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 Corporation's 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.