and liabilities of the Security Fund transferred to the Protection and Compensation Fund in virtue of the Act shall, be kept separate from other assets and liabilities of the Protection and Compensation Fund and the administration of the assets and liabilities which are to be kept separate in virtue of those regulations shall continue to be governed by regulation 10 of the 1986 Regulations until all obligations of the Protection and Compensation Fund under the 1986 Regulations are discharged in full.

Any assets of the Security Fund which are kept separate from the other assets of the Fund remaining in hand after the discharge of all obligations under the 1986 Regulations shall be aggregated to the other assets of the Fund and continue to be used exclusively for the same purpose which they were used under the 1986 Regulations.

3. Provision for imminent and potential claims

Provision is made for the full estimated cost of claims notified but not yet settled by the year end. The amounts provided for are charged to the Funds (see Note 6 and 8) and credited to the Motor Insurers' Bureau (Note 7), which carries out its administrative function, including the payment of claims.

4. Financial assets – Investments

The Fund classifies its investments into the available-for-sale category. The classification is dependent on the purpose for which the investments were acquired. The committee members determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at every reporting date.

Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include inter alia, listed securities.

All purchases and sales of investments are recognised on the trade date, which is the date that the Fund commits to purchase or sell the assets. All investments are initially recognised at fair value plus, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Fund has also transferred substantially all risks and rewards of ownership.

Available-for sale investments are subsequently re-measured at fair value. A gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in funds, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit and loss.

The fair value of quoted securities and units in unit trusts is based on quoted market prices at the balance sheet date.

In the case of securities classified as available-for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the income and expenditure account – is removed from equity and recognised in the income and expenditure account. Impairment losses recognised in the income and expenditure account on equity instruments are not subsequently reversed.

5. Debtors

Debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

6. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

7. Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

8. Revenue recognition

Interest income is recognised in the profit and loss account as it accrues, unless collectibility is in doubt.

The fund is also entitled under Reg. 7(6) of the Protection and Compensation Fund Regulations, 2003 to an administration levy not exceeding 5% of total contributions payable to meet ordinary expenses incurred by the Fund. This levy is recognised as it accrues and is included within 'income' in the income and expenditure account.

Notes to the financial statements

1. Critical accounting estimates and judgements

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.

In the opinion of the committee members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical.

2. Income

Income includes administration interest receivable and any profit on disposal of investments.

No administration levies were charged during 2015 and 2014.

3. Expenses by nature

	2015	2014
	€	€
Committee members' fees	10,483	10,482
Motor Insurers' Bureau administration fee	2,521	2,148
Auditors' remuneration	1,687	1,687
Other expenses	1,601	3,992
Total expenditure	16,292	18,309

4. Financial assets – available-for-sale investments

Year ended 31 December 2014

Opening net book amount	2,043,478
Additions	1,049,535
Net fair value gains (Note 9)	448,213
	3,541,226

Year ended 31 December 2015

Opening net book amount	3,541,226
Additions	-
Net fair value gains (Note 9)	315,709
	3,856,935

4. Financial assets – available-for-sale - continued

Available-for-sale investments include the following:

	2015 €	2014 €
Debt securities – listed fixed interest rate	3,856,935	3,541,226

The maturity of the fixed income debt securities is detailed below:

	2015 €	2014 €
After more than 5 years	3,856,935	3,541,226
	3,856,935	3,541,226

5. Trade and other debtors

	2015 €	2014 €
Amounts due from Motor Insurers' Bureau	57,021	190,887
Accrued income	25,476	35,675
	82,497	226,562

The Protection and Compensation Fund Committee has, under Section 6(2) of the Protection and Compensation Fund Regulations 2003, delegated part of its administrative function to the Motor Insurers' Bureau. Amounts due by Motor Insurers' Bureau represent levies collected from members less claims paid (see also note 6).

6. Motor Accident Fund

	Levies collected €	Claims paid €	Provision for outstanding claims €	Amounts recoverable from members €
(a) Security Fund				
Balance at 1 January 2014	750,486	(547,077)	(269,417)	(66,008)
Levies collected	2,182	-	-	2,182
Levies refunded	(4,826)	-	-	(4,826)
Claims paid	-	(12,189)	12,189	-
Decrease in provision	-	-	128,807	128,807
Transfer to Protection and Compensation Fund	(88,516)	-	-	(88,516)
Balance at 31 December 2014	659,326	(559,266)	(128,421)	(28,361)
Balance at 1 January 2015	659,326	(559,266)	(128,421)	(28,361)
Levies collected	9,346	-	-	9,346
Levies refunded	(28,123)	-	-	(28,123)
Claims paid	-	(43,620)	43,620	-
Decrease in provision	-	-	19,635	19,635
Balance at 31 December 2015	640,549	(602,886)	(65,166)	(27,503)

	Levies collected €	Claims paid €	Provision for outstanding claims €	Amounts recoverable from members €
(b) Protection and Compensation Funds				
Balance at 1 January 2014	157,753	(175,299)	(1,840,316)	(1,857,862)
Levies collected	269,760	-	-	269,760
Levies refunded	(4,802)	-	-	(4,802)
Claims paid	-	(245,043)	245,043	-
Increase in provision	-	-	(331,080)	(331,080)
Transfer from Security Fund	88,516	-	-	88,516
Balance at 31 December 2014	511,227	(420,342)	(1,926,353)	(1,835,468)
Balance at 1 January 2015	511,227	(420,342)	(1,926,353)	(1,835,468)
Levies collected	49,240	-	-	49,240
Levies refunded	(12,187)	-	-	(12,187)
Claims paid	-	(108,580)	108,580	-
Decrease in provision	-	-	82,045	82,045
Balance at 31 December 2015	548,280	(528,922)	(1,735,728)	(1,716,370)

The year-end balances represent contributions collected from members short of outstanding reported claims provisions. The cost of the eventual settlement of these claims is recoverable from members in accordance with the Regulations.

7.	Trade and other creditors	2015	2014
		€	€
	Amounts falling due within one year		
	Provision for claims outstanding	1,800,894	2,054,774
	Other creditors and accruals	1,715	2,224
		1,802,609	2,056,998

8.	Protection and Compensation Funds	General Insurance Fund	Life Insurance Fund	Total
		€	€	€
	Balance at 1 January 2014	1,470,770	1,775,362	3,246,132
	Contributions received	168,812	193,173	361,985
	Balance at 31 December 2014	1,639,582	1,968,535	3,608,117
		€	€	€
	Balance at 1 January 2015	1,639,582	1,968,535	3,608,117
	Contributions received	180,083	249,096	429,179
	Balance at 31 December 2015	1,819,665	2,217,631	4,037,296

The 'Protection and Compensation Fund' shown in the balance sheet represents the fund set up under the Protection and Compensation Fund Regulations, 2003. Under these Regulations, contributions in respect of claims which remain unpaid by reason of insolvency of the insurer are required to be pre-funded to the Protection and Compensation Fund.

The apportionment of the accumulated fund and revaluation reserve included in the balance sheet as at 31 December 2015 to the General Business Fund and Life Insurance Fund on the basis of the movements in the respective funds from 2004 to date is shown below:

	General Insurance Fund	Life Insurance Fund	Total
	€	€	€
Accumulated Fund	328,853	400,772	729,625
Revaluation reserve	411,502	501,499	913,001
	740,355	902,271	1,642,626

9.	Revaluation reserve	2015	2014
		€	€
	Balance at 1 January	597,292	149,079
	Movement in fair value (note 4)	315,709	448,213
	Balance at 31 December	913,001	597,292

The revaluation reserve is non-distributable.

10. Cash generated from operations

Reconciliation of operating surplus to cash generated from operations:

	2015 €	2014 €
Surplus for the year	141,352	131,174
Adjustment for:		
Movement in provision for outstanding claims	(253,880)	(54,959)
Movements in working capital:		
- creditors	(509)	(1,037)
- debtors	264,022	49,039
Cash generated from operations	150,985	124,217

11. Cash and cash equivalents

	2015 €	2014 €
Cash at bank	1,799,227	1,219,063

Deposits held with banks earn interest as follows:

	2015 €	2014 €
At fixed rates	630,383	1,152,324
At floating rates	1,168,844	66,739
	1,799,227	1,219,063

12. Financial instruments

Credit risk

Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of investments and cash at bank. The Fund's cash is placed with quality financial institutions. Concentration of the Fund's credit risk in respect of investments is considered by the members of the Management Committee to be relatively insignificant in view of the nature of the assets held and the credit standing of the issuer/counterparty.

Interest rate risk

The Fund's incoming and operating cash flows are substantially independent of changes in market interest rates. Notes 4 and 11 incorporate interest rate and maturity information with respect to the Fund's assets. Up to the balance sheet date, the Fund did not have any hedging policy with respect to interest rate risk as exposure to such risk was not deemed to be significant by the members.

Fair values

At 31 December 2015 and 2014, the carrying value of the Fund's other assets and liabilities approximated their fair values.

Detailed accounts

	Page
Income and expenditure account	18

Income and expenditure account

	2015 €	2014 €
Income		
Interest receivable from Motor Insurers' Bureau	2,521	2,148
Interest receivable from investments	155,123	147,335
	<hr/> 157,644	<hr/> 149,483
Expenditure		
Publication costs	934	854
Audit and professional fees	1,687	4,534
Bank charges and interest	210	172
Committee members' fees	10,483	10,482
Motor Insurers' Bureau administration fee	2,521	2,148
Miscellaneous expenses	457	119
	<hr/> 16,292	<hr/> 18,309
Surplus for the year	<hr/> 141,352	<hr/> 131,174