2008 annual report

ICBC

building trust. driving confidence.

profile

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation that provides universal compulsory auto insurance (Basic insurance) to drivers in British Columbia, the rates for which are regulated by the BC Utilities Commission, and sells Optional auto insurance in a competitive marketplace.

Our insurance products are available across BC through a network of independent brokers, and claims services are provided at ICBC claims handling facilities located throughout the province. We also invest in road safety and loss management programs to reduce traffic-related deaths, injuries and crashes, auto crime, and fraud. In addition, we provide driver licensing, vehicle licensing and registration services, and fines collection on behalf of the provincial government at locations across the province.

vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

values

In providing products and services, the following values guide the behaviour and decisions of ICBC employees:

integrity – Our business is based on trust. We are honest, ethical, straightforward, and fair.

dedication to customers – We exist to serve our customers. We listen actively and are responsive to their needs.

accountability – We hold ourselves, and each other, accountable for our actions and the success of our business.

caring – We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect. We care about each other's well-being and create an environment that promotes personal growth. We care about our communities by supporting road safety programs and being environmentally responsible.

table of contents

letter of transmittal and accountability statement

To the Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

Dear Minister:

The 2008 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of ICBC for the twelve months ended December 31, 2008 in relation to the February 2008 service plan. The measures presented are consistent with ICBC's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

As the Chair of ICBC's Board of Directors, I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events and identified risks, as of December 31, 2008, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the February 2008 service plan was released and any significant limitations in the reliability of data are identified in the report.

On behalf of the Board of Directors and all ICBC employees, it is my pleasure to submit ICBC's Annual Report for the year ended December 31, 2008.

Sincerely,

T. Richard Turner
Chair of the Board of Directors

key financial and operating comparatives

five year comparison

for the years ended December 31

	2008	2007	2006	2005	2004
For the year:					
Premiums earned ($000)	3,631,215	3,482,434	3,256,856	3,117,412	3,026,481
Service fees ($000)	69,174	65,949	47,154	37,479	36,633
Claims incurred during the year ($000)	2,646,191	2,646,360	2,544,396	2,444,515	2,242,334
Prior years' claims adjustments ($000)[1]	(136,447)	(33,779)	99,043	80,662	(4,740)
Claims services and operating costs ($000)	457,726	450,787	433,830	423,803	419,350
Insurance premium taxes and commissions ($000)	429,011	407,022	379,682	363,872	343,793
Deferred premium acquisition cost adjustments ($000)[1]	(16,922)	(26,543)	(87,511)	114,604	(20,609)
Investment income ($000)	280,449	611,600	512,349	579,436	395,319
Net income ($000)	497,439	642,318	350,100	197,924	372,959
At year end:					
Cash and investments ($000)	10,056,546	9,641,452	8,470,584	7,167,078	7,055,237
Total assets ($000)	11,476,492	10,991,685	9,738,492	8,086,249	7,461,955
Equity:					
- Retained earnings ($000)	2,651,711	2,154,272	1,507,248	1,157,148	959,224
- Accumulated other comprehensive income ($000)	99,671	278,975	-	-	-
Total equity ($000)	2,751,382	2,433,247	1,507,248	1,157,148	959,224
Autoplan policies earned[2]	3,193,000	3,108,000	3,012,000	2,921,000	2,842,000
Average premium ($)[3]	1,108	1,094	1,051	1,038	1,036
Claims reported during the year[4]	964,000	992,000	947,000	924,000	929,000
Loss ratio:					
- Current year (%)	81.4	84.7	87.4	87.6	83.4
- Prior years' claims adjustments (%)[1]	(3.8)	(1.0)	3.0	2.6	(0.2)
Loss ratio (%)[5]	77.6	83.7	90.4	90.2	83.2
Expense ratio:					
- Insurance expense ratio (%)[6]	15.9	16.0	15.7	16.0	15.9
- Non-insurance expense ratio (%)	2.9	2.6	3.0	3.5	3.5
Expense ratio (%)	18.8	18.6	18.7	19.5	19.4
Number of employees[7]	5,012	5,024	4,994	4,908	4,889

1 *( ) denotes a favourable adjustment, i.e. a reduction in expense.*

2 *Annualized values have been used for policies with a term of less than 12 months.*

3 *Average premium is based on premiums earned.*

4 *Claims reported represent the number of claims reported against purchased insurance coverages.*

5 *Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.*

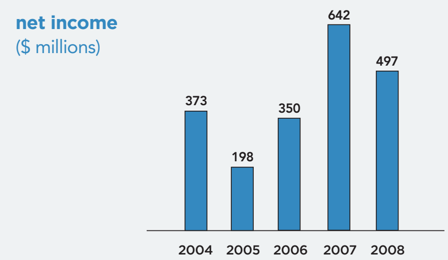
6 *Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs, deferred premium acquisition costs, and other unusual items).*

7 *Number of employees is based on year-end full time equivalents.*

performance highlights

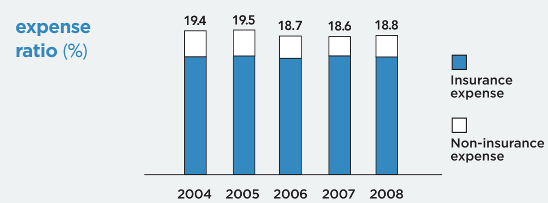
net income

In 2008, ICBC recorded net income of $497 million. Net income stays in the company to help keep insurance rates low and stable over the long term and to protect policyholders against significant unexpected losses.



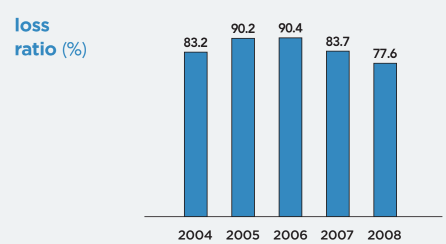
expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization. The expense ratio for 2008 is consistent with 2007 reflecting ICBC's commitment to operating efficiently and managing costs effectively.



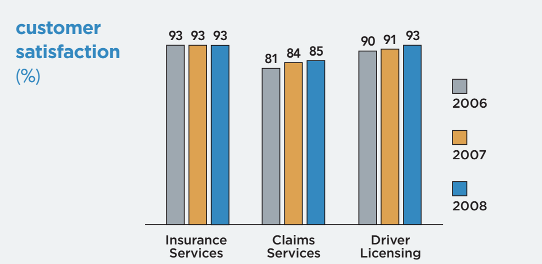
loss ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product. The improved loss ratio in 2008 is primarily the result of favourable prior years' claims adjustments combined with growth in premium revenues.



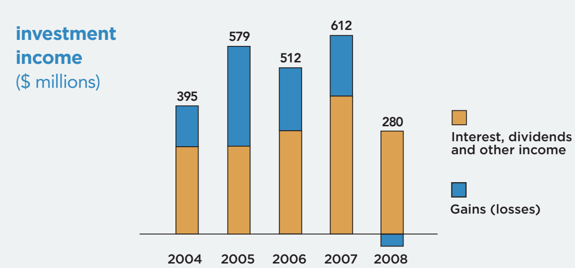
customer satisfaction

In 2008, ICBC met or exceeded all customer satisfaction targets. Customer satisfaction levels for insurance services remained the same as in 2007, while claims services and driver licensing services increased over 2007.



investment income

ICBC's investments generated income of $280 million in 2008, impacted by the downturn in the financial markets, but still outperformed the company's industry benchmark. Income from investments helps to reduce the amount of premiums that would otherwise have to be paid by policyholders.



message from the chair and the president

Focusing on our vision, mission and goals helped us achieve many things in 2008. We continued to deliver value to our customers by providing low and stable rates. There was no increase in Basic insurance rates this year, while Optional insurance rates were reduced, on average, by three per cent.

We are dedicated to continually improving the customer experience. Customer service was enhanced in 2008 through several initiatives and we are pleased that we met or exceeded all of our customer satisfaction targets. We are also very proud of our Claims Contact Centre, which received a number of awards, including the 2008 BC Contact Centre of the Year award from the BC Contact Centre Association. In 2008, we also provided customers purchasing new vehicles with greater choice in their insurance through the introduction of the New Vehicle Replacement Plus coverage. In addition, we launched a public awareness campaign to help drivers understand how good driving habits can reduce fuel costs, lower carbon emissions and improve road safety.

We are also committed to adding value to our communities and we deliver and support road safety programs across the province. By making roads safer, we help to reduce traffic-related deaths, injuries and crashes, which in turn help control claims costs. Claims costs account for approximately three-quarters of ICBC's expenditures and can have a significant impact on insurance rates. In 2008, claims costs were lower than expected due to good driving conditions for most of the year, a slowing in the growth in the number of vehicles on the road, and the impact of claims and road safety initiatives, as well as a decrease in the expected costs to settle outstanding prior years' claims. These results, supported by our continued prudent financial management, helped to offset the unexpected decline in investment income resulting from 2008 market conditions.

ICBC's net income for 2008 was $497 million. Net income contributes to retained earnings, which acts as a contingency to protect customers against sudden and unforeseen rate impacts, helping to keep rates low and stable. Our strong financial position will also allow us to make much-needed investments in our customer service systems over the next several years, so that we can respond more quickly to our customers' needs and give customers more choice in how they interact with ICBC. A challenge this year was employee engagement. Although we did not achieve our target, we know that we rely on the support of our workforce to be successful, and employee engagement will be a priority in upcoming years.

Looking ahead, our outlook remains optimistic. Our financial position is strong and maintaining our prudent approach to financial management will be fundamental given current economic conditions. We will continue to move towards driver-based pricing where premiums are more reflective of driver risk. Growing injury costs are a focus for us and for the insurance industry as a whole, and we will continue to invest in initiatives to address claims cost pressures. We will be pursuing ways to support an engaged and capable workforce, and investing in systems and business processes that improve customer experience and foster operational excellence. Optional insurance rates will be reduced by an average of three per cent, effective October 1, 2009 and, at the time of writing this report, indications are that Basic insurance rates will remain unchanged for 2009.

We want to thank all of our employees, brokers and business partners for their significant contributions to ICBC. Without them we wouldn't be able to provide our customers with the type of services they expect. We are pleased to be working together and excited about the opportunities that lie ahead.

T. Richard Turner
Chair of the Board of Directors

Jon Schubert, CMA
President and Chief Executive Officer

corporate overview

The Insurance Corporation of British Columbia (ICBC) was established as a provincial Crown corporation in 1973 and, at that time, was the sole provider of auto insurance in BC. Soon afterwards, legislation was amended to allow other insurance companies to sell Optional auto insurance products. Today, we are the sole provider of Basic (universal compulsory) auto insurance, the rates for which are regulated by the BC Utilities Commission, and we sell Optional auto insurance products in a competitive marketplace.

In addition to our insurance products and services, we also provide a number of services on behalf of the provincial government, including vehicle licensing and registration, driver licensing, and fines collection. We refer to these as our non-insurance services.

In providing our products and services, we operate as an integrated company for the benefit of our customers. We are one of BC's largest corporations and one of Canada's largest property and casualty insurers. Our insurance products and services are available through a province-wide network of approximately 900 independent brokers, and we process almost one million claims each year through Dial-A-Claim, 37 claim centres and other claims-handling facilities across the province, and icbc.com. In addition, driver licensing services are provided through approximately 120 points of service, including driver licensing centres, expressways, appointed agents and government agents' offices throughout BC. Our head office is located in North Vancouver, BC.

In delivering our products and services, we partner with businesses and organizations in communities throughout BC, including insurance brokers, law enforcement agencies, members of the auto repair industry, health services providers, lawyers, and public and community organizations. These partners are involved in a number of different aspects of our business, such as repair or replacement of damaged vehicles, medical and rehabilitation services, loss management programs, and legal services.

insurance products and services

Similar to other vehicle owners across Canada, motorists in BC are required by law to purchase a minimum level of Basic auto insurance. This provides private passenger and commercial vehicle owners with $200,000 in third party liability protection, $150,000 in no-fault accident benefits and $1 million in underinsured motorist protection. British Columbia's coverage is among the most comprehensive in the country. Buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels. In addition to providing Basic auto insurance, we also offer various Optional auto insurance coverages, including extended third party liability, collision, comprehensive, and vehicle storage. The table on the next page illustrates the full spectrum of our Basic and Optional insurance products.

icbc's basic and optional insurance products

basic coverage

The minimum insurance coverage any vehicle must carry to legally operate in BC:

- Third Party Liability
- Accident Benefits
- Underinsured Motorist Protection
- Protection Against Hit-and-Run* and Uninsured Motorists
- Inverse Liability Coverage

* *Hit-and-Run payments for property damage are provided if not recoverable from any other source.*

optional coverage

Additional coverage to meet customer needs:

vehicle

- Collision
- Comprehensive
- Specified Perils
- Vehicle in Storage
- New Vehicle Replacement
- New Vehicle Replacement Plus
- Limited Depreciation Coverage
- Replacement Cost Coverage
- Collector and Vintage Vehicles

equipment

- Motor Vehicle Equipment
- Excess Special Equipment
- Motor Home Contents

individual

- Extended Third Party Liability
- Excess Underinsured Motorist Protection
- Income Replacement Policy including Death Benefits
- Loss of Use
- Vehicle Travel Protection
- RoadStar/Roadside Plus

Auto insurance in BC is based on a full tort system, which means that any injured party is entitled to take the at-fault party to court for the full amount of damages. In addition, the insured injured party has access to accident benefits, including medical and rehabilitation expenses and up to $300 per week for wage loss, regardless of fault, through Basic auto insurance from ICBC. In other provinces in Canada, auto insurance may be based on some variant of no-fault or mixed no-fault and tort systems, which means that compensation can be based on predetermined benefit schedules regardless of who is at fault, there may be thresholds and/or caps or deductibles on pain and suffering awards, and there may be little or no ability to sue for further damages. These differences and different driving conditions and traffic density make inter-provincial comparisons difficult since the products, services and cost structures of each are unique.

Autoplan brokers are key business partners for ICBC, distributing our insurance products and providing other services such as vehicle registration and licensing. ICBC and brokers are guided in this partnership through a five-year Strategic Accord, which was renewed in 2007, and Autoplan Agency Agreements that govern the contractual relationship between ICBC and individual agencies.

The collision repair industry provides auto repair services to BC motorists. In 2008, we renewed the three-year Collision Repair Industry Agreement with the Automotive Retailers Association and New Car Dealers Association. This agreement commits the parties to a performance-based system that supports the delivery of excellent customer service and high-quality repairs, and manages costs for the benefit of our mutual customers.

We invest in road safety programs that provide a direct benefit to our customers by helping to reduce traffic-related deaths, injuries and crashes. By doing so, we help to reduce the impact of auto crashes for everyone in BC. Fewer crashes also help control claims costs, which ultimately help keep auto insurance rates low and stable. Key elements of our road safety strategy include public education and awareness campaigns to help drivers make safe driving decisions, funding for enhanced traffic enforcement to reinforce safe driving, and engineering planning and improvements to make roads safer. We also deliver loss management programs to help reduce the impacts of auto crime, including programs that target thieves and help reduce auto crime in high risk areas, and programs to prevent and reduce the impact of fraud on our customers.

This work cannot be done alone, which is why we partner with many individuals and organizations across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General and the Office of the Superintendent of Motor Vehicles, the Ministry of Transportation and Infrastructure, local governments, the law enforcement community, brokers, community groups, and the many volunteers who devote their time and energy to making BC roads safer for everyone.

non-insurance services

In addition to our insurance products and services, we also provide a number of non-insurance services on behalf of the provincial government, which include driver licensing, vehicle licensing and registration, and government fines collection.

We manage the issuance of vehicle licence plates and decals through brokers across the province who perform vehicle registration and licensing functions at the time of insurance purchase. This linkage between the requirement for vehicle registration and licensing together with the issuing of Basic auto insurance minimizes the number of unlicensed and uninsured vehicles operating in BC.

The driver licensing services we provide include driver testing and licensing, administering the Graduated Licensing Program and regulations governing the driver training industry. We also support the Office of the Superintendent of Motor Vehicles' programs relating to driver fitness, driver improvement, administrative driving prohibitions, and vehicle impoundment. By helping to put the right drivers on the road with the right skills, these programs and services contribute to safer roads for all British Columbians.

To find out more about all of our products and services, please visit our website at icbc.com.

report on performance

At ICBC, we continue to be guided by our vision and mission to be BC's preferred auto insurer, providing protection and peace of mind, and delivering quality auto insurance products and services at competitive prices through a knowledgeable team who are committed to our customers. Our vision and mission are supported by our four corporate goals: customer focus; financial responsibility; high performing, engaged and capable people; and, operational excellence.

Continuing to focus on our vision, mission and goals helped us achieve many things this year. We are committed to delivering value to our policyholders in many forms, including low and stable rates. In 2008, there was no increase in Basic insurance rates and Optional insurance rates were reduced, on average, by three per cent. This was the second time in four years that there has been no increase in Basic insurance rates and the third time in four years that ICBC has lowered its Optional insurance rates.

We are continuing to move in the direction of driver-based pricing where insurance rates are more reflective of risk. Drivers who take more risks bring more costs to the system and therefore should pay higher premiums. This will benefit low-risk drivers and allow us to continue to provide value to our customers. In 2008, we launched a campaign to help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions and improve road safety.

We are dedicated to continually improving the customer experience and are pleased that, for 2008, we met or exceeded all of our customer satisfaction targets. In 2008, we provided customers purchasing new vehicles with another choice of coverage through the introduction of the New Vehicle Replacement Plus. This new coverage provides additional protection to customers whose new vehicles are substantially damaged but are not normally total losses. We are also proud to be a sponsor of the Vancouver 2010 Olympic and Paralympic Winter Games and are pleased that many of our customers have chosen to show their support for the Games through the purchase of our commemorative licence plates.

There are a number of initiatives underway in driver licensing, including supporting the provincial government to deliver an enhanced driver's licence (EDL) and enhanced identification card as an alternate form of travel documentation for land and water border crossings between Canada and the United States. BC was the first province to introduce the EDL; phase one was successfully launched in January 2008 with over 500 participants testing the use of the EDL, and phase two is being implemented in 2009. We are also working to enhance the overall security of BC driver's licences and identification cards through improved technology and card design, and harmonizing driver licensing standards with other Canadian jurisdictions.

Like everyone else, ICBC has been affected by the downturn in the equity markets and our 2008 investment returns are lower than plan. However, we continue to prudently manage our operating costs and, with 2008 claims costs lower than plan, our 2008 financial results remained positive with net income of $497 million. Positive net income helps build capital, which acts as a contingency to help protect customers against sudden and unforeseen rate impacts. Our strong financial position will allow us to make much needed investments in our customer service systems over the next several years so that we can respond more quickly to our customers' needs and give them more choice in how they interact with ICBC.

While there were many successes in 2008, there were also some challenges. For example, we did not achieve our target for employee engagement this year. Since we rely on the support and involvement of our workforce to be successful, working on improving employee engagement is a priority in the upcoming year.

Looking ahead, our outlook remains optimistic in spite of this period of economic instability. Our current financial position is strong. Fiscal prudence in managing our capital base and our ongoing commitment to financial responsibility have been and will continue to be crucial in protecting customers. Through underwriting and pricing improvements, we are continuing to move in the direction of driver-based pricing where premium rates are more reflective of driver risk. We will continue to improve customer service and operational excellence, focus on improving employee engagement, and continue our commitment to reducing our environmental footprint.

performance management systems

To assess progress against our goals and objectives, we rely on a number of financial and non-financial corporate performance measures. Where possible, we use standard industry measures that enable benchmarking with other insurers. Where external sources of data are used, the most current available information is included in this report. In other cases, because of our unique business model, we develop distinct measures relevant to the area of performance. Performance against these measures is monitored throughout the year and actions are taken to address significant variances.

ICBC data used in the calculation of performance results are derived from the company's financial and operating systems. Controls over our financial systems are periodically reviewed by ICBC's internal and external auditors. ICBC recognizes the inherent limitations in all control systems. We believe that the systems provide an appropriate balance between costs and benefits desired and that the systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring customer satisfaction and an annual survey for the purpose of monitoring employee engagement.

The following sections provide further information on ICBC's goals, objectives and key strategies, as well as our 2008 performance results relative to the measures and targets outlined in ICBC's 2008 – 2010 Service Plan. Performance targets for 2009, as outlined in ICBC's 2009 – 2011 Service Plan, are also provided.

goal: customer focus

customer focus
multi-year objectives and strategies: 2008 – 2010 Service Plan*

objectives	strategies
be an auto insurance company our customers trust to: • deliver exceptional value, including competitive and stable prices • provide hassle-free claims service • be easy to deal with in all aspects of our business provide customers with the ICBC product that best matches their needs in partnership with independent brokers **measures** • insurance services satisfaction • claims services satisfaction • driver licensing satisfaction**	strengthen our underwriting ability create an integrated customer experience around all major touch points, focusing on value attributes important to customers

* *Revised goals, objectives, strategies and measures for 2009 and future years are reflected in ICBC's 2009 – 2011 Service Plan.*
** *In 2008, Driver Services was renamed Driver Licensing and the name of this measure has been changed accordingly.*

Being customer-focused means understanding customers' needs and expectations and meeting them efficiently, and building a relationship of trust. We work to deliver services in a fair and respectful manner and enhance service delivery and interactions with key business partners.

Insurance prices and the value of insurance protection are important to customers. There was no increase in Basic insurance rates in 2008 and Optional rates were reduced three per cent, on average, effective July 1, 2008. We are working to keep rates low and stable. Customers who purchased the same Basic and Optional policies from ICBC over the last five years have seen virtually no change in their premium.

We also provided customers purchasing new vehicles with an additional choice in coverage through the launch of New Vehicle Replacement Plus. This new coverage was developed based on customer feedback to better meet their needs. With New Vehicle Replacement Plus, the point at which a vehicle is declared a total loss is reduced from approximately 75-90 per cent to 50 per cent of market value. This means that new vehicles will not need to be as severely damaged to qualify for replacement instead of repair. The customer may choose a brand new version of their vehicle or its cash equivalent.

As part of our ongoing dedication to improving the customer experience, in 2008 we piloted a translator service for customers calling the Centralized Claims Injury Centre. Customers now have access to a translator, covering more than 160 languages, on the line within 30 seconds of us calling our Language Line. This helps customers feel more confident in dealing with ICBC and allows customers and adjusters to build a better rapport. We delivered customer standards workshops and piloted customer experience workshops for our Claims staff to help them better deliver the types of services and approaches customers have told us they want and expect. We also made business improvements throughout the year to help brokers reduce the time it takes to provide services and improve the overall customer experience.

Customers need to be able to access useful information in order to make informed decisions. Last year, we introduced our new brand which reflects the positive experience we want for our customers and the kind of company we strive to be. As part of our new brand, many sections of our website, icbc.com, have been rewritten to make information easier to find and use. We also made improvements to the annual insurance renewal reminders to make key information and dates more prominent. New information was added to icbc.com last year, including map-based locators for c.a.r. shop VALET and Glass Express facilities, and a free vehicle status search that potential buyers can use to look up information on the general state of a used vehicle and whether it qualifies to be on the road.

The new Royal Centre Driver Licensing Centre opened in January 2008 in downtown Vancouver. This is the first office opened that reflects ICBC's new brand. Every detail, from seating and lighting to larger numbers on the queuing system screens, was chosen to enhance our customers' experience.

In 2008, we worked with the provincial government to deliver Canada's first enhanced driver's licence as an alternate form of travel documentation for land and water border crossings between Canada and the United States, and continued our work on enhancing the overall security of the BC driver's licence and BC identification cards. We also implemented new state-of-the-art digital picture identification technology at 116 licensing centres. Facial recognition technology was introduced as a security measure to protect against identity theft and fraud. The new BC driver's licence and identification card implemented in early 2009 include further security enhancements.

Lastly, we are pleased to be a sponsor of the Vancouver 2010 Olympic and Paralympic Winter Games. We are providing insurance services and are supporting VANOC's HomeStay program, funded entirely through our Optional auto insurance business. We are pleased to offer customers the opportunity to show their support for the Games through the purchase of commemorative licence plates. As of December 31, 2008, more than 137,000 of these commemorative licence plates have been sold.

performance measures, targets and results:

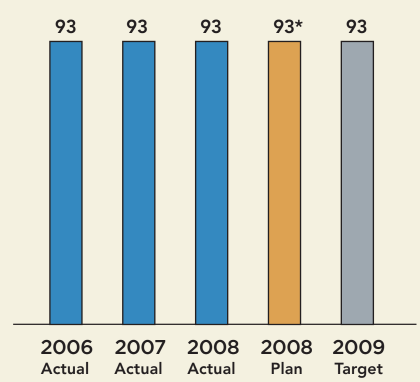
Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type – insurance product purchase, driver licensing, and claims. An independent research firm conducts ongoing customer surveys to monitor satisfaction.

insurance services satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent ICBC insurance transaction and is based on surveys of over 1,000 customers during the course of the year.

This measure is typically higher than 90% and reflects the positive relationship ICBC and brokers enjoy with customers. For 2008, the result was 93% which represents a high level of customer satisfaction and is consistent with results from prior years. The original 2008 plan of 90% was set to reflect initiatives planned to be implemented during 2008. Since the timing of these initiatives has changed, the 2008 plan was revised from 90% to 93%. For 2009, the historical satisfaction levels continue to be reflected in the target until these initiatives are better defined and the implementation schedules are determined.

insurance services satisfaction (%)



*2008 Plan was revised from 90% to 93%

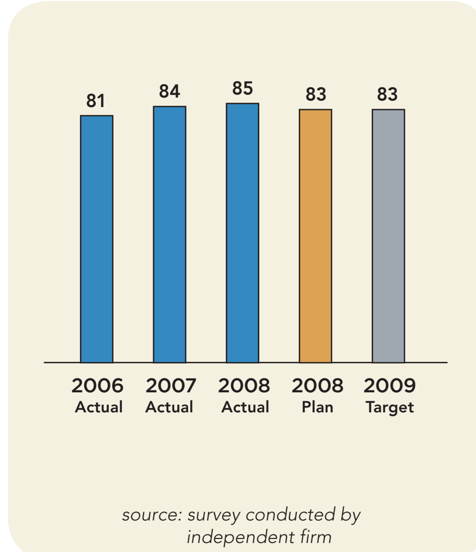
source: survey conducted by independent firm

claims services satisfaction

Each year, almost one million claims are processed through the claims call centre and claims centres across the province. The claims services satisfaction measure represents the percentage of customers satisfied with a recent claims transaction and is based on a representative sample of approximately 6,000 customers surveyed throughout the year.

For 2008, ICBC's claims services satisfaction was 85%, which is higher than 2007 actual results and the 2008 plan. This means that more than four out of five ICBC customers who have experienced a crash, theft, or other insurable incident, are satisfied with our service. The 2009 target is set at 83%, a decrease from actual 2008 results. ICBC expects that 2009 will be a year of transition for claims services. We will be making some changes to measure customer satisfaction at the claim centre level, which will likely change the mix of claims in the survey, and result in a lower satisfaction rating. As a result, ICBC has set its target to reflect this expected change.

claims services satisfaction (%)

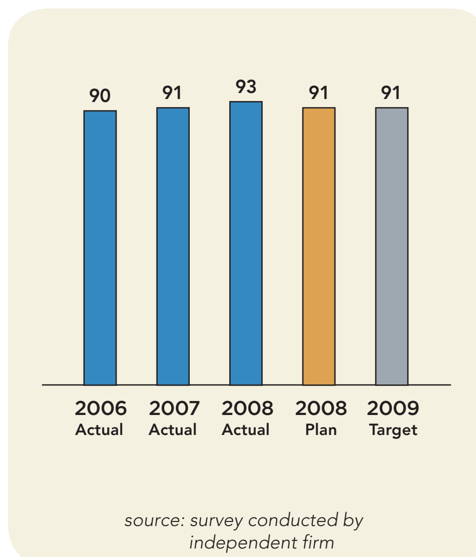


driver licensing satisfaction

ICBC conducts over 1.4 million transactions relating to driver licences and driver exams each year. The driver licensing satisfaction measure represents the percentage of customers satisfied with a recent driver licensing transaction with ICBC. The transaction could relate to issuing or renewing a licence, taking a knowledge test, or undergoing a road test. This measure is drawn from a sample of approximately 4,000 customers surveyed throughout the year and is weighted by the number of transactions for each type of service.

2008 results for driver licensing satisfaction are higher than previous years and the 2008 plan. This measure is typically at or over 90% and is indicative of ICBC's commitment to customer service. For 2009, the target has been lowered to take into account enhanced security measures and other initiatives that will increase the time it takes to process licence applications and licence renewals. We anticipate that an increase in transaction time will adversely impact service satisfaction scores in the short term.

driver licensing satisfaction (%)



goal: financial responsibility

financial responsibility
multi-year objectives and strategies: 2008 – 2010 Service Plan*

objectives

achieve financial strength through:

- appropriate pricing
- reducing the growth in claims costs
- a disciplined approach to managing operating costs
- maximizing investment returns based on acceptable risk

measures

- minimum capital test
- combined ratio
- loss ratio
- expense ratio
- investment return

strategies

reduce the growth of bodily injury claims with claims handling improvements, targeted crash prevention programs, and product and underwriting refinements

** Revised goals, objectives, strategies and measures for 2009 and future years are reflected in ICBC's 2009 – 2011 Service Plan.*

Being financially responsible provides a foundation for us to achieve our other goals. ICBC's strong financial results over the past several years have helped us to build our capital levels. The volatility in the financial markets over the last year illustrates the importance of having a strong capital base. Capital acts as a contingency to help protect our customers, providing them with the confidence that their claims will be paid and enabling us to avoid some of the insurance rate volatility that other companies have experienced in recent years.

Claims costs are the single largest area of expenditure for ICBC. The most significant cost pressure is the cost of bodily injury claims, which were growing much faster than inflation over the last few years. Claims costs are a function of both the number of and average cost of claims and, are affected by things like weather conditions, driving behaviour, the legal environment, the economy, medical care costs, and claims handling processes.

ICBC began implementing initiatives to address this cost pressure a few years ago, including claims handling and litigation process improvements, measures to deal with high-risk driving, and safe driving programs and initiatives. These initiatives continued through to 2008 and, combined with favourable weather conditions, had a positive impact in slowing the growth in the rising costs of bodily injury claims this year.

In 2008, claims management responsibilities were realigned to improve claims handling and help focus resources where they are most needed. Claims analytics were also improved to better track and monitor performance and understand reasons for cost increases. These changes mean that more effort is now focused on higher risk claims, and we are able to better manage claims and resolve them more quickly.

Through underwriting and pricing improvements, we are continuing to move in the direction of driver-based pricing. Drivers who take more risks, and overall bring more costs to the system, will pay higher premiums, which will benefit low-risk drivers and the premiums they pay. This will allow us to continue to provide value to our customers and make rates more reflective of risk.

In 2008, we launched a new campaign called "Drive Smart, Save Green" to help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions and improve road safety. We also partnered with the provincial government and police to deliver road safety campaigns that target high-risk driving behaviours like speeding, impaired driving and failure to use a seatbelt. By making roads safer, we help reduce traffic-related deaths, injuries and crashes. Fewer and less severe crashes benefit us all by helping to keep people and our communities healthy, and by helping keep claim costs and insurance premiums low. ICBC invested almost $37 million in road safety initiatives in 2008. We believe it makes sense, both financially and from a community standpoint, for us to help keep roads safe. These initiatives have contributed to the moderation in the growth of claims costs that we are now seeing.

We are also committed to prudent management of our operating expenditures. ICBC continues to be an industry leader for low operating costs. At ICBC, less than five cents of every dollar earned is used for administrative costs to operate the insurance business, which is significantly below the industry average. In 2008, we negotiated longer term supplier contracts for vehicle licence plates and decals, resulting in expected savings of more than $5 million over five years.

We also renewed the three-year Collision Repair Industry Agreement (CRIA) with the industry. CRIA is a performance-based program which applies to all ICBC-accredited repair shops and rewards these shops for financial efficiency while ensuring safe, quality, guaranteed repairs for customers. The new agreement will help make sure ICBC and the collision repair industry can continue to deliver excellent customer service, high-quality repairs and manage costs for the benefit of our mutual customers.

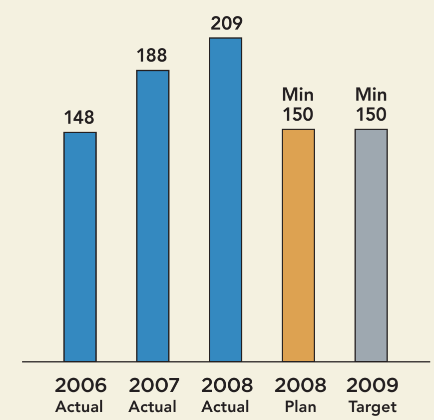
performance measures, targets and results:

minimum capital test

Minimum capital test (MCT) is an industry measure set by the Office of the Superintendent of Financial Institutions for federally regulated insurance companies across Canada. MCT measures capital available compared to capital required and is used to assess whether a company has sufficient capital to protect policyholders from financial risk and provide long term financial stability. Appropriate levels of capital help protect customers by providing stability in rates in the face of significant, externally-driven negative impacts to the business.

ICBC's 2008 MCT was 209%, higher than the target of 150% and was built from net income over the past years. Net income increases the amount of retained earnings held by the corporation, thereby increasing available capital. ICBC's 2009 target continues to be a minimum of 150% to meet its capital management plan. The company is re-examining its capital targets in light of the drastic downturn in investment markets in 2008 to ensure we are able to continue to meet policyholder obligations, shield our customers from rate shock, and reinvest in much-needed systems and infrastructure upgrades.

minimum capital test (%)



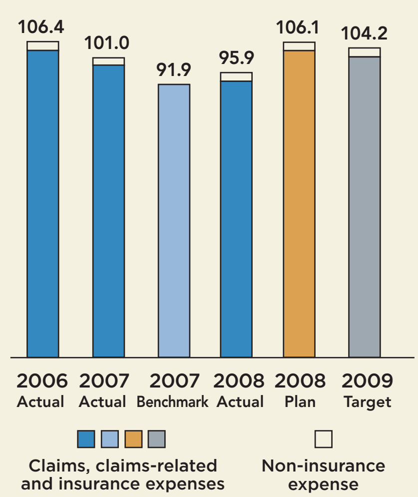
source: ICBC financial systems

combined ratio

The combined ratio is a key measure within the insurance industry for overall profitability and is the ratio of costs to premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e. premiums are sufficient to cover costs) while a ratio above 100% indicates an underwriting loss (i.e. premiums are not sufficient and investment income is needed to help cover costs). Costs that affect the combined ratio are claims costs, claims-related costs, operating costs and acquisition costs.

ICBC's combined ratio is higher than typical for the property and casualty (P&C) industry and reflects the unique nature of our business model. ICBC's premiums are not set to generate large underwriting profits, but together with investment income are set to recover all costs and to achieve and maintain capital targets. ICBC delivers

combined ratio (%)



source: ICBC financial systems

non-insurance services on behalf of government and in 2008, non-insurance costs represented almost 3 percentage points of the combined ratio.

The 2008 results are better than the previous years primarily due to favourable prior years' claims adjustments and higher premiums earned. The P&C 2007 industry benchmark was 91.9%[1]. The 2008 results improved compared to plan due to the claims initiatives introduced between 2006 and 2008 that were largely aimed at controlling bodily injury claims costs. During 2008, these claims initiatives had a notable positive impact on the cost of outstanding claims from prior years. The improvement can also be attributed to less rain than is usually expected and a moderation in the vehicle population growth during the year which resulted in fewer claims.

loss ratio

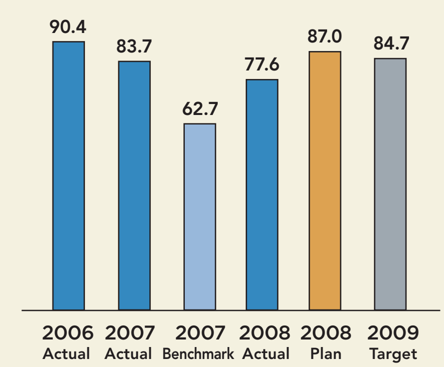
A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability. This measure is the ratio of the total of claims and claims-related costs, including loss management costs, to insurance premium dollars earned. From a customer perspective, the higher loss ratio reflects our lower premiums and means more of each premium dollar collected is used for claims costs.

Our loss ratio is typically higher than the P&C industry because our premiums are set to recover costs and to achieve and maintain capital targets. As reflected in the expense ratio, we have lower relative operating costs and can pay more of each premium dollar towards claims and related costs; this results in a higher loss ratio. In addition, ICBC is mandated to provide Basic insurance to all drivers in BC, including high-risk drivers whose claims costs are proportionately higher. This results in a higher loss ratio for ICBC relative to those insurers who may limit their exposure to such business.

In 2008, ICBC's loss ratio was 77.6%, lower than the plan ratio primarily due to lower current year claims costs and favourable prior years' claims adjustments. The 2008 loss ratio was lower than 2007 actual results primarily due to favourable prior years' claims adjustments. The P&C 2007 industry benchmark was 62.7%[1].

The 2009 target is higher than 2008, reflecting current expectations for a continued slowdown in premium revenues, a trend which started in late 2008; the flow through of the Optional rate reduction made in 2008; and, a return to longer term claims trends in the number and average cost of claims. These expected increases in costs are outpacing the expected increase in premiums, thus resulting in a higher loss ratio target for 2009.

loss ratio (%)



source: ICBC financial systems

[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2008. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF).*

expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization and is the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid to government on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver licensing and vehicle registration.

To facilitate comparisons with industry benchmarks, the ICBC expense ratio has been divided into two key components; the insurance expense ratio and the non-insurance expense ratio, and excludes the impact of one-time non-recurring items and adjustments to deferred premium acquisition costs. ICBC incurs costs for non-insurance expenses such as driver licensing, vehicle registration and licensing, and government fines collection that other insurance companies do not incur. Segregating expenses in this way allows us to better manage the costs of operating our insurance business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

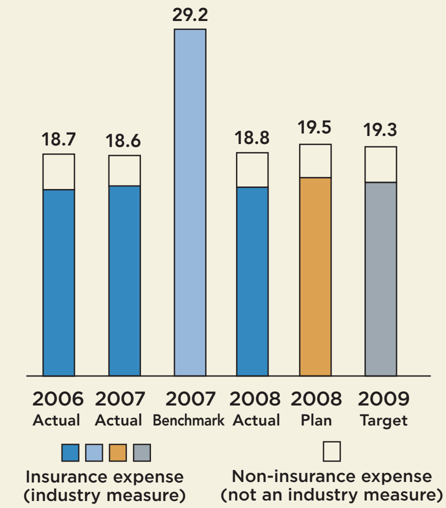
ICBC's expense ratio for 2008 was 18.8% which was consistent with 2007 and better than the 2008 plan. This reflects our continued focus on prudent financial management, as well as growth in premium revenue. ICBC's expense ratio which, unlike the insurance industry, includes non-insurance costs, is considerably lower than the 2007 P&C industry benchmark of 29.2%[2] (an expense ratio specific to auto insurance is not available). ICBC believes that while the auto insurance expense ratio for the industry would be slightly lower than the overall P&C expense ratio, ICBC's expense ratio is lower than industry due to our ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition, and general administration costs.

The 2009 target for ICBC's expense ratio reflects current expectations about premium revenue growth being lower than operating expense growth. Operating expenses will rise due to business initiatives and general inflationary increases. Expected higher acquisition costs are also included, reflecting the changes under the Broker Accord with ICBC's broker partners.

investment return

ICBC manages an investment portfolio with a carrying value of approximately $10.1 billion at the end of 2008. The portfolio is conservatively invested with the majority of assets held in investment grade bonds. These assets are held primarily to provide for future claims payments and the income earned on these investments helps to reduce the amount of premiums needed from policyholders.

expense ratio (%)



source: ICBC financial systems

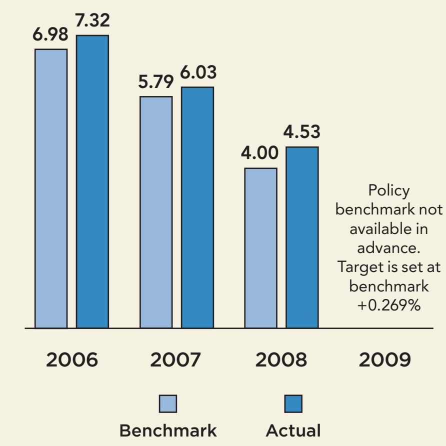
[2] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2008. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC).*

Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy benchmark calculated as the average of individual asset class benchmark returns weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures established by ICBC's Board of Directors.

ICBC's large fixed income portfolio provided an element of stability to ICBC's investment returns. ICBC's fixed income portfolio performed strongly as the market value of fixed income investments increased with the decline in interest rates.

ICBC's investment returns continue to compare favourably to market returns. In 2008, the investment value added objective was revised from 0.268% to 0.269% due to an investment policy change which impacted the asset classes. For 2008, ICBC's four-year annualized return was 4.53% and the comparable market benchmark was 4.00%[3]. The difference of +0.53% exceeded the added value objective. In comparison, for 2007, ICBC's four-year annualized return was 6.03%, or a 0.24% higher return compared to the market benchmark. For 2009, the four-year annualized investment portfolio performance target is set to outperform the policy benchmark by 0.269%.

investment return (%)
(four-year annualized)



source: return calculated by independent firms[3]

[3] *Sources: DEX Debt Market Indices; S&P TSX Composite Capped Index; Morgan Stanley Capital International (MSCI) EAFE Index; S&P 500; Merrill Lynch US Bond Indices.*

goal: high performing, engaged and capable people

high performing, engaged and capable people
multi-year objectives and strategies: 2008 – 2010 Service Plan*

objectives

create a performance-driven company by:

- developing our people
- strengthening our leadership capability
- improving employee accountability for delivering results

measures

- employee engagement index

strategies

position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes

** Revised goals, objectives, strategies and measures for 2009 and future years are reflected in ICBC's 2009 – 2011 Service Plan.*

Being able to position ICBC as BC's preferred auto insurer depends on the performance of our employees. We can best deliver on our commitment to operational excellence, financial responsibility and to our customers by having high performing, engaged and capable employees.

We have identified four areas of focus to help us position our workforce to effectively support our business strategy; job standards and competencies, leadership culture, talent management, and talent acquisition.

For 2008, a key focus was preparing to roll out our performance management program to all employees. Performance management is part of talent management and is designed to build a greater understanding of ICBC's direction and how each employee contributes to it. The performance management program has been used by ICBC's management and non-union staff for several years. In 2008, the program was tested with 1,200 "early adopters" from the bargaining unit and will be rolled out to all remaining employees for 2009.

Promoting career and a range of learning opportunities to assist with advancement are also essential to talent management. New e-learning options are being added to supplement classroom courses and permit easy access to learning and skills development. Investments in customer service and technical skills training are continuing. We also created a leadership development program for line managers and have expanded the program to other levels.

Leadership competencies and succession planning processes have been established and ongoing work continues to build and enhance leadership competencies at all levels. We are building on work already completed for key claims positions and are focusing on matching positions with candidate competencies. Similar reviews for other positions will begin in 2009.

The ability to attract, select and retain employees with the necessary capabilities is foundational to our successful future. We continue to develop a centralized and enhanced recruitment process to effectively acquire and manage talent, as well as supporting employees in building their careers at ICBC. In 2008, we launched a new talent management system to support our focus on identifying high performing candidates driven to make a difference at ICBC.

We are proud of our employees and their dedication to improving the customer experience. In 2008, our Claims Contact Centre was recognized with several awards of excellence from the Service Quality Management Group and the BC Contact Centre Association, and an ICBC Help Desk employee was named Canadian Help Desk Analyst of the year for the second year in a row.

We are also committed to adding value to our communities. Employees are involved in community events, charitable events and fundraisers across the province. ICBC and the Canadian Office and Professional Employees Union Local 378 (COPE 378) are also long-time supporters of the United Way in communities across BC. Our employees and members once again generously donated time and money to support the 2008 fundraising campaign, with $750,000 donated to the United Way.

performance measures, targets and results:

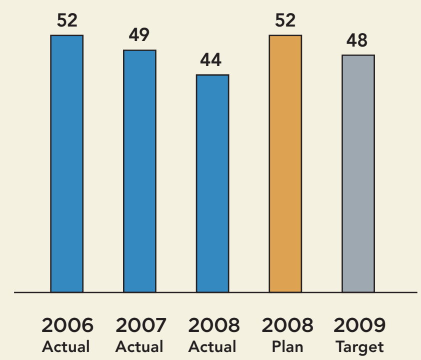
employee engagement

This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the organization to co-workers, potential employees, and customers; the level of desire they have to be a member of the company; and the degree of extra effort and dedication they are willing to apply to doing the best job possible.

The 2008 employee engagement score is 44%, which is lower than 2007 actual results as well as the 2008 plan. Although we did not achieve our target for employee engagement, ICBC recognizes that we cannot be successful without the support and involvement of our workforce. We recognize that further work needs to be done, specifically in advancing people strategies that drive business results. As such, we pledge to work on improving employee engagement in the upcoming year.

The target for 2009 has been established at 48%. We intend to strengthen engagement through effective change and communication tactics aligned with our corporate strategy. ICBC's view is that building engagement is a long-term process that requires dedicated effort and continued focus. In keeping with our long-term business strategy, ICBC strives to build a culture of high performing, engaged and capable people.

employee engagement index (%)



source: survey conducted by independent firm

goal: operational excellence

operational excellence

multi-year objectives and strategies: 2008 – 2010 Service Plan*

objectives	strategies
deliver efficient and high-quality service by: • simplifying and enhancing key business processes • minimizing system support costs to enable renewal of insurance and claims systems • building our competitive capabilities in underwriting, marketing and business analytics **measures** • insurance operating cost per policy • driver licensing cost per transaction**	examine key business processes critical to ICBC's success in the market, and set priorities for future investments over the next three years

* *Revised goals, objectives, strategies and measures for 2009 and future years are reflected in ICBC's 2009 – 2011 Service Plan.*

** *In 2008, Driver Services was renamed Driver Licensing and the name of this measure has been changed accordingly.*

Operational excellence is about a continued focus on the ability to deliver efficient and high-quality services today and into the future. This includes implementing ongoing business processes and customer service enhancements to address immediate service pressures at key customer touch points. It is also about our ongoing investments in business capabilities to better support our corporate strategy.

Technology and systems investments are a key way in which service quality and efficiency can be enhanced. In 2008, we completed the multi-year upgrade to our Material Damage Estimating Platform used by ICBC Express Repair shops across the province, upgraded technology and networks for appointed agents as part of the driver licensing digital picture identification project, installed hardware and software to bring in electronic content management, and began piloting elements of a high performance workplace technology strategy to improve employees' abilities to access work tools and information.

We have also started developing a multi-year, long-term plan for investments in our processes, technology and people practices. There are a number of reasons for these investments. For example, we must be able to meet increasing customer expectations for price/value and service delivery while sustaining the company's financial health in the face of cost pressures. We must also look to replace aging processes and systems with ones that help employees do their jobs efficiently and effectively, and ensure that we continue to have skilled employees even in the face of expected future labour market shortfalls.

In 2008, we laid the groundwork for this plan. We reviewed, at a high level, our current processes, systems and organization, completed a market assessment and looked at leading practices, and assessed future people, process and technology requirements. We also did a high-level assessment of the gap between our current situation and future needs. Work on the plan is continuing in 2009 with further refinements, costing, and determination of critical needs.

Quality service is also about responsible ways to enhance our business and minimize our impact on the environment. Recycling is a major component of our initiatives; approximately 225,000 pounds of surrendered licence plates are returned for aluminum recycling each year. In 2008, we reduced the packaging of licence plate validation decals; that means that 160,000 fewer sheets of plastic will enter landfills each year. As part of our commitment to be carbon neutral by 2010, we installed 10 solar arrays at our head office in North Vancouver, which means we'll be able to shut down our water boiler for seven months a year, and other facilities efforts in our head office alone will save ICBC an estimated $170,000 and 2.35 million kilowatt-hours of energy per year. At ICBC, we are committed to our corporate social responsibility to meeting the provincial government's climate action targets and to reducing our overall carbon footprint.

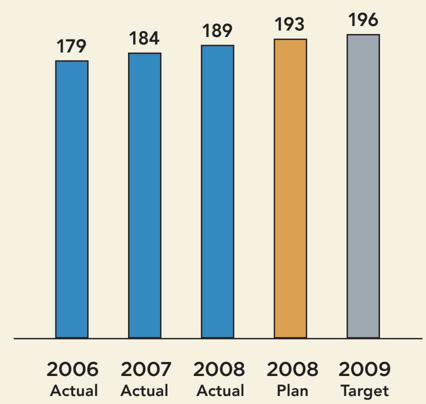
performance measures, targets and results:

insurance operating cost per policy

This measure reflects the cost of service delivery of all insurance-related activities including sales and marketing, internal and external costs of handling claims, loss management programs, premium taxes, commissions and associated support services. These costs are divided by the number of gross annualized Basic and Optional policies written to arrive at the cost per policy. In general, our cost per policy target measures how efficient we are at managing the company's insurance operations in the face of growing cost pressures.

For 2008, the actual result of $189 per policy is better than the plan of $193 per policy, reflecting lower than plan operating expenses and acquisition costs, offset by higher external claims-handling costs and lower than plan number of policies written. The 2009 target of $196 per policy reflects operating cost pressures, higher average acquisition costs and higher external claims handling costs primarily related to legal fees and disbursements. Due to current economic conditions, the anticipated increase in costs is expected to outpace the increase in growth in the number of policies written, resulting in a higher cost per policy.

insurance operating cost per policy ($)



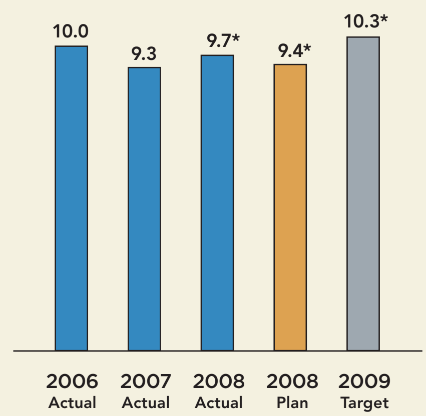
source: ICBC financial systems

driver licensing cost per transaction

This measure reflects the costs of delivering driver licensing services based on the number of driver licensing transactions. Driver licensing transactions include issuing and renewing driver licences, issuing BC identification cards, changing address information, and conducting driver tests. The cost per transaction measure indicates how efficient we are at delivering driver licensing services to our customers.

For 2008, the actual result of $9.7 per transaction is higher than the plan of $9.4 per transaction primarily due to lower than expected transaction volumes. The target for 2009 has been set at $10.3 per transaction. The cost per transaction is expected to increase in 2009 due to operating cost challenges driven by inflationary increases as well as incremental operating expense impacts arising from the implementation of driver licensing initiatives.

driver licensing cost per transaction ($)



**Effective 2008, the calculation methodology excludes one-time project costs.*

source: ICBC financial systems

summary of goals and performance

The table below provides an overview of ICBC's historical performance. The results reported below are based on the goals, objectives and measures outlined in its 2008 – 2010 Service Plan.

Goal	Objectives	Measures	Actual 2006	Actual 2007	Actual 2008	Plan 2008	Target 2009
customer focus	**Be an auto insurance company our customers trust to:** • deliver exceptional value, including competitive and stable prices • provide hassle-free claims service • be easy to deal with in all aspects of our business **Provide customers with the ICBC product that best matches their needs in partnership with independent brokers**	insurance services satisfaction	93%	93%	93%	93%[1]	93%
		claims services satisfaction	81%	84%	85%	83%	83%
		driver licensing satisfaction[5]	90%	91%	93%	91%	91%
financial responsibility	**Achieve financial strength through:** • appropriate pricing • reducing the growth in claims costs • a disciplined approach to managing operating costs • maximizing investment returns based on acceptable risk	minimum capital test	148%	188%	209%	Min 150%	Min 150%
		combined ratio					
		• claims costs, claims-related expenses, and insurance expenses	103.4%	98.4%	93.0%	103.3%	101.2%
		• non-insurance expenses	3.0%	2.6%	2.9%	2.8%	3.0%
		total	106.4%	101.0%	95.9%	106.1%	104.2%
		loss ratio	90.4%	83.7%	77.6%	87.0%	84.7%
		expense ratio					
		• insurance expense ratio[2]	15.7%	16.0%	15.9%	16.7%	16.3%
		• non-insurance expense ratio	3.0%	2.6%	2.9%	2.8%	3.0%
		total	18.7%	18.6%	18.8%	19.5%	19.3%
		investment return					
		• ICBC portfolio	7.32%	6.03%	4.53%	Benchmark	Benchmark
		• policy benchmark	6.98%	5.79%	4.00%	+0.269%[3]	+0.269%
		excess	0.34%	0.24%	0.53%		
high performing, engaged and capable people	**Create a performance-driven company by:** • developing our people • strengthening our leadership capability • improving employee accountability for delivering results	employee engagement index	52%	49%	44%	52%	48%
operational excellence	**Deliver efficient and high-quality service by:** • simplifying and enhancing key business processes • minimizing system support costs to enable renewal of insurance and claims systems • building our competitive capabilities in underwriting, marketing, and business analytics	insurance operating cost per policy	$179	$184	$189	$193	$196
		driver licensing cost per transaction[4, 5]	$10.0	$9.3	$9.7	$9.4	$10.3

[1] 2008 Plan was revised from 90% to 93%.
[2] Excludes deferred premium acquisition cost adjustments.
[3] 2008 Plan was revised from benchmark +0.268% to benchmark +0.269%.
[4] Effective 2008, the calculation methodology excludes one-time project costs.
[5] In 2008, Driver Services was renamed Driver Licensing and the name of this measure has been changed accordingly.

business risks and risk management

Consistent with good governance practices and insurance sector practices, ICBC manages risk from an organization-wide perspective. ICBC's Corporate Risk Management Framework is approved by its Board of Directors and defines our approach towards effective assessment and management of significant corporate risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective is to identify risks, raise awareness of those risks throughout the company, and initiate further action to control significant risks. The framework is used by ICBC executives to monitor strategic risks and planned mitigation strategies. Executive management reviews key corporate risks and the status of related mitigation strategies quarterly and updates are provided to the Board of Directors and relevant Board sub-committees. Through monitoring and review of the external environment and the performance of our corporate strategy, ICBC's key strategic risks are expected to change over time. New risks may emerge and identified risks may be reduced or eliminated through mitigation strategies or changes in the risk profile.

For 2008, strategic issues and risks that influenced activities and results included claims costs, crashes and crime; financial market and the economic environment; the evolving business environment; reputation; customer support; and, workforce planning.

- **Claims Costs, Crashes and Crime:** Automobile crashes and crime present a significant social and economic cost. Claims costs account for about three-quarters of ICBC's total expenditures and can have a significant impact on insurance rates. For example, a one per cent fluctuation in claims incurred costs represents a $26 million – $29 million change in net income, while a one per cent fluctuation in the unpaid claims balance represent a change of approximately $54 million – $61 million in claims costs.

  Risks increase as the vehicle population grows, while changes in driver behaviours and driving conditions can either contribute to or mitigate this risk. The most significant cost pressure is bodily injury claims and, particularly in light of the rapid growth in the cost of bodily injury claims costs in the last few years, presents a challenge for the insurance industry as a whole.

  In 2008, claims costs were lower than plan, reflecting a reduction in the frequency of claims, as well as a slowing in the growth in the average cost of claims, particularly the growth in bodily injury claims. These results are primarily due to good driving conditions throughout most of the year, a slowing in the growth in the number of vehicles on the road, and the impact of claims and road safety initiatives. Although claims costs were lower than anticipated in 2008, some of this is due to factors that are not expected to be repeated in future years such as less precipitation. Managing these costs therefore continues to be a priority for ICBC so that we can keep rates low and stable.

  We continue to use a number of strategies to address claims costs, crashes and auto crime, including claims handling improvements, road safety activities and public awareness campaigns, and loss management initiatives to address auto-related crime.

  In addition, through underwriting and pricing improvements we are continuing to move in the direction of driver-based pricing where premium rates are more reflective of risk. Drivers who take more risks and, overall, bring more costs to the system will pay higher premiums, which will benefit low risk drivers.

- **Financial Markets and the Economic Environment:** Like all insurers, ICBC holds investment assets to provide for unpaid claims costs, unearned premiums, and retained earnings. Earnings from ICBC's investments contribute to net income. Investment assets and income are sensitive to market conditions, such as interest rates and exchange rates, and can have a significant financial impact. For example, a one percentage point fluctuation in return means a $97 million – $111 million change in investment income. There is also a risk of deterioration of creditworthiness of companies in which ICBC invests or with which ICBC has significant financial exposure.

For 2008, our finances remain strong but were affected by the market downturn. However, our conservative investment strategy helped minimize the impact. Continued cautious management of our investment portfolio is important in protecting our customers, giving them the confidence that their claims will be paid and enabling us to avoid some of the insurance rate volatility that other companies have experienced in recent years.

In managing these risks, ICBC's investment policy, established by the Investment Committee and approved by the Board of Directors, provides the framework for balancing risk and returns. We follow a long-term strategy and diversify investment holdings to manage investment return fluctuations, and we hold a conservative portfolio with the majority of monies invested in fixed income assets. In addition, procedures are in place to monitor liquidity and profitability for major credit exposures across the company.

- **Evolving Business Environment:** In an evolving business environment, it is important for us to continue innovating to better serve customers. Like any business, ICBC must examine and renew the capacity of its workforce, systems and processes to maintain and improve service and efficiency.

  Capacity issues can relate to the business environment, a changing workforce and other requirements, such as regulatory processes. While not a major factor in performance results in 2008, over the longer term re-investing in our people, business processes and technology is a priority.

- **Reputation:** Establishing and maintaining ICBC's reputation as a responsible and reliable company is critical in building trust and support for our company. ICBC's reputation and the trust of our customers and key stakeholders could be diminished by a perceived or real inability of ICBC or our business partners to conduct business securely, ethically and responsibly. We must demonstrate integrity and dedication to our customers every day and at every level, and respond appropriately to issues.

  In 2008, we learned of issues at our material damage and research facility. We immediately investigated and made public this matter and worked to make things right for our customers. We publicly committed to taking a number of corrective actions, including implementing PricewaterhouseCoopers' recommendations. By the end of 2008, we had implemented the vast majority of these commitments, with only a few exceptions relating to programs that are underway but will require several years to fully complete.

  We continue to address reputation risk in several ways. Management's enhanced risk management framework explicitly considers the impact on ICBC's reputation associated with business practices and decisions. All managers will be involved in assessing the risks within their areas including determining how our reputation could be impacted by their area of operation. We are also looking at ways to enhance the customer experience across all touchpoints. Further, branding and proactive corporate communications support these changes, to help build customer trust and confidence. In addition, we have updated our Code of Ethics and continue to undertake significant awareness campaigns internally and with our business partners.

- **Customer Support:** Customers have expectations around price, choice, convenience and service. In addition, they want to be able to access their insurers in a variety of ways, including in person, via the telephone or the Internet. Continuing to provide value to customers as their expectations change will be an ongoing challenge, particularly in the face of claims cost pressures and the constraints of aging legacy systems.

  In 2008, we implemented a number of initiatives to improve the customer experience and we met or exceeded all of our customer satisfaction targets.

  Actions and activities we use to help address this risk include reviewing product offerings and services provided based on customer needs, and focusing on pricing to ensure stable and competitive prices. We are finding ways to better communicate with our customers and stakeholders to raise awareness and provide information on our products and their value, and to seek their input to make improvements. We also have policies and procedures in place to support ICBC's commitment to fairness in all dealings with customers. The ICBC Fairness Commissioner provides an impartial review where ICBC and a customer cannot agree.

- **Workforce Planning:** Retention of corporate talent and planning for replacement of key positions are essential in meeting current and future business needs. A competitive labour market impacts ICBC through factors such as increasing compensation costs and the ability to attract and retain the appropriate employees. The risk is that ICBC will not be able to deliver its core business or change initiatives due to capability, capacity and engagement of employees.

  In 2008, we continued to focus on the four areas we identified to help us position our workforce to effectively support our business strategy; job standards and competencies, leadership culture, talent management, and talent acquisition. We address this risk in a number of ways, including continuing to implement and refine our human capital plan. We are determining critical skills the company requires, identifying knowledge gaps and developing succession plans for key positions.

While we did not achieve our employment engagement target for 2008, we are committed to making employee engagement a priority for 2009 and for the future.

In addition to the above, ICBC's risk management process identified additional potential corporate level risks that are actively monitored and mitigated but which had a lesser degree of impact on 2008 results. These risks and their mitigation strategies are discussed below.

- **Competitive Environment:** Insurance is a complex business affected by external trends, risks, and other factors that can present both significant opportunities and risks for the company. Changing conditions in the Optional insurance market and past profitability in the Canadian property and casualty insurance industry create the potential for increased competition.

  Based on premiums written, the BC Optional auto insurance market has experienced strong growth over the past five years. There are a number of private insurers in BC, many of which are large multi-national insurers that sell some level of Optional auto insurance. The past few years of overall industry profitability have left many insurers well-capitalized, presenting them with opportunities for reinvestment, expansion and acquisitions; however, the impact of recent market volatility on the capital levels of individual companies is not yet known.

  In addressing this risk we monitor product profitability and develop strategies for improvement, product and underwriting enhancements, and competitive pricing models. We are also working on building capacity so that we can respond more quickly to changes in the Optional auto insurance market.

- **Access to Systems/Personal Information and Privacy:** ICBC maintains personal information relating to its customers, and deals with business partners and customers over the Internet. There is a risk that data and/or system-dependent operations could be intentionally or unintentionally compromised by unauthorized access to ICBC's systems/data, and/or by legitimate access to systems/data used inappropriately. And, while we strive to meet all legislative requirements, there is also a risk that ICBC may be found to not fully comply with privacy legislation.

  Our Code of Ethics was reviewed with all employees in 2008 and reinforced our obligation to protect access to personal information. We continue to undertake significant awareness campaigns internally and with our business partners on the importance of understanding our obligation to ensure the privacy of customers' personal information. Our privacy strategy and risk assessment are updated annually and a Privacy Incident Protocol is in place to ensure any incidents are handled effectively. We have an enterprise-wide information technology security program as well as data security measures in place, including Information Systems Security Policies governing access and use of corporate data. Direct access to ICBC databases by specified third party businesses is managed through access controls and, in some cases, formal information-sharing agreements.

- **Business Interruption:** There is a risk that the operations may not be maintained or essential products and services cannot be provided due to business interruption arising from physical and/or technical events. This risk is managed through three related programs: Emergency Response Program (safe building evacuations, search and rescue), Business Continuity Planning (continued essential customer services during an interruption), and Information Technology Disaster Recovery Planning. Plans are tested and improvements made at least annually.

- **Catastrophic Loss:** There is a risk that ICBC's capital strength could be eroded in the event of a major disaster. ICBC has financial protection through a reinsurance policy in the event of losses resulting from catastrophes. This policy is reviewed and renewed annually. We also assess the creditworthiness of our reinsurers. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. The reinsurance agreement also protects against abnormally large claims losses by limiting the amount for which it is liable in any single event and in any given year.

management's discussion and analysis

Our financial results for 2008 remain strong primarily as a result of solid premium revenue, a diversified and conservative investment portfolio, moderating claims costs, and continued prudent management of operating costs. These allowed ICBC to weather the downturn in the worldwide financial markets. Net income of $497.4 million in 2008 was $144.9 million lower than the 2007 net income of $642.3 million. 2007 was an exceptional year in that ICBC realized strong investment income including a one-time income from the sale of a real estate investment.

- Premiums earned were $3.6 billion in 2008; a $148.8 million increase over 2007. There was slower growth in the number of insured vehicles from prior years, but higher sales of Optional insurance coverages.

- Net claims incurred costs were $2.5 billion in 2008, a 3.9% decrease over 2007. The costs of current year claims were consistent with 2007. There was some moderation to the costs of claims resulting in a favourable adjustment to prior years' claims costs, mainly for outstanding injury claims primarily related to 2006 and 2007 accident years.

- Premium acquisition costs were $31.6 million higher than 2007 due to an increase in premiums earned and a lower adjustment to deferred premium acquisition costs (see description on page 37).

- Investment income in 2008 was $280.4 million, which is $331.2 million lower than 2007. Investment results in 2008 were impacted by the significant downturn in equity markets, resulting in losses in the sale of equity investments and recognition of an impairment in the value of some of the investment portfolio. Investment income for 2007 also included the one-time gain of $134.5 million related to the sale of the Central City development in Surrey.

- Operating costs continue to be prudently managed. In 2008, operating costs, excluding commissions, were $538.0 million, or about 2.9% higher than in 2007.

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to our customers such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BC Utilities Commission, is used to allocate costs between the Basic and Optional insurance products. The more complex nature of the financial allocation methodology does not lend itself to a broader-based discussion of business impacts and trends, and because we operate and manage on an integrated basis, we also report our financial and performance results in the annual report on an integrated basis. The following paragraph therefore provides a high-level summary of impacts for both the Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The $497.4 million net income for 2008 is based on net income from the Basic insurance business of $175.6 million and $321.8 million from the Optional insurance business. Income reflects the financial impact of the rate increase in 2007 for Basic insurance and the rate reductions in 2008 and 2007 for Optional insurance. The improvement to prior years' claims adjustments contributed to both Optional and Basic insurance income. Detailed financial information on ICBC's Basic and Optional lines of business is included in the 2008 Consolidated Financial Statements (note 17) included in this annual report.

premiums

Total premiums earned increased to $3.6 billion from $3.5 billion in 2007. In 2008, the number of policies sold increased by over 50,000 or 1.6% as compared to 2007. The increase to premiums earned also reflects higher sales of Optional insurance coverages, partially offset by reductions in Optional insurance rates. Optional insurance rates decreased by 3.0% effective July 1, 2008. Basic insurance rates were unchanged in 2008.

service fees

Service fees primarily comprise interest and other fees received from policyholders who have chosen to finance their insurance premiums over a period of six or twelve months. In 2008, service fees increased by $3.2 million over 2007. This follows the trend of higher insurance sales.

claims

Claims incurred costs account for approximately three-quarters of ICBC's total expenditures and are the expected costs to settle claims for all crashes that have occurred during the calendar year, regardless of when the crash is reported to ICBC. Claims incurred costs comprise payments made to settle claims, case adjusters' reserves of the ultimate probable cost of claims, and actuaries' estimates of claims costs not yet reported and the actuarial estimate of the additional costs that will be paid out on known claims.

In 2008, net claims incurred costs were $2.5 billion, an improvement from $2.6 billion in 2007. This is partially attributable to less precipitation during the year, improved vehicle safety features, investments in road safety initiatives and continuous improvements in ICBC's claims handling processes.

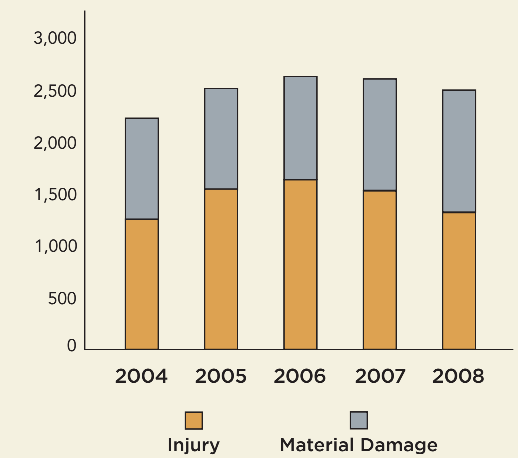
Current year discounted claims incurred costs were $2.6 billion, which was consistent with 2007, but had a less favourable discounting adjustment as compared to 2007 (see page 35 for further discussion on claims discounting).

The costs to settle outstanding claims were lower than expected, resulting in a $244.1 million favourable adjustment to prior years' claims, mainly in the cost of outstanding injury claims. This was offset by an adjustment of $107.7 million to reflect the change in discount rates.

Claims incurred costs depend on the number of claims incurred in a year and the average expected cost to settle those claims. The number of claims reported is influenced by factors that include driving behaviour, driving experience, weather, and road safety and loss management programs. For 2008, the number of claims reported during the year and the number of claims that took place but are expected to be reported in a future year is 965,000, which is 2.4% lower than 2007.

The average cost of claims is influenced by factors such as inflation, settlement awards, and legal, medical, vehicle repair, and independent adjusting costs. The overall average cost of claims in 2008 increased over 2007, reflecting a 4.9% increase in the average cost of all material damage claims and a 1.5% increase in the average cost of bodily injury claims.

net claims incurred costs
($ millions)



source: ICBC financial systems

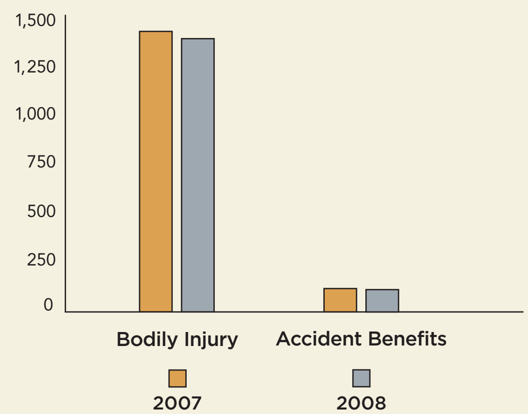
injury claims

Injury claims account for approximately 60% of claims incurred costs, and include bodily injury claims, accident benefits and death benefits. Injury claims include amounts for pain and suffering, future care, past and future wage loss, and external claims handling expenses.

Bodily injury claims account for over 90% of all injury claims costs. For 2008, the number of bodily injury claims reported during the year and the numbers of claims that took place but are expected to be reported in a future year is lower than the claims arising from 2007. This is a consistent trend in bodily injury claims that has been observed over recent years.

In 2008, there was only a 1.5% increase in the average cost of bodily injury claims, compared to a 6.8% increase in 2007.

current year injury claims incurred (major categories)
($ millions)



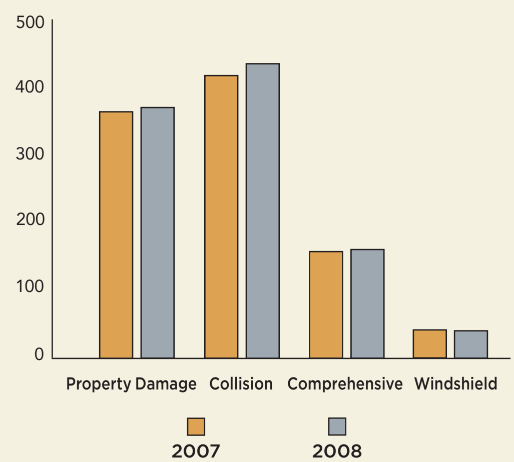
source: ICBC financial systems

material damage (non-injury) claims

The main categories of non-injury or material damage claims are property damage, collision, comprehensive, and windshield claims. In 2008, there was a 2.1% decrease in the number of material damage claims which coincides with the dry weather, high summer gas prices and general changes in the economy in 2008.

The average cost of all material damage claims was 4.9% higher than in 2007, mainly due to inflation reflecting the increase in the costs of repair parts and labour.

current year material damage claims incurred (major categories)
($ millions)



source: ICBC financial systems

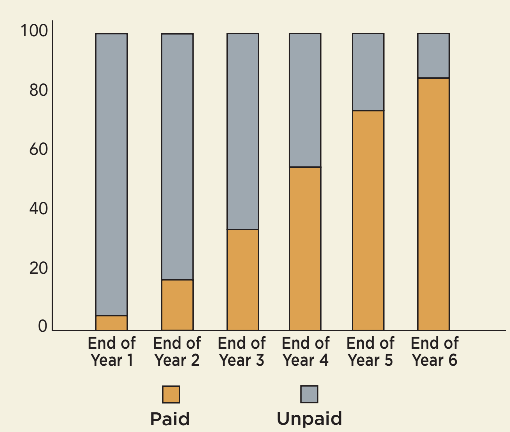
unpaid claims and prior years' claims adjustments

The unpaid claims reserve is money set aside in anticipation of future claims payments relating to claims that have already happened. The adequacy of this liability is reviewed and adjusted periodically throughout the year based on revised actuarial estimates which includes a provision for adverse deviation (see note 2e to the Consolidated Financial Statements).

Adjustments to the prior years' claims reserves are due to the re-estimation of future claims costs for claims in progress and those incurred in prior years but not reported. ICBC commissions the services of an external actuary to provide an independent assessment of the unpaid claims reserves and, as part of the annual audit of the financial statements, the external auditor reviews the adequacy of the unpaid claims reserves.

The estimate of unpaid claims at the end of 2008 was $5.7 billion; however, estimates for these future claims costs can change significantly due to the time frame in which certain types of claims are settled, which can be several years. ICBC earns investment income on funds set aside for unpaid claims, between the time that premiums are collected and the time claims are ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports its unpaid claims balance on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims. The discount rate is based on the weighted average of the expected rate of return on ICBC's current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. The impact of a change in the discount rate is reflected in the income statement for current year claims incurred and prior years' claims adjustment for all unpaid claims.

breakdown of bodily injury costs (typical accident year)
(%)



source: ICBC financial systems

Unpaid bodily injury claims costs account for nearly 95% of total unpaid claims costs and generally take several years to settle. As illustrated in the above chart, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater proportion of the costs being an estimate of claims costs payable in future years. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined. This results in adjustments to the unpaid claims reserve to reflect the most current forecast of claims costs. During 2008, the estimated costs of settling claims for 2007 and prior years was adjusted resulting in a net $136.4 million favourable prior years' claims costs adjustment after discounting for 2008, mainly relating to injury claims for 2007 and prior years.

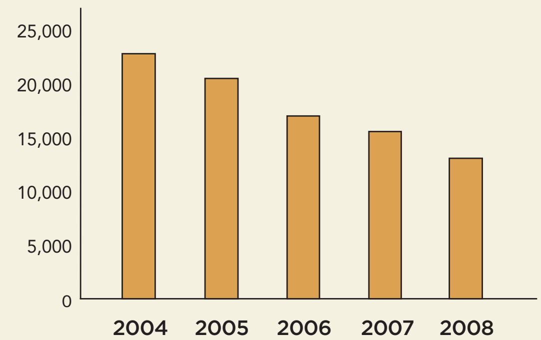
road safety and loss management

ICBC invests in road safety and loss management programs to help prevent crashes, auto crime and fraud. This contributes to low and stable rates for customers. In 2008, ICBC invested $37.0 million in road safety and $13.0 million in loss management programs.

ICBC targets its road safety investments on the major risks that impact customers and costs in our business, including impaired driving, speeding, crashes at intersections and the lack of or improper use of occupant restraints. ICBC also continued its successful partnership with road authorities in 2008 to reduce crashes at high-risk road locations by sharing the cost of over 300 road safety engineering programs. Road safety programs have contributed to a 12% reduction in the traffic crash injury rate in BC in the past five years.

ICBC's 2008 auto crime investment maintained its focus on minimizing the impact of auto theft. Support for programs like Bait Car, Stolen Auto Recovery, Auto Crime Enforcement month and an immobilization strategy targeting high theft vehicles contributed to a 16% reduction in auto theft across BC in 2008. Since 2003, when auto crime peaked in BC, our combined efforts have contributed to a 47% reduction across the province, as shown in the chart below. The reduction in auto crime partially offsets claims cost pressures related to inflationary increases and changes in vehicle design.

total theft of vehicles
(number of claims reported)



source: ICBC financial systems

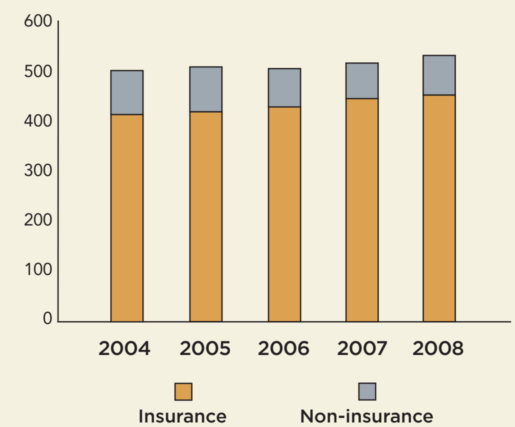
ICBC actively pursued its Zero Tolerance for Fraud policy in 2008, which protects customers from adverse impacts on premiums when fraud occurs. A Special Investigation Unit manages programs that prevent, detect and investigate fraud in all aspects of ICBC's business. In 2008, over 2,200 cases of claim fraud were investigated, leading to 97 charges laid against 71 people.

operating costs

Operating costs are defined as costs (compensation and operating costs) required to operate the insurance and non-insurance business with the exception of claims payments, commissions, and premium taxes. ICBC's costs have remained relatively stable despite continual cost pressures arising from business improvement changes, technology and system upgrades, contractual arrangements, and general inflationary increases.

Included in total operating costs are non-insurance costs, which consist of costs for driver licensing, vehicle licensing and registration, and government fines collection. Non-insurance costs are funded from Basic insurance premiums.

operating costs
($ millions)



source: ICBC financial systems

ICBC continued to focus on managing operating costs, and ended the year with operating costs of $538.0 million, which is an increase of 2.9% over 2007, mainly as a result of general inflationary increases, suppliers' increased costs, support of government priorities, and reinvestment into the business.

acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of ICBC's insurance products, and for administering driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4% of premiums) collected and paid to the provincial government. Consistent with the recognition of premium revenue earned over the duration of the policy, commissions and premium taxes are expensed on a similar basis. At year-end, the unexpended portion of these costs are deferred and reflected as deferred premium acquisition costs (DPAC). DPAC is written down when future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums. Conversely, where there has been a previous write-down of DPAC, a positive adjustment is made when unearned premiums are expected to exceed future claims and related expenses.

investments

ICBC has an investment portfolio with a carrying value of approximately $10.1 billion which represents approximately 88% of ICBC's assets as at the end of 2008.

Funds available for investment purposes come primarily from the reserves set aside for unpaid claims, unearned premiums, and retained earnings. ICBC maintains a very conservative investment portfolio designed to minimize investment risk and maintain a high degree of liquidity.

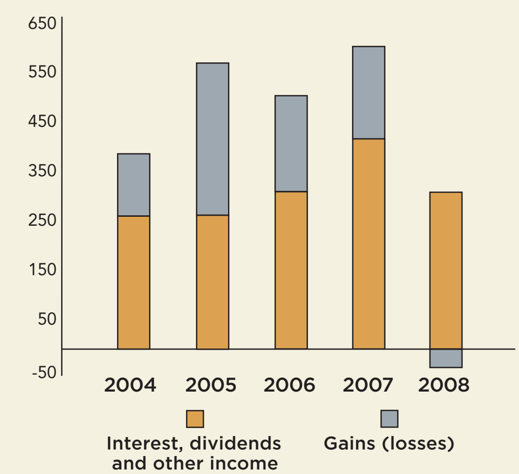
Approximately 79% of the carrying value of the portfolio took the form of high grade corporate and government bonds, money market securities and mortgage instruments, while 21% of the portfolio was invested in equity investments and real estate.

investment income

In 2008, ICBC's investment income was $280.4 million or a decrease of $331.2 million from 2007. $134.5 million of the decrease related to 2007 income from the sale of the Central City development in Surrey.

Investment results were impacted by the steep decline in equity markets, resulting in recognition of equity losses of $174.2 million and a $75.8 million loss on impairment in value, recognized as other than temporary, on the equity portfolio. A further $8.0 million impairment was taken to reflect the change in estimated value of ICBC's non-bank asset-backed commercial paper. Offsetting these losses were gains of $76.2 million on sales of bonds as bond values increased in 2008 due to declining interest rates.

investment income
($ millions)



source: ICBC financial systems

Overall, these results equate to an accounting investment return of 2.9% compared to 6.8% in 2007, based on the average investment balance during the year on a cost basis. The positive return reflects the strong income generating profile of ICBC's fixed income holdings.

equity

Effective January 1, 2007, ICBC adopted the new financial instrument accounting standards issued by the Canadian Institute of Chartered Accountants. Bonds and equities are measured at fair value on the balance sheet, with changes in fair value (unrealized gains and losses) included in a new component of equity called Accumulated Other Comprehensive Income (AOCI).

AOCI decreased from $279.0 million at January 1, 2008 to $99.7 million at December 31, 2008. The decrease of $179.3 million is due to the decline in the fair value of our investments as a result of the dramatic downturn of the financial markets.

ICBC's equity includes retained earnings of $2.7 billion as at December 31, 2008. Retained earnings are required to help absorb significant unexpected increases in claims costs. While many companies have been negatively impacted by the market downturn, ICBC had a strong capital base going into 2008, enabling it to withstand current market conditions and to show relatively strong financial results.

Similar to private industry, the adequacy of retained earnings or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators. The common industry method used to measure financial stability is a risk-based capital adequacy framework which assesses assets, policy liabilities, and other potential liabilities to determine appropriate capital levels. Under this framework, property and casualty insurers are required to meet a capital available to capital required test known as the Minimum Capital Test (MCT).

In 2004, the provincial government issued Special Direction IC2, which set out target levels of capital for ICBC and the timeframes in which these must be achieved. Special Direction IC2 requires ICBC to achieve by December 31, 2014, and to maintain after that date, capital available for the total corporation equal to 110% of MCT. In addition, ICBC is required to achieve by the same date, and maintain after that date, capital available equal to at least 100% of MCT for the Basic insurance business. For the Optional insurance business, ICBC is required to achieve by December 31, 2010, and maintain after that date, capital available equal to at least 200% of MCT.

ICBC has established management targets for MCT in excess of the regulatory targets to take into consideration relevant factors such as business risks and the volatility inherent in the insurance business such as changes to claims costs and in the investment markets.

At December 31, 2008, ICBC's total corporate MCT of 209% exceeded the regulatory capital level set out by Special Direction IC2 and management's operating target of 150%. In addition, both the Basic and Optional insurance businesses exceeded the regulatory capital levels and management's operating targets. It is ICBC's objective to maintain capital to exceed these targets to protect our policyholders from financial risks, while maintaining low and stable rates over the long term. In view of the adverse economic events in 2008, ICBC is re-examining its capital targets to ensure we maintain appropriate levels of capital to meet policyholder obligations, shield our customers from rate shock, and reinvest in much-needed systems and infrastructure upgrades.

capital expenditures

In 2008, ICBC incurred $22.1 million in capital expenditures, relating to technology enhancements, facilities upgrades and the acquisition of land for future development. In order to maintain ICBC's infrastructure and continue to be able to deliver service to customers, higher investments in capital will be required in the future for the set up of an alternative data centre, replacement or upgrades of claims handling facilities and Driver Licensing Centres, and renewal of critical business systems.

operating subsidiaries

Effective August 1, 2007, ICBC sold its Central City development in Surrey. In 2007, ICBC reported income of $134.5 million from the sale of this property. Surrey City Centre Mall Ltd. (SCCM), a wholly owned subsidiary of ICBC, ceased active operations on August 1, 2007. The financial results for SCCM are included in ICBC's financial statements and operations as shown in this annual report.

All other holdings are nominee companies with no operations in their own right, and all financial information is included in ICBC's financial statements.

international financial reporting standards

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles effective for fiscal years beginning on or after January 1, 2011 for all publicly accountable enterprises.

ICBC has initiated a project to converge to IFRS in order to meet the January 1, 2011 convergence timeline.

summary financial performance and outlook

The table below provides an overview of ICBC's 2008 financial performance relative to its 2008 – 2010 Service Plan and a forecast of financial results for the next three years as set out in ICBC's 2009 – 2011 Service Plan. These results and forecasts form the basis upon which key performance targets are set.

($ millions)	2007 Actual	2008 Plan	2008 Actual	2009 Plan	2010 Forecast	2011 Forecast
Net premiums earned	$3,482	$3,613	$3,631	$3,666	$3,696	$3,757
Service fees	66	66	69	57	57	58
Total earned revenues	**3,548**	**3,679**	**3,700**	**3,723**	**3,753**	**3,815**
Net claims incurred[1]	2,613	2,829	2,510	2,774	2,843	2,938
Claims, road safety and loss management services	302	313	309	330	343	354
Insurance operations expenses	149	168	148	160	168	176
Premium taxes and commissions[2]	380	420	412	444	456	464
Total claims & operating costs	**3,444**	**3,730**	**3,379**	**3,708**	**3,810**	**3,932**
Underwriting income (loss)	**104**	**(51)**	**321**	**15**	**(57)**	**(117)**
Investment income	612	425	280	356	366	456
Gain on sale of property and equipment	19	–	–	–	–	–
Income – insurance operations	**735**	**374**	**601**	**371**	**309**	**339**
Loss – non-insurance operations	(93)	(102)	(104)	(111)	(117)	(122)
Net income	**$ 642**	**$ 272**	**$ 497**	**$ 260**	**$ 192**	**$ 217**
Change in unrealized gains (losses) during the year	(203)	(18)	(179)	(87)	125	68
Total comprehensive income	**$ 439**	**$ 254**	**$ 318**	**$ 173**	**$ 317**	**$ 285**
Long-term debt	Nil	Nil	Nil	Nil	Nil	Nil

1 *Claims incurred include prior years' claims adjustments.*
2 *Premium taxes and commissions include deferred premium acquisition cost adjustments.*

comparison of 2008 results to plan

ICBC's net income for 2008 was $497.4 million, compared to a plan of $271.7 million. Premiums earned were $18.1 million higher than plan, primarily due to continued strong sales of Optional insurance products. Investment income was $144.9 million lower than plan due to the decline in the equity investment markets worldwide which resulted in realized losses from the sale of equity investments and the write-down in the carrying value of investments that were considered to be other than temporary, partially offset by gains from the sale of bonds.

Net claims incurred were $319.0 million lower than plan, primarily reflecting the active management of overall claims costs and particularly, injury claims costs. Claims handling and road safety initiatives have contributed to the positive variance from plan along with a decline in the growth of the number of vehicles on the road and favourable weather conditions in the year which resulted in fewer than expected claims. In addition, there was some moderation in the costs of injury claims which resulted in lower than expected costs to settle outstanding claims from prior years. Road safety and loss management, and insurance operations expenses were below plan, demonstrating our continued commitment to the prudent management of costs. Premium taxes and commissions were lower than plan due in part to a more positive adjustment to DPAC associated with the improved profitability of the Basic insurance business (see page 37 for further discussion of DPAC). Non-insurance costs were slightly higher than plan reflecting staffing increases to meet customer service needs and business requirements, and business change initiatives.

ICBC's financial outlook takes into consideration the business risks and risk mitigation strategies currently in place. ICBC's performance targets have been established accordingly, however, any material changes may have a significant impact on our performance results. Further information on potential issues and risks can be found in the "Business Risks and Risk Management" section of this report. More detailed information on ICBC's outlook is provided in ICBC's 2009 – 2011 Service Plan.

management's responsibility for financial statements

Scope of Responsibility

Management prepares the accompanying consolidated financial statements and related information and is responsible for their integrity and objectivity. The statements are prepared in conformity with Canadian generally accepted accounting principles. These consolidated financial statements include amounts that are based on management's estimates and judgements, particularly our reserves for unpaid claims. We believe that these statements present fairly ICBC's financial position, results of operations, and cash flows, and that the other information contained in the annual report is consistent with the consolidated financial statements.

Internal Controls

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. There is a quarterly risk assessment process, the results of which influence the development of the internal audit program. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted. We recognize the inherent limitations in all control systems and believe our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Board of Directors and Audit Committee

The Audit Committee, composed of members of the Board of Directors, oversees management's discharge of its financial reporting responsibilities. The Committee recommends for approval to the Board of Directors the appointment of the external auditors and the external actuaries, and fee arrangements. The Committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors to discuss auditing, financial reporting, and internal control matters. The Audit Committee receives regular reports on the internal audit results and evaluation of internal control systems; and it reviews and approves major accounting policies including alternatives and potential key management estimates or judgements. Both internal and external auditors have access to the Audit Committee without management's presence. The Audit Committee has reviewed these financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

Independent Auditors and Actuary

Our independent auditors, PricewaterhouseCoopers LLP, have audited the financial statements. Their audit was conducted in accordance with Canadian generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

Eckler Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of the Corporation's policy liabilities which include a provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. In performing the evaluation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Jon Schubert
President and Chief Executive Officer

March 5, 2009

Geri Prior
Chief Financial Officer

March 5, 2009

Auditors' Report

To the Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

We have audited the consolidated statement of financial position of the **Insurance Corporation of British Columbia** as at December 31, 2008 and the consolidated statements of operations, equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 5, 2009

Actuary's Report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2008 and their changes in its consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

William T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
March 5, 2009

Consolidated Statement of Financial Position

As at December 31, 2008

($ THOUSANDS)	2008	2007
Assets		
Cash and investments (note 4)	$ 10,056,546	$ 9,641,452
Accrued interest (note 4)	62,232	67,195
Amount recoverable from reinsurers (notes 4, 8 & 9)	17,643	19,993
Premiums and other receivables (notes 4 & 10)	945,806	922,192
Deferred premium acquisition costs and prepaid expenses (note 13)	206,113	184,931
Accrued pension benefits (note 11)	100,515	76,956
Property and equipment (note 7)	87,637	78,966
	$ 11,476,492	$ 10,991,685
Liabilities and equity		
Liabilities		
Cheques outstanding (note 4)	$ 40,573	$ 38,610
Accounts payable and accrued charges (note 4)	221,102	217,192
Bond repurchase agreements (note 4)	844,299	829,492
Accrued post-retirement benefits (note 11)	123,708	113,747
Premiums and fees received in advance	52,035	51,982
Unearned premiums	1,713,838	1,705,367
Provision for unpaid claims (note 8)	5,729,555	5,602,048
	8,725,110	8,558,438
Equity		
Retained earnings	2,651,711	2,154,272
Accumulated other comprehensive income	99,671	278,975
	2,751,382	2,433,247
	$ 11,476,492	$ 10,991,685

Contingent liabilities and commitments (note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Board

T. Richard Turner
Chair of the Board of Directors

T. Michael Porter
Director

Consolidated Statement of Operations

For the year ended December 31, 2008

($ THOUSANDS)	2008	2007
Revenues		
Net premiums written		
Vehicle	$ 3,623,734	$ 3,554,691
Driver	15,953	17,363
	$ 3,639,687	$ 3,572,054
Net premiums earned		
Vehicle	$ 3,614,623	$ 3,464,938
Driver	16,592	17,496
	3,631,215	3,482,434
Service fees	69,174	65,949
Total earned revenues	3,700,389	3,548,383
Claims and operating costs		
Net claims incurred during the year (note 8)	2,646,191	2,646,360
Prior years' claims adjustments (note 8)	(136,447)	(33,779)
Net claims incurred (note 8)	2,509,744	2,612,581
Claims services	259,385	251,192
Road safety and loss management services	50,009	50,777
	2,819,138	2,914,550
Operating costs – insurance (note 12)	148,332	148,818
Premium taxes and commissions (note 13)	412,089	380,479
	3,379,559	3,443,847
Underwriting income	320,830	104,536
Investment income (note 6)	280,449	611,600
Gain on sale of property and equipment	–	19,117
Income – insurance operations	601,279	735,253
Non-insurance operations		
Provincial licences and fines (note 14)	519,841	517,617
Licences and fines transferable to the Province (note 14)	519,841	517,617
Operating costs – non-insurance (note 12)	80,244	71,811
Commissions (note 13)	23,596	21,124
	623,681	610,552
Loss – non-insurance operations	(103,840)	(92,935)
Net income for the year	$ 497,439	$ 642,318

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Equity

For the year ended December 31, 2008

($ THOUSANDS)	2008	2007
Retained earnings		
Balance, beginning of year	$ 2,154,272	$ 1,511,954
Net income (1)	497,439	642,318
Balance, end of year	2,651,711	2,154,272
Accumulated other comprehensive income		
Balance, beginning of year	278,975	482,426
Other comprehensive income		
Net change in unrealized losses on available for sale securities (1)	(179,304)	(203,451)
Balance, end of year	99,671	278,975
Total equity	$ 2,751,382	$ 2,433,247
(1) Comprehensive income (net income and net change in accumulated other comprehensive income)	$ 318,135	$ 438,867

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2008

($ THOUSANDS)	2008	2007
Cash flow from operating activities		
Cash received for:		
Vehicle premiums and others	$ 4,025,875	$ 3,924,334
Licence fees	486,742	491,020
Social service taxes	122,112	123,066
	4,634,729	4,538,420
Collection for receivables, subrogation, and driver penalty point premiums	158,504	170,551
Salvage sales	48,645	55,212
Interest	354,164	313,512
Dividends and other investment income	38,415	37,075
Other	–	510
	5,234,457	5,115,280
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,489,651)	(2,551,308)
Province of BC for licence fees, fines, and social service taxes collected	(644,255)	(656,163)
Suppliers of goods and services	(205,785)	(155,408)
Employees for salaries and benefits	(391,089)	(370,973)
Agents for commissions	(297,317)	(285,681)
Policyholders for premium refunds	(317,850)	(306,118)
Province of BC for premium taxes	(164,697)	(156,048)
	(4,510,644)	(4,481,699)
Cash flow from operating activities	723,813	633,581
Cash flow used in investing activities		
Purchase of investments	(7,604,627)	(7,845,167)
Proceeds from sales of investments	6,886,629	7,233,322
Securities sold under repurchase agreements	(32,018)	(20,658)
Payments to vendors of property and equipment	(18,695)	(14,541)
Proceeds from sale of property and equipment	62	20,092
Cash flow used in investing activities	(768,649)	(626,952)
(Decrease) increase in cash and cash equivalents during the year	(44,836)	6,629
Cash and cash equivalents, beginning of year	183,925	177,296
Cash and cash equivalents, end of year	$ 139,089	$ 183,925
Represented by:		
Investments – cash and cash equivalents (note 4)	$ 179,662	$ 222,535
Cheques outstanding	(40,573)	(38,610)
	$ 139,089	$ 183,925

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2008

1. Purpose

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation, not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act*, R.S.B.C. 1996 chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Vehicle) Act*, and is also responsible for non-insurance services under the *Insurance Corporation Act* and the *Motor Vehicle Act*. Non-insurance services include vehicle licensing, registration, and issuance of driver licences. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and services (note 17).

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside of the Province of British Columbia (the Province). The Corporation also offers insurance in a competitive environment (Optional), which includes, but not limited to, the following coverages: extended third party legal liability, comprehensive, collision and loss of use. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent brokers located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary automobile insurer.

2. Summary of Significant Accounting Policies

Basis of reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as required by the *Insurance Corporation Act*. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. As required by the *Insurance Corporation Act*, the Corporation reports the revenues and expenses attributable to universal compulsory automobile insurance and non-insurance separately from the other operations of the Corporation (note 17).

The following are the significant accounting policies adopted by the Corporation:

a) Premiums earned

The Corporation recognizes vehicle premiums, net of reinsurance premiums, over the term of each vehicle policy written. The driver premiums are taken over the driver's penalty point year. Unearned premiums are the portion of premiums relating to the unexpired term, net of any premium refunds.

b) Service fees

Service fees on ICBC's Payment Plan are recognized monthly over the term of the policy.

c) Reinsurance

The Corporation reflects reinsurance balances on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of operations on a net basis to indicate the results of its retention of premiums written.

d) Deferred premium acquisition costs

To the extent premium acquisition costs such as commissions and premium taxes are recoverable from unearned premiums they are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The method followed in determining the deferred costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a net corporate basis in the statement of financial position.

e) Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of the recovery for reinsurance. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis (note 8) and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

To recognize the uncertainty in establishing best estimates, the Corporation includes a PFAD in the assumptions relating to claims development, reinsurance recoveries and related future investment income. The PFAD included in the unpaid claims consists of the three elements, as set out in the Standards of Practice of the Canadian Institute of Actuaries: a claims development portion that reflects considerations relating to the Corporation's claims practices, the underlying data and the nature of the lines of business written; a reinsurance recovery portion that reflects considerations relating to the ceded claims ratio and potential problem reinsurers; and thirdly, a portion for the investment return rate that reflects uncertainty in the investment portfolio yield, the investment climate in general and the rate at which claims are paid. The PFAD margins used are determined by evaluating the above considerations.

The margin for claims development is a percentage of the unpaid claims gross of reinsurance, excluding PFAD. The margin for recovery of reinsurance ceded is a percentage of the amount deducted on account of reinsurance ceded in calculating the unpaid claims without PFAD. The margin for investment return rate is a reduction from the expected rate of return per annum.

As with any insurance company, the provision for unpaid claims is an estimate subject to random volatility which could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, the timing of claims payments, the recoverability of reinsurance and future rates of investment return. All changes to the estimate are recorded as incurred claims and prior years' claims adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims, taking into consideration the consistency of the Corporation's claims handling procedures, the amount of information available, and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates will be. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is challenging to predict for several reasons, which include some claims not being reported until many years after a policy term, or changes in the legal environment, case law or legislative amendments. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims and other liabilities.

f) Investments and investment income

The Corporation designates all financial instruments as available for sale (AFS), held for trading (HFT) or loans and receivables (Loans). The Corporation's financial assets and liabilities, including all derivatives, are recorded on the consolidated statement of financial position at fair value on initial recognition and subsequently accounted for based on their classification as follows:

Available for Sale The Corporation has designated its cash and cash equivalents, money market securities, and its bond and equity portfolios, which comprise the majority of the Corporation's assets, as AFS.

AFS financial assets are measured at fair value based upon available information. When neither an active market nor independent prices are available, the Corporation applies other valuation techniques to estimate fair value.

Changes in the fair value of AFS securities are recorded in other comprehensive income (OCI) in the consolidated statement of equity, until the financial asset is disposed of or becomes other than temporarily impaired, at which time the gain or loss will be recognized in the consolidated statement of operations.

Held for Trading	Financial assets purchased for short term investment objectives are classified as HFT. Financial assets and derivatives classified as HFT are carried at fair value on the consolidated statement of financial position with realized and unrealized gains and losses recorded in investment income.
Loans and Receivables	Mortgages not traded in an active market are classified as loans and carried at amortized cost using the effective interest rate method.

Real estate held for investment consists of income-producing properties, which are recorded at cost.

Income on interest-bearing securities is accrued daily. Dividends on equity investments are recognized as income on their ex-dividend dates. Transaction costs related to items classified as HFT are recognized in net income. For all other financial instruments, transaction costs are included in the initial carrying amount of the item. For AFS financial assets that have fixed or determinable payments, the transaction costs are amortized to net income using the effective interest method. If the AFS financial assets do not have fixed or determinable payments, the transaction costs are recognized in net income when the assets are disposed of.

If the value of an investment suffers a loss in value that is other than temporary, the investment is adjusted to the fair value with the adjustment being included in the consolidated statement of operations.

The Corporation also participates in the sale and repurchase of Government of Canada, Provincial and US Treasury bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. These sale and repurchase arrangements are accounted for as financial liabilities unless they qualify as an effective hedge. The difference between the sale price and the agreed repurchase price on a repurchase contract is recorded as interest income or expense.

g) Hedging and derivative instruments

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation may use derivative financial instruments to hedge interest rate risk and currency risks associated with its investment portfolio. Interest rate swaps are used to create a hedge to match a liability or an asset, and may contain a cross-currency component. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount. Cross-currency interest rate swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

The Corporation may use basis swaps and forward foreign exchange contracts to hedge foreign exchange risk. Basis swaps involve the exchange of principal and interest payments in two different currencies. ICBC uses short-term forward foreign exchange contracts to fix the rate of exchange of expected future foreign currency cash flows.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. Specific swap derivatives that qualify under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3865, "Hedges", have been designated as hedging items. All derivative financial instruments that do not qualify as an effective hedge have been designated as HFT in accordance with the CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". These derivative financial instruments that qualify as HFT are recognized at their fair value on the consolidated statement of financial position, with changes in fair value reflected in the consolidated statement of operations during the period in which they arise.

For purposes of meeting the requirements of CICA Handbook Section 3865, "Hedges", all hedges are hedging relationships that have been designated, and documentation exists detailing the risk management objective and strategy for undertaking the hedge. The documentation specifically identifies the asset or liability being hedged, the type of derivative used, and the effectiveness of the hedge. All hedges are fair value hedges as they are used to hedge changes in interest rate risk. Also, there is a formal assessment at the inception of the hedge and on an ongoing basis as to whether the derivatives used in the hedges are highly effective in offsetting changes in fair values or cash flows of hedged items throughout the whole relationship.

The income or expense resulting from the derivative transactions is included in interest income when the hedged item is recognized in earnings. In the event that the hedging relationship is no longer effective, the resulting realized or unrealized gain or loss from a swap would be recognized in the consolidated statement of operations as part of investment income. The associated derivative instrument would be subsequently recognized in the consolidated statement of financial position at fair value.

h) Pensions and post-retirement benefits

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, compensation levels, retirement ages of employees and expected healthcare costs.

The expected return on plan assets is calculated using the expected long-term rate of return on plan assets and the fair value of the assets.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain or loss over 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the expected average remaining service period of active employees.

The transitional asset, created when the Corporation adopted the recommendations of CICA Handbook Section 3461, "Employee Future Benefits" in 2000, is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. The cost of this plan is accounted for on a cash basis.

i) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Software development costs, which are comprised of labour and material costs for design, construction, testing, implementation and other related costs, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life at the following annual rates: buildings 5–10%, furniture and equipment 10–33%, and software 33%. Leasehold improvements are amortized over the term of each lease.

j) Cash and cash equivalents

For purposes of the consolidated statement of cash flows, the Corporation considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty and money market securities with a term less than 90 days, net of outstanding cheques as equivalent to cash.

k) Translation of foreign currencies

Foreign currency investments are translated at exchange rates at the date of purchase. Other foreign currency assets and liabilities considered as monetary items are translated at exchange rates in effect at the year end date. Foreign currency revenues and expenses are translated at transaction date exchange rates. Exchange gains and losses are included in the determination of net income while unrealized gains and losses on AFS securities are included in other comprehensive income.

l) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are provisions for unpaid claims and the related net claims incurred, provisions for doubtful accounts, impairment of investments, discount rate, accrued pension benefits, accrued post-retirement benefits, and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in future periods.

m) Fair value

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than those identified in note 4, provision for unpaid claims (note 8), amount recoverable from reinsurers (note 9), and post-retirement benefits (note 11) approximate their carrying value.

3. Changes in Accounting Policy

a) New accounting pronouncements

Effective January 1, 2008, the Corporation adopted CICA Handbook Sections 3862, "Financial Instruments – Disclosure" and 3863, "Financial Instruments – Presentation" revising and enhancing disclosure requirements.

A financial instrument is a contract that creates a financial asset for one party and, at the same time, a financial liability or equity investment for the other party, that will settle for cash either directly or indirectly. Financial instruments include cash and investments including any derivative contracts, cheques outstanding, accounts receivables and payables, amounts recoverable from reinsurers, accrued interest, and bond repurchase investments.

The new sections place increased emphasis on disclosures about the significance of financial instruments in the Corporation's financial performance, the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. The Corporation has included these disclosures in note 4 and note 5.

Also effective January 1, 2008, the Corporation adopted CICA Handbook Section 1535, "Capital Disclosures", which enhances both qualitative and quantitative disclosures enabling users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation has included these disclosures in note 15.

b) International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) over a transition period ending December 31, 2010. The Corporation's consolidated financial statements will be prepared in accordance with IFRS for the year ending December 31, 2011.

The Corporation has embarked on a project to identify and evaluate the implications of IFRS on the consolidated financial statements and develop a plan to complete the transition. The impact of the transition to IFRS on the consolidated financial statements is not yet determinable.

4. Financial Instruments

a) Cash and investments

($ THOUSANDS)		2008	2007
	Classification	Carrying Value	Carrying Value
Cash and investments			
Cash and cash equivalents	AFS	$ 179,662	$ 222,535
Money market securities[1]	AFS	105,206	108,482
Bonds			
Canadian			
Federal	AFS	3,096,032	2,981,622
Bond repurchase – hedged	AFS	–	(19,906)
Provincial	AFS	816,513	914,546
Municipal	AFS	11,177	25,662
Corporate	AFS	2,364,924	1,890,849
Total Canadian bonds		6,288,646	5,792,773
Global	AFS	498,391	420,380
Total bonds		6,787,037	6,213,153
Mortgages	Loans	830,409	800,055
Equities			
Canadian	AFS	1,063,860	1,260,171
United States	AFS	432,425	475,509
Europe, Australia, Far East	AFS	448,249	426,560
Total equities		1,944,534	2,162,240
Real estate	Other	209,698	134,987
Total cash and investments		$ 10,056,546	$ 9,641,452

[1] includes money market securities with a maturity of greater than 90 days

The fair value of investments for 2008 approximates their carrying value except for real estate that has a fair value of $289.7 million (2007 – $201.0 million), and mortgages that have a fair value of $843.2 million (2007 – $800.1 million).

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon the net present value of the payment stream using mortgage rates currently available. The estimated fair value of ICBC's real estate investments is based on independent appraisals made during the year, and when not available, on discounted property cash flows using current market capitalization rates.

Where an active market does not exist, and quoted bid prices are unavailable, fair values are determined using valuation techniques that refer to observable market data. The fair value of financial assets recorded on the consolidated balance sheet were primarily based upon published market prices with less than one per cent of the fair values of financial assets valued using other observable market data.

Derivative financial instruments meeting the definition of assets and liabilities are reported in the financial statements at their fair values, which are estimated using models common to all market participants. The fair value of interest rate swap contracts is determined by discounting expected future cash flows using current market interest rates.

As at December 31, 2008, there were no significant derivative financial instruments and none were designated as a hedge. At December 31, 2008, there were no interest rate swaps outstanding. At December 31, 2007, there were interest rate swaps outstanding with a notional amount of $20.0 million with an estimated fair value of $0.1 million.

b) Other financial assets

Other financial assets include accrued interest, amount recoverable from reinsurers, and premiums and other receivables. The fair values of other financial assets approximate their carrying values.

c) Financial liabilities

Financial liabilities include cheques outstanding, accounts payable and accrued charges and bond repurchase agreements. The fair values of these financial liabilities approximate their carrying values.

5. Risk Management and Financial Instruments

As a provider of automobile insurance products, effective risk management is fundamental in protecting earnings and cash flow, and ultimately shareholder value. The Corporation, through its financial assets and liabilities, is exposed to various types of risks. The following outlines the Corporation's financial risks and related exposures:

a) Equity price risk

General economic conditions, political conditions and other factors affect the equity market, thereby also affecting the fair value of the securities held by the Corporation. Fluctuations in the value of equity securities impact the recognition of both realized and unrealized gains and losses on securities held. At December 31, 2008, the impact of a 10 per cent change in equity prices, with all other variables held constant would result in an estimated corresponding change in other comprehensive income of approximately $194.0 million.

The Corporation has policies in place to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

b) Interest rate risk

Fluctuation in interest rates will have a larger impact on instruments with a long duration compared with instruments with a short duration. Fluctuations in interest rates have a direct impact on the market valuation of the Corporation's fixed income portfolio. When interest rates increase or decrease, the market value of fixed income securities will decrease or increase respectively.

The carrying values reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable, and bond repurchase agreements approximate their fair values and are not significantly impacted by fluctuations in interest rates.

The Corporation may use derivative financial instruments to hedge interest rate risk on its investment portfolio.

	2008		2007	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Canadian				
Federal	3.6	3.6	4.0	3.3
Provincial	4.1	4.3	4.3	4.2
Municipal	5.1	4.7	4.3	3.4
Corporate	4.7	2.5	5.1	2.9
Global	2.2	2.7	3.6	5.3
Total bonds	3.9	3.2	4.4	3.5
Mortgages	5.4	2.8	5.6	3.3
Total bonds and mortgages	4.1	3.2	4.5	3.4

As at December 31, 2008, a 100 basis point change in interest rates would also result in a corresponding change of approximately $217.0 million in the fair value of the Corporation's fixed income portfolio and a corresponding impact of approximately $217.0 million on other comprehensive income.

Service fees earned on the ICBC Payment Plan are also impacted by changes in the interest rate. A change in the Bank of Canada average prime rate of 100 basis points would result in an estimated corresponding change in income of approximately $11.0 million.

c) Credit risk

Credit risk is the potential for financial loss to the Corporation if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to significant concentrations of credit risk include money market securities, fixed income securities and accounts receivable, and reinsurance receivables and recoverable.

Money market and fixed income securities

The Corporation mitigates its exposure to credit risk by placing money market securities and fixed income securities with high-quality institutions with investment grade credit ratings. Credit risk in mortgages is addressed through a stringent underwriting process that incorporates an internal credit scoring mechanism, and all mortgages are subject to a periodic review.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates.

The following table highlights the money market securities and the fixed income securities by credit quality according to the Dominion Bond Rating Service at December 31, 2008.

($ THOUSANDS)	2008 Carrying Value	2007 Carrying Value
Money market securities		
R1 – High	$ 196,000	$ 278,259
R1 – Mid	20,766	26,677
R1 – Low	37,108	13,827
A-1+	19,663	–
	$ 273,537	$ 318,763
Bonds		
AAA	$ 4,167,409	$ 3,771,329
AA	1,309,476	1,196,212
A	1,129,344	1,087,907
BBB	150,521	119,040
Other (Note 6)	29,873	37,854
Not rated	414	811
	$ 6,787,037	$ 6,213,153

Accounts receivables

The Corporation has a diverse customer base as it provides basic insurance to all drivers in British Columbia. While there is no significant concentration of credit risk, the Corporation's accounts receivable can be comprised of customers with varying financial conditions. Subrogation recoveries and recoveries from customers in respect of violation of their policies are fully provided for due to the uncertainty of collection. The credit risk for premium receivables is mitigated as a customer's policy may be cancelled if the customer is in default of a payment.

As at December 31, 2008, the Corporation considered $36.3 million (2007 – $36.5 million) of its accounts receivables to be uncollectible. The following table outlines the aging of these accounts receivables as at December 31, 2008:

($ THOUSANDS)	Current	Past Due 1 – 30 days	Past Due 31 – 60 days	Over 60 days	Total
Premiums and other receivables	$ 940,313	$ 1,795	$ 2,342	$ 37,683	$ 982,133
Provision on accounts receivables	(623)	(567)	(692)	(34,445)	(36,327)
	$ 939,690	$ 1,228	$ 1,650	$ 3,238	$ 945,806

Reinsurance receivables and recoverable

Failure of reinsurers to honour their obligations could result in losses to the Corporation. The Corporation has policies which require reinsurers to have a minimum credit rating of A-. No single reinsurer represents more than 15 per cent of the total reinsurers' share of the provision for unpaid claims and adjusting expenses in a contract year. As at December 31, 2008, the amount recoverable from reinsurers is $17.6 million (note 8) (2007 – $20.0 million). No amount owing from the reinsurers has been considered as impaired as at December 31, 2008.

d) Liquidity risk

A significant business risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities and operating expenses. The timing of most policy liability payments is not known, and may take considerable time to determine precisely, and may be paid in partial payments.

The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio.

To meet the cash requirements for claims and operating expenses, the Corporation has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration.

The following table summarizes the maturity profile as at December 31, 2008 of the Corporation's financial instruments by contractual maturity or expected cash flow dates. Liquidity risk is further controlled by holding risk free assets and highly liquid investments.

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
2008				
Bonds				
Canadian				
Federal	$ –	$ 2,964,834	$ 131,198	$ 3,096,032
Provincial	20,260	665,865	130,388	816,513
Municipal	–	5,367	5,810	11,177
Corporate	436,176	1,818,350	110,398	2,364,924
Global	13,110	467,361	17,920	498,391
Total bonds	469,546	5,921,777	395,714	6,787,037
Mortgages	104,146	585,554	140,709	830,409
	$ 573,692	$ 6,507,331	$ 536,423	$ 7,617,446
2007				
Bonds				
Canadian				
Federal	$ –	$ 2,871,658	$ 90,058	$ 2,961,716
Provincial	–	766,935	147,611	914,546
Municipal	–	17,516	8,146	25,662
Corporate	24,983	1,763,139	102,727	1,890,849
Global	16,268	185,896	218,216	420,380
Total bonds	41,251	5,605,144	566,758	6,213,153
Mortgages	101,360	538,295	160,400	800,055
	$ 142,611	$ 6,143,439	$ 727,158	$ 7,013,208

e) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is exposed to foreign exchange risk on its cash and cash equivalents, its international equity portfolio and its fixed income portfolios.

A 10 per cent change in the US exchange rate at December 31, 2008 would change the unrealized value of these investments and a corresponding change in other comprehensive income of approximately $93.8 million. As all other foreign currency investments comprise less than 5 per cent of the total investment portfolio, the impact of a change in the exchange rate of these currencies is not expected to have a material impact on the portfolio.

The Corporation has policies in place to limit and monitor its exposure to currency risks. These policies include the maintenance of US dollar denominated assets to generate cash flows to satisfy US dollar ongoing operational cash flow requirements. The Corporation may also use derivative financial instruments to hedge its exposure to currency risks. At December 31, 2008, no derivatives were in place to hedge currency risk.

6. Investment Income

($ THOUSANDS)	Classification	2008 Total	2007 Total
Interest			
Money market	AFS	$ 11,246	$ 12,776
Bonds	AFS	274,261	254,172
Mortgages	Loans	45,859	40,754
		331,366	307,702
Gains (losses) on the sale of investments			
Equities	AFS	(174,199)	198,195
Bonds	AFS	76,150	(36,964)
Real estate	Other	–	39,701
Reversal of real estate provision	Other	–	94,795
Foreign exchange	AFS	60,848	(14,025)
		(37,201)	281,702
Dividends and other income (expenses)			
Equities	AFS	68,774	50,522
Real estate	Other	11,455	12,964
Investment management fees	Other	(6,706)	(6,744)
Other than temporary impairment	AFS	(83,824)	(30,470)
Other	Other	(3,415)	(4,076)
		(13,716)	22,196
Total investment income		$ 280,449	$ 611,600

Accumulated other comprehensive income decreased by $179.3 million (2007 – decreased by $203.5 million) which was comprised of $216.5 million in unrealized losses (2007 – $56.3 million in unrealized losses) and $37.2 million in realized losses (2007 – $147.2 million in realized gains) from the sale of investments.

The Corporation reviewed its investment portfolio in light of the recent market volatility and decline. The Corporation wrote down investments where there was not only a significant and prolonged decline, but also where the prospect of recovery in the near future was unlikely. During the year, the Corporation reduced its investment assets by $83.8 million (2007 – $30.5 million) for impairment which decreased investment income as noted below.

The Corporation recognized an other than temporary impairment in the value of its equity portfolio of $75.8 million, and in the value of its bond portfolio of $8.0 million related to Asset-Backed Commercial Paper (ABCP).

In 2007, due to the disruption in liquidity of the ABCP market, the Corporation reclassed its non-bank ABCP, with a total par value of $45.1 million, from the money market portfolio to the bond portfolio to reflect the longer expected holding period of these ABCPs. In 2008, the Corporation continues to classify these securities as part of its bond portfolio. At December 31, 2008, the carrying value of these non-bank ABCPs was $29.9 million (2007 – $37.9 million) and approximates its estimated fair value. The estimated fair value was calculated by discounting the expected cash flows of the securities based on currently available information.

No interest income has been accrued related to securities that are considered impaired.

The Corporation often participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2008, there were no securities loaned or received as collateral. At December 31, 2007, there were $323.9 million of securities loaned, and $339.9 million received as collateral.

7. Property and Equipment

($ THOUSANDS)	2008		2007	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 28,794	$ 28,794	$ 23,227	$ 23,227
Buildings	148,905	32,233	145,826	32,651
Furniture and equipment	108,164	19,794	97,697	17,300
Software	23,789	4,872	20,981	4,174
Leasehold improvements	10,073	1,944	9,334	1,614
	$ 319,725	$ 87,637	$ 297,065	$ 78,966

Amortization expense for the year ended December 31, 2008 amounted to $14.2 million (2007 – $14.7 million).

8. Provision for Unpaid Claims

The changes in the provision for unpaid claims recorded in the consolidated statement of financial position and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2008	2007
Unpaid claims net — beginning of year	$ 5,582,055	$ 5,390,317
Change in estimates for losses occurring in prior years		
Prior years' claims adjustments	(244,143)	(55,765)
Increase in claims incurred in prior years due to a reduction in the discount rate	107,696	21,986
	(136,447)	(33,779)
Provision for claims occurring in the current year	2,646,191	2,646,360
Net claims incurred	2,509,744	2,612,581
Less:		
Net payments on claims incurred in the current year	959,395	957,552
Net payments on claims incurred in prior years	1,420,492	1,463,291
	2,379,887	2,420,843
Unpaid claims net — end of year	5,711,912	5,582,055
Amount recoverable from reinsurers	17,643	19,993
Unpaid claims gross — end of year	$ 5,729,555	$ 5,602,048

The Corporation discounts its provision for unpaid claims at an investment rate of return of 4.80% (2007 – 5.24%). The Corporation determines the discount rate based upon the expected return on its investment portfolio of assets and uses assumptions for interest rates relating to reinvestment of maturing investments.

The following table shows the effect of discounting on the provision for unpaid claims:

($ THOUSANDS)	Undiscounted	Effect of Present Value	PFADs	Discounted
2008				
Provision for unpaid claims	$ 5,733,044	$ (643,060)	$ 621,928	$ 5,711,912
Amount recoverable from reinsurers	21,291	(2,719)	(929)	17,643
	$ 5,754,335	$ (645,779)	$ 620,999	$ 5,729,555
2007				
Provision for unpaid claims	$ 5,678,905	$ (693,197)	$ 596,347	$ 5,582,055
Amount recoverable from reinsurers	24,279	(3,234)	(1,052)	19,993
	$ 5,703,184	$ (696,431)	$ 595,295	$ 5,602,048

The effect of the decrease in the investment rate of return from 5.24% at December 2007 to 4.80% at December 2008 is an increase to the provision for net unpaid claims by $58.7 million.

9. Reinsurance

The Corporation maintains casualty and catastrophe reinsurance to protect against significant losses.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2008 with the following terms:

a) up to $325.0 million in excess of $25.0 million annually for catastrophic occurrences;
b) up to $45.0 million in excess of $5.0 million for individual casualty loss occurrences.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2007 with the following terms:

a) up to $325.0 million in excess of $25.0 million annually for catastrophic occurrences;
b) up to $45.0 million in excess of $5.0 million for individual casualty loss occurrences.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

10. Premiums and Other Receivables

($ THOUSANDS)	2008	2007
Premium receivables	$ 922,155	$ 906,319
Other receivables	23,651	15,873
	$ 945,806	$ 922,192

11. Pension Plans and Post-Retirement Benefits

The Corporation sponsors a defined benefit registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). In addition it sponsors two supplemental pension plans for certain employees.

The Corporation also contributes to two other defined benefit pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of the Canadian Office & Professional Employee Union (COPE) Local 378 are members of the COPE 378 / ICBC Pension Plan (the COPE Plan). The COPE Plan is a jointly trusteed plan. Trustees of the plan are appointed by each of the Corporation and COPE Local 378.

Certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of a separate plan the BC Public Service Pension Plan.

The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. The Corporation has no fiduciary responsibility for, or role in the governance of, the COPE Plan or the BC Public Service Pension Plan.

The Corporation pays Medical Services Plan and life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. Benefit entitlements differ for management and confidential, and bargaining unit staff.

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefits were $29.1 million (2007 – $24.9 million).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations of the pension plans for funding purposes are usually prepared on a triennial basis. The Management and Confidential Plan had an actuarial valuation as of December 31, 2007 which was extrapolated to December 31, 2008. The COPE Plan had an actuarial valuation as of December 31, 2007 which was extrapolated to December 31, 2008. The post-retirement benefits had an actuarial valuation as of December 31, 2006 which was extrapolated to December 31, 2008.

Declines in global equity markets significantly reduced the fair value of plan assets in 2008. This produced an actuarial loss that does not impact the 2008 net benefit plan expense, but will be recognized in pension expense in future years. At the same time, a sharp increase in credit spreads between government bonds and high quality corporate bonds significantly increased the December 31, 2008 discount rate. This reduced the accrued benefit obligation, producing an actuarial gain that does not impact the 2008 net benefit plan expense, but will be recognized in pension expense in future years. The actuarial gain on the accrued benefit obligation is partially offset by the actuarial loss on the fair value of plan assets.

Given current economic uncertainty and volatility, there may be further changes in either or both of the fair value of plan assets and the accrued benefit obligation in the next year. The impact of these will be determined as at December 31, 2009 and will be recognized in pension expense in future years.

Information regarding the pension plans and post-retirement benefits is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Plan assets				
Fair value at beginning of year	$ 1,017,573	$ 980,772	$ –	$ –
Actual return on plan assets	(136,991)	23,382	–	–
Employer contributions	25,779	21,702	2,340	2,212
Employees' contributions	18,031	17,215	–	–
Net transfers	–	196	–	–
Benefits paid	(28,030)	(25,694)	(2,340)	(2,212)
Fair value at end of year	$ 896,362	$ 1,017,573	$ –	$ –
Accrued benefit obligation				
Balance at beginning of year	$ 913,229	$ 889,498	$ 128,053	$ 132,261
Current service cost	27,058	28,695	5,069	6,916
Employees' contributions	18,031	17,215	–	–
Net transfers	–	196	–	–
Interest cost	51,501	47,979	7,191	7,180
Actuarial gains	(227,325)	(44,660)	(31,469)	(16,092)
Benefits paid	(28,030)	(25,694)	(2,340)	(2,212)
Balance at end of year	$ 754,464	$ 913,229	$ 106,504	$ 128,053
Funded status – plan surplus (deficit)	$ 141,898	$ 104,344	$ (106,504)	$ (128,053)
Unamortized net actuarial losses (gains)	6,526	29,506	(15,998)	15,713
Unamortized plan adjustments	–	–	(1,206)	(1,407)
Unamortized transitional asset	(47,909)	(56,894)	–	–
Accrued benefit asset (liability)	$ 100,515	$ 76,956	$ (123,708)	$ (113,747)

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2008	2007
Cash and accrued interest	1%	3%
Equities		
Canadian	27%	33%
Foreign	22%	19%
Fixed Income		
Government	26%	26%
Corporate	9%	7%
Mortgages	7%	5%
Real estate	8%	7%
	100%	100%

The following amounts are included in the accrued benefit obligation in respect of plans that are not funded:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Accrued benefit obligation and plan deficit	$ 7,352	$ 7,761	$ 106,504	$ 128,053

The Corporation's net benefit plan expense for the pension plans and post-retirement benefits is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Current service cost	$ 27,058[1]	$ 28,695[1]	$ 5,069	$ 6,916
Interest cost	51,501	47,979	7,191	7,180
Expected return on plan assets	(67,381)	(64,941)	–	–
Amortization of transitional asset	(8,985)	(8,985)	–	–
Plan adjustments	–	–	(201)	(201)
Amortization of net actuarial loss	27	43	242	1,689
Net expense	$ 2,220	$ 2,791	$ 12,301	$ 15,584

[1] net of employees' contributions of $18,031 (2007 – $17,215)

The Corporation contributed $1.0 million in 2008 (2007 – $1.0 million) to the BC Public Service Pension Plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Plans		Post-Retirement Benefits	
	2008	2007	2008	2007
Discount rate	7.38%	5.45%	7.38%	5.45%
Expected long-term rate of return on plan assets	6.6%	6.6%	n/a	n/a
Rate of compensation increase	3.8%	3.8%	3.8%	3.8%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services Plan trend rate	n/a	n/a	0.0%	0.0%

The discount rate used for calculating the 2008 year end disclosure has been established based on market yields on high quality corporate bonds in Canada as at December 31, 2008. The method used for selecting the appropriate year end discount rate for 2008 has been adjusted from previous years due to current market conditions that have resulted in reduced liquidity on high quality long-term corporate bonds. Specifically, the Corporation has elected to exclude the yield on the 30-year bond from its analysis due to the lack of trading in high quality corporate bonds of this term. The Corporation has only adopted this adjusted method as a result of market conditions in the current year, and is expecting to return to its standard methodology in future years.

In 2008, the extended healthcare trend rate is assumed to be 10.0% in the first year, decreasing linearly over 6 years to 6.0% per year thereafter. In 2007 the extended healthcare trend rate was assumed to be 10.7% in the first year, decreasing linearly over seven years to 6.0% per year.

12. Operating Costs

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses are as follows:

($ THOUSANDS)	2008	2007
Operating costs – insurance		
Administrative and other expenses	$ 91,130	$ 92,934
Insurance services	57,202	55,884
	$ 148,332	$ 148,818
Operating costs – non-insurance		
Administrative and other expenses	$ 33,457	$ 30,561
Driver licensing	46,787	41,250
	$ 80,244	$ 71,811

13. Deferred Premium Acquisition Costs and Prepaid Expenses

($ THOUSANDS)	2008	2007
Deferred premium acquisition costs	$ 196,800	$ 176,650
Prepaid expenses	9,313	8,281
	$ 206,113	$ 184,931

As at December 31, 2008 there were premium acquisition costs of $202.6 million (2007 – $199.4 million) related to future periods. An actuarial valuation determined that $196.8 million (2007 – $176.7 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

($ THOUSANDS)	2008	2007
Optional	$ 130,900	$ 129,145
Basic	65,900	47,505
	$ 196,800	$ 176,650

The commission and premium tax expenses reflected in the consolidated statement of operations are as follows:

($ THOUSANDS)	Commissions	Premium Taxes	Total
2008			
Amount payable	$ 294,513	$ 161,322	$ 455,835
Amortization of prior year deferred premium acquisition costs	110,164	66,486	176,650
Deferred premium acquisition costs	(123,548)	(73,252)	(196,800)
Premium taxes and commission expense	$ 281,129	$ 154,556	$ 435,685
Represented as:			
Insurance	$ 257,533	$ 154,556	$ 412,089
Non-insurance	23,596	–	23,596
	$ 281,129	$ 154,556	$ 435,685
2007			
Amount payable	$ 283,425	$ 156,828	$ 440,253
Amortization of prior year deferred premium acquisition costs	85,608	52,392	138,000
Deferred premium acquisition costs	(110,164)	(66,486)	(176,650)
Premium taxes and commission expense	$ 258,869	$ 142,734	$ 401,603
Represented as:			
Insurance	$ 237,745	$ 142,734	$ 380,479
Non-insurance	21,124	–	21,124
	$ 258,869	$ 142,734	$ 401,603

14. Related Party Transactions

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of Basic automobile insurance (note 1) in the Province and therefore, insures at market rates, an indeterminate number of vehicles owned or leased by the government of the Province and its controlled entities. As a consequence of these relationships, the Corporation has, at any time, amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is responsible for collecting all vehicle-related income for acquiring and distributing licence plates and decals including permit and other fees under the *Motor Vehicle Act* and fines under the *Offence Act* and these are remitted in full to the Province. Income from the issuance of drivers and other licences and permits and from fines is recognized on an accrual basis. The costs associated with the licensing and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statement of operations as operating costs, non-insurance (note 12).

Other related party transactions have been disclosed elsewhere in the notes to the consolidated financial statements.

15. Capital Management

The Corporation's capital is comprised of retained earnings and accumulated other comprehensive income.

The Corporation's objectives for managing capital are to maintain financial strength and protect its claims paying ability. The British Columbia Government's Special Direction IC2 requires the Corporation to achieve by December 31, 2014, and to maintain after that date, capital available equal to at least 110.0% of the minimum capital test (MCT), as defined by the Office of the Superintendent of Financial Institutions.

The MCT utilizes a risk-based formula to assess the solvency of an insurance company by defining the capital available that is required to meet the minimum standards. ICBC has set an internal management target for MCT of a minimum of 150.0%. As at December 31, 2008, the Corporation's MCT was 208.6% (2007 – 187.8%).

16. Contingent Liabilities and Commitments

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating analysis, and past service history. The present value of these structured settlements at December 31, 2008 is approximately $1.01 billion (2007 – $1.15 billion), which are not recorded in the financial statements of the Corporation. To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years are as follows:

($ THOUSANDS)

2009	$ 9,242
2010	7,993
2011	6,204
2012	4,437
2013	2,189
	$ 30,065

17. Rate Regulation

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and service for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. In addition, BCUC sets rates for Basic insurance that allow it to achieve the legislated capital targets and is responsible for directing ICBC to achieve legislated targets for total Corporation and Optional insurance.

For the regulation of the Corporation's Basic insurance rates, BCUC is required to ensure that the rates are just, reasonable, not unduly discriminatory and not unduly preferential. BCUC is required to fix rates on the basis of accepted actuarial practice, to pay for certain specified costs, to ensure the Corporation maintains the required capital, to ensure rates are not based on age, gender or marital status, and to ensure increases or decreases in rates are phased in, in a stable and predictable manner.

BCUC requires the Corporation to follow the financial allocation methodology it has approved with respect to allocating costs between Basic and Optional insurance business, and non-insurance business.

It also requires the Corporation to file actuarial certificates attesting to the fact that capital available for Basic insurance, Optional insurance and the total Corporation meets legislated targets.

BCUC initiates regulatory processes on its own initiative or upon application by the Corporation. It uses oral hearing, written hearing, or negotiated settlement processes to review applications and subsequently issue legally binding decisions.

The Corporation is required to incur a portion of BCUC's general operating expenses as well as its costs associated with each ICBC proceeding. BCUC can also order the Corporation to reimburse other proceeding participants for specified costs such as legal and expert witness fees.

Allocation of Basic and Optional amounts

The Corporation operates its business using an integrated business model. Although the majority of premium revenues and costs are specifically identifiable as Basic or Optional (note 1), certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation has been used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality and any BCUC directives. BCUC directives have been applied on a prospective basis.

Included in Basic are non-insurance costs, as the Corporation is required to provide non-insurance services such as driver and vehicle licensing and vehicle registration.

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Net premiums written	$ 2,049,215	$ 2,013,721	$ 1,590,472	$ 1,558,333	$ 3,639,687	$ 3,572,054
Net premiums earned	$ 2,047,635	$ 1,957,078	$ 1,583,580	$ 1,525,356	$ 3,631,215	$ 3,482,434
Service fees	37,838	36,140	31,336	29,809	69,174	65,949
Total earned revenues	2,085,473	1,993,218	1,614,916	1,555,165	3,700,389	3,548,383
Claims and operating costs						
Net claims incurred during the year (note 8)	1,684,668	1,706,220	961,523	940,140	2,646,191	2,646,360
Prior years' claims adjustment (note 8)	(92,411)	(35,059)	(44,036)	1,280	(136,447)	(33,779)
Claim services, road safety and loss management services	203,262	199,565	106,132	102,404	309,394	301,969
	1,795,519	1,870,726	1,023,619	1,043,824	2,819,138	2,914,550
Operating costs – insurance (note 12)	76,853	74,623	71,479	74,195	148,332	148,818
Premium taxes and commissions (note 13)	116,734	86,049	295,355	294,430	412,089	380,479
	1,989,106	2,031,398	1,390,453	1,412,449	3,379,559	3,443,847
Underwriting income (loss)	96,367	(38,180)	224,463	142,716	320,830	104,536
Investment income	183,066	408,714	97,383	202,886	280,449	611,600
Gain on sale of property & equipment	–	12,374	–	6,743	–	19,117
Income – insurance operations	279,433	382,908	321,846	352,345	601,279	735,253
Loss – non-insurance operations	(103,840)	(92,935)	–	–	(103,840)	(92,935)
Net income for the year	$ 175,593	$ 289,973	$ 321,846	$ 352,345	$ 497,439	$ 642,318
Equity						
Retained earnings, beginning of year	$ 983,365	$ 693,392	$ 1,170,907	$ 818,562	$ 2,154,272	$ 1,511,954
Retained earnings, end of year	1,158,958	983,365	1,492,753	1,170,907	2,651,711	2,154,272
Accumulated other comprehensive income	65,061	186,431	34,610	92,544	99,671	278,975
Total equity	$ 1,224,019	$ 1,169,796	$ 1,527,363	$ 1,263,451	$ 2,751,382	$ 2,433,247

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2008	2007	2008	2007	2008	2007
Liabilities						
Unearned premiums	$ 959,200	$ 957,620	$ 754,638	$ 747,747	$ 1,713,838	$ 1,705,367
Provision for unpaid claims	$ 4,318,049	$ 4,242,722	$ 1,411,506	$ 1,359,326	$ 5,729,555	$ 5,602,048

18. Role of the Actuary and Auditors

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with accepted actuarial practice and regulatory requirements, and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their responsibility is to conduct an independent and objective audit of the consolidated financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out their audit, the auditors also make use of the work of the actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditors' report outlines the scope of their audit and their opinion.

corporate governance

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management. Governance of a Crown corporation also requires that responsibility be clearly articulated for meeting public policy objectives.

icbc's relationship to government

At the highest level, governance of a Crown corporation is defined through legislation applicable to all Crown corporations, such as the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, the *Financial Information Act*, and the *Freedom of Information and Protection of Privacy Act*. Under this legislation, ICBC is accountable for making public its strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report), as well as providing financial and other information as the legislation requires.

Individual Crown entities are governed by legislation specific to each Crown corporation. The specific legislation to which ICBC must adhere includes:

- the *Insurance Corporation Act;*
- the *Insurance (Vehicle) Act;*
- the *Motor Vehicle Act;*
- the *Motor Vehicle (All Terrain) Act;* and
- the *Commercial Transport Act.*

ICBC was created under the *Insurance Corporation Act*. This legislation was amended in 2003 to establish the BC Utilities Commission (BCUC) as the independent regulator for Basic insurance rates.

Individual Crown entities are also governed by the Shareholder's Letter of Expectations established between the shareholder (the provincial government) and the Crown corporation. The Shareholder's Letter of Expectations is an agreement on the respective roles and responsibilities of each party, and serves as the basis of agreement between the shareholder and the corporation on the corporate mandate including high-level performance expectations, public policy issues and strategic priorities. It also provides direction specific to ICBC in several key areas. ICBC's Shareholder's Letter of Expectations is signed by the Minister Responsible for ICBC and the Chair of ICBC's Board of Directors.

As demonstrated through the results reported in ICBC's 2008 Annual Report, ICBC has complied with the performance expectations outlined in our 2008 Shareholder's Letter of Expectations. This includes the following:

shareholder's letter of expectations	icbc alignment
legislative framework	
• Comply with applicable legislation and regulations, government directions and BCUC requirements.	• ICBC is in compliance with the legislative and regulatory framework, government directions and BCUC requirements.
climate change	
• Contribute to the provincial government's climate action objectives and comply with requirement for Crown agencies to achieve carbon neutrality by 2010.	• ICBC has established the 2007 baseline of the company's environmental footprint and will be implementing government's SMARTTOOL, a greenhouse gas measurement and reporting tool, in order to track and report the company's greenhouse gas emissions. • ICBC has created a climate change action plan that includes reducing energy consumption in its facilities, and fostering employee awareness and participation in energy and resource conservation. • ICBC has launched a campaign to help drivers understand how good driving practices can reduce fuel costs, carbon emissions and improve road safety.
driver licensing	
• Address driver licensing service, security and fraud priorities, including the Canadian Driver Licensing Agreement (CDLA). • Support implementation of an enhanced driver's licence as an alternative to the passport for land and water cross-border travel between Canada and the United States.	• ICBC is working with the provincial government to implement a number of driver licensing enhancements, including new card technology, changes to meet CDLA standards, and the enhanced driver's licence. • In 2008, we implemented new state-of-the-art digital picture technology. Facial recognition technology was implemented as a security measure to protect against identify theft and fraud. • Also in 2008, BC introduced the initial phase of Canada's first enhanced driver's licence.
road safety	
• Deliver road safety initiatives and work with the Shareholder on initiatives that can complement the Shareholder's road safety objectives.	• ICBC continues to deliver a number of road safety programs that provide claims savings and is working with the provincial government on road safety initiatives.
claims costs	
• Continue to develop and implement strategies to manage the trend of rising bodily injury claims costs.	• ICBC began implementing initiatives to address claims costs pressures several years ago. 2008 initiatives included realignment of claims management responsibilities to improve claims handling, improving claims analytics, etc.
service agreement	
• Operate within the Service Agreement between the Province and ICBC.	• ICBC continues to operate within the terms and conditions of the Service Agreement and to work with the Province on any changes.

The 2009 Shareholder's Letter of Expectations continues ICBC's mandate to provide Basic and Optional auto insurance in an integrated manner with rates that are not based on age, gender or marital status, and to provide vehicle registration and licensing, driver licensing, and government fine collection services on behalf of the provincial government. It also continues the above expectations from the 2008 Letter of Expectations and for 2009, includes new directions regarding the Shareholder's Healthier Choices Initiative, ICBC's Material Damage Research and Training Facility, and developing performance measures as an addendum to the Service Agreement.

icbc board governance

ICBC's Board of Directors guides the company in fulfilling its mandate and sets direction for the company. The Board and management approve the corporate vision, mission, values and goals. The Board sets goals for corporate performance that form the basis upon which accountability and performance are evaluated. Performance against these goals is reviewed and revisions made when necessary.

As a Crown corporation, ICBC's Board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of nine members with a broad range of expertise and experience. The individual members each play an important role and also contribute as members of committees of the Board. The chart on the following page shows ICBC's Board of Directors and its committees, members and mandates.

The Board's governance processes and guidelines outlining how it will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. ICBC's Board Governance Manual and policies comply with the provincial government's "Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations". Additional information on Board members and Board policies is available on ICBC's website, icbc.com.

ICBC's Board of Directors has adopted the guiding principles included in the provincial government's "Governance Framework for Crown Corporations". These principles provide an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

- Stewardship, leadership and effective functioning of the Board
- Clarity of roles and responsibilities
- Openness, trust and transparency
- Service and corporate citizenship
- Accountability and performance
- Value, innovation and continuous improvement

board governance structure

board of directors

mandate: To foster ICBC's short and long term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.

chair: T. Richard Turner

vice-chair: Neil de Gelder

members: Carol Brown, Diane Fulton, Paul Haggis, Kenneth Martin, T. Michael Porter, Jatinder Rai, Stacy Shields

executive team

mandate: To lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors of ICBC.

president and CEO: Jon Schubert

members:
Fred Hess, Vice-President of Driver Licensing;
Craig Horton, Senior Vice-President of Claims;
Len Posyniak, Vice-President of Human Resources and Corporate Law;
Geri Prior, Chief Financial Officer;
Keith Stewart, Chief Information Officer and Business Transformation;
Donnie Wing, Senior Vice-President of Insurance, Marketing and Underwriting.

governance committee

purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.

chair: Neil de Gelder

members: Carol Brown, Jatinder Rai

audit committee

purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing financial information, systems of internal controls and risk management, and all audit processes.

chair: T. Michael Porter

members: Diane Fulton, Paul Haggis, Jatinder Rai

investment committee

purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

chair: Paul Haggis

members: Diane Fulton, Kenneth Martin

human resources and compensation committee

purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.

chair: Kenneth Martin

member: Carol Brown, Stacy Shields

icbc board of directors and executives

in order of appearance from left to right:

Jatinder Rai
Board Member

Kenneth Martin
Board Member

Keith Stewart
Chief Information Officer

Geri Prior
Chief Financial Officer

Diane Fulton
Board Member

Neil de Gelder
Board Vice-Chair

Jon Schubert
President & Chief Executive Officer

Fred Hess
Vice-President, Driver Licensing

T. Richard Turner
Board Chair

Craig Horton
Senior Vice-President, Claims

Donnie Wing
Senior Vice-President, Insurance, Marketing and Underwriting

Paul Haggis
Board Member

Stacy Shields
Board Member

T. Michael Porter
Board Member

Len Posyniak
Vice-President, Human Resources and Corporate Law

Carol Brown
Board Member

head office

151 W Esplanade
North Vancouver, BC
V7M 3H9

604-661-2800
1-800-663-3051

additional information

Additional information about ICBC and electronic copies of this report are available at **icbc.com**

BRITISH COLUMBIA
The Best Place on Earth

vancouver 2010

vancouver 2010
PARALYMPIC GAMES
JEUX PARALYMPIQUES

ICBC
OFFICIAL SUPPORTER

PI186P (042009)

Printed on 20% post-consumer recycled paper that is manufactured with non-polluting windpower energy