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.

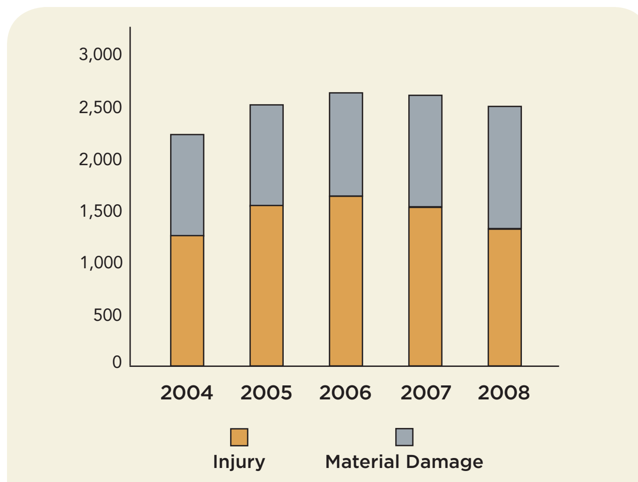
Current year discounted claims incurred costs were $2.6 billion, which was consistent with 2007, but had a less favourable discounting adjustment as compared to 2007 (see page 35 for further discussion on claims discounting).

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

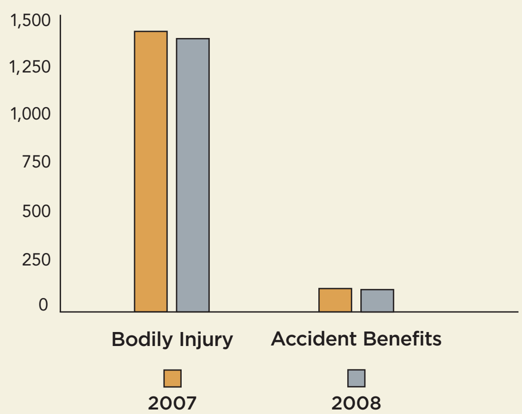
injury claims

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)



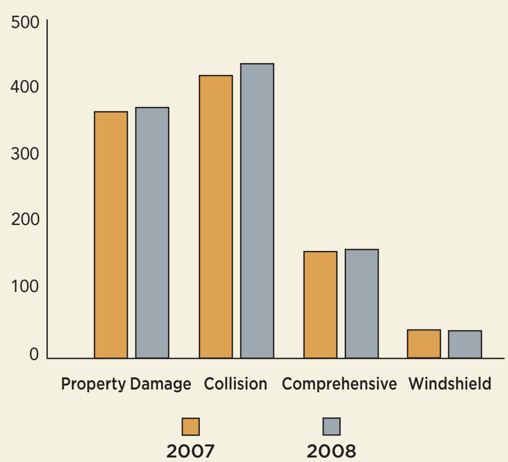
source: ICBC financial systems

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

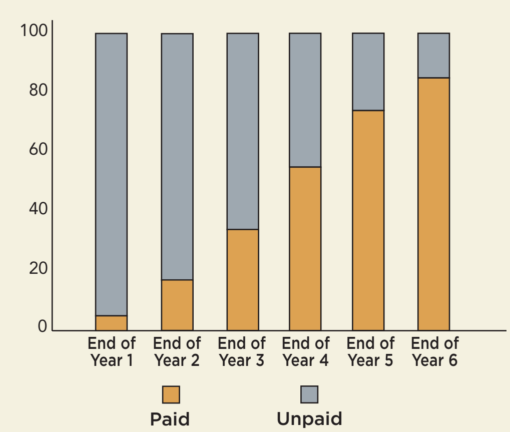
unpaid claims and prior years' claims adjustments

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.

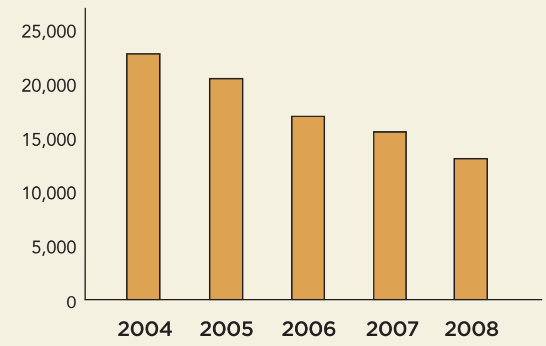
road safety and loss management

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

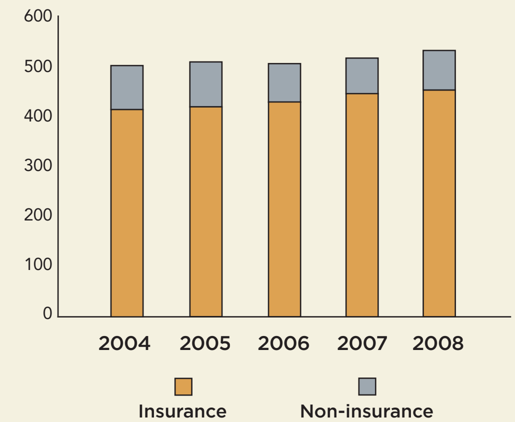
ICBC actively pursued its Zero Tolerance for Fraud policy in 2008, which protects customers from adverse impacts on premiums when fraud occurs. A Special Investigation Unit manages programs that prevent, detect and investigate fraud in all aspects of ICBC's business. In 2008, over 2,200 cases of claim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

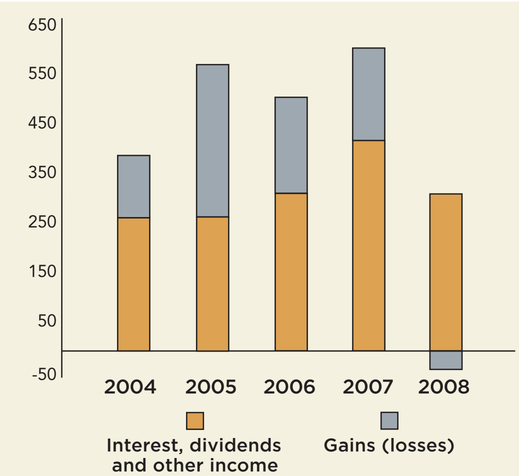
Approximately 79% of the carrying value of the portfolio took the form of high grade corporate and government bonds, money market securities and mortgage instruments, while 21% of the portfolio was invested in equity investments and real estate.

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.