



## Financial Summary – June 2020

### Financial Results

ICBC's corporate net income for the first quarter ended June 30, 2020 was \$311 million, of which \$300 million was attributed to ICBC and \$11 million was attributed to non-controlling interest. The net income for the full year forecast is unchanged and remains at \$86 million.

This significant turn around and the continued uncertainty caused by the COVID-19 pandemic helps demonstrate how dramatically the financial picture can change in a quarter and why there is a need to evaluate the entire fiscal year before making decisions on any potential surplus at year end.

During most of Q1, the province was in Phases 1 and 2 of BC's Restart Plan. People were encouraged to stay close to home and avoid travel between communities unless essential. This resulted in fewer vehicles on BC roads, leading to fewer crashes and fewer claims filed by ICBC customers, resulting in a favourable impact on current year claims costs.

While ICBC took in lower premium revenue from customers cancelling their policies or reducing insurance coverage during these more restrictive phases of the Restart Plan in Q1, the impact of these changes were offset by the reduction in claims costs during this period.

ICBC's equity investments have rebounded after a significant drop at the end of fiscal 2019/20 in mid-March due to the downturn in global markets driven by the COVID-19 pandemic. Lower interest rates during this time led to the realization of bond gains through trading activities. Those factors, along with the disposition of investment properties, resulted in higher investment income in Q1 this fiscal year compared to last year.

The positive bottom line result of \$311 million net income and the improvement in the investment markets have improved ICBC's equity on the statement of financial position by \$1 billion; turning from a \$0.5 billion deficit position at 2019/20 fiscal year-end to a \$0.5 billion surplus position at the end of Q1 fiscal 2020/21.

Looking forward, risks remain including the impacts of the COVID-19 pandemic, the roughly \$12 billion in open claims subject to pre-reform rules and a constitutional challenge before the BC Supreme Court.

ICBC's Minimum Capital Test ratio is higher than last year primarily due to the recovery of the financial markets from COVID-19 since our previous year end. However, ICBC's Minimum Capital Test ratio continues to be low, which impacts the ability to absorb any unanticipated adverse impacts.

ICBC continues to have a stable and low expense ratio.



## Statement of Operations

For the Three Months Ended June 30, 2020 and 2019<sup>1</sup>

(\$ Millions)	Basic		Optional		Corporate	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Premiums written	\$ 928	\$ 1,028	\$ 789	\$ 772	\$ 1,717	\$ 1,800
Premiums earned	863	885	685	666	1,548	1,551
Service fees and other income	19	21	15	14	34	35
<b>Total earned revenues</b>	<b>882</b>	<b>906</b>	<b>700</b>	<b>680</b>	<b>1,582</b>	<b>1,586</b>
Current year claims	697	806	480	474	1,177	1,280
Prior years' claims adjustments	(20)	39	7	1	(13)	40
Net claims incurred	677	845	487	475	1,164	1,320
Claims services, road safety and loss management services	74	76	37	38	111	114
Total claims and related costs	751	921	524	513	1,275	1,434
Administrative and Insurance expenses	31	32	40	41	71	73
Premium taxes and commissions	54	58	140	130	194	188
Deferred premium acquisition costs adjustment	-	7	-	-	-	7
<b>Total claims and expenses</b>	<b>836</b>	<b>1,018</b>	<b>704</b>	<b>684</b>	<b>1,540</b>	<b>1,702</b>
<b>Underwriting income (loss)</b>	<b>46</b>	<b>(112)</b>	<b>(4)</b>	<b>(4)</b>	<b>42</b>	<b>(116)</b>
Investment income	210	148	93	60	303	208
<b>Income - insurance operations before impairment loss</b>	<b>256</b>	<b>36</b>	<b>89</b>	<b>56</b>	<b>345</b>	<b>92</b>
<b>Provincial licences and fines</b>	<b>144</b>	<b>164</b>	<b>-</b>	<b>-</b>	<b>144</b>	<b>164</b>
Less:						
Licences and fines transferable to the Province	144	164	-	-	144	164
Non-insurance operating expenses	25	25	-	-	25	25
Commissions	8	7	-	-	8	7
Total non-insurance expenses	177	196	-	-	177	196
<b>Loss - non-insurance operations</b>	<b>(33)</b>	<b>(32)</b>	<b>-</b>	<b>-</b>	<b>(33)</b>	<b>(32)</b>
<b>Net income before impairment loss</b>	<b>223</b>	<b>4</b>	<b>89</b>	<b>56</b>	<b>312</b>	<b>60</b>
Impairment loss	(1)	(4)	-	(1)	(1)	(5)
<b>Net income</b>	<b>\$ 222</b>	<b>\$ -</b>	<b>\$ 89</b>	<b>\$ 55</b>	<b>\$ 311</b>	<b>\$ 55</b>
<b>Net income attributable to:</b>						
Non-controlling interest <sup>2</sup>	\$ 8	\$ -	\$ 3	\$ -	\$ 11	\$ -
Parent corporation	214	-	86	55	300	55
	<b>\$ 222</b>	<b>\$ -</b>	<b>\$ 89</b>	<b>\$ 55</b>	<b>\$ 311</b>	<b>\$ 55</b>
<b>Insurance Industry Ratios</b>						
%	<b>2020/21</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2019/20</b>
Loss ratio	87.1	104.1	76.4	76.9	82.4	92.4
Expense ratio	13.8	13.9	25.6	24.9	19.0	18.6
Combined ratio	100.8	118.9	102.7	102.6	101.7	111.9

<sup>1</sup> The financial results are unaudited and contain a number of estimates and assumptions regarding claims costs and savings. Final year end results will be subject to audit.

<sup>2</sup> Non-controlling interest net income is income that is attributable to the minority shareholder of a joint venture who has no control over decisions. Under IFRS, ICBC, as the parent, has to reflect 100% of the net income and disclose separately the portion related to non-controlling interest.



# Statement of Financial Position

As at June 30, 2020<sup>1</sup> and March 31, 2020

(\$ Millions)	June 30 2020	March 31 2020
<b>Assets</b>		
Cash and cash equivalents	\$ 23	\$ 52
Accrued interest	48	69
Assets held for sale	28	216
Financial investments	18,899	17,501
Premium and other receivables	2,171	2,180
Reinsurance assets	33	32
Investment properties	604	610
Property, equipment, intangible and lease assets	438	438
Accrued pension benefits	62	64
Deferred premium acquisition costs and prepaids	429	410
	<u>\$ 22,735</u>	<u>\$ 21,572</u>
<b>Liabilities and Equity (Deficit)</b>		
<b>Liabilities</b>		
Current liabilities	\$ 385	\$ 399
Bond repurchase agreements and investment-related liabilities	2,058	2,406
Unearned premiums and premiums and fees received in advance	3,190	3,037
Lease liabilities	52	54
Pension and post-retirement benefits	224	219
Provision for unpaid claims	16,329	16,004
	<u>22,238</u>	<u>22,119</u>
<b>Equity (Deficit)</b>		
Deficit	(96)	(396)
Other components of equity	586	(165)
Equity (Deficit) attributable to parent corporation	490	(561)
Non-controlling interest	7	14
	<u>497</u>	<u>(547)</u>
	<u>\$ 22,735</u>	<u>\$ 21,572</u>
<b>Minimum Capital Test ("MCT")</b>	7%	-30%

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## Glossary – June 2020

### **Combined ratio**

A key measure of overall profitability within the insurance industry. It is the ratio of all costs (claims, claims-related costs, operating expenses, premium taxes and commissions, and deferred premium acquisition costs adjustment) to premiums earned. A lower combined ratio is better.

### **Current year claims**

Current year claims expense is the total costs (paid and expected) to settle claims for all insured losses that have occurred during the current fiscal year, regardless of whether the loss has been reported to ICBC.

### **Deferred premium acquisition costs ("DPAC") Adjustment**

The deferred premium acquisition costs adjustment is an accounting adjustment that limits the amount of commissions and premium taxes that can be deferred and recorded in the income statement over the policy term based on the future profitability. If the business is unprofitable, no deferral of expenses is permitted and these costs must be immediately recognized as expenses. If the business becomes profitable, then this accounting treatment is reversed.

### **Expense ratio**

The ratio of operating expenses (excluding claims costs and claims-related costs), premium taxes and commissions to premiums earned. It excludes the deferred premium acquisition costs adjustment, Rate Affordability Action Plan and Enhanced Care Coverage implementation costs as these are one-off projects. A lower expense ratio is better.

### **Impairment Loss**

An expense arising due to the decline in the value of an asset where the price that a knowledgeable third party is willing to pay for such asset is below cost.

### **Loss ratio**

The loss ratio is an industry measure of claims and claims-related costs (claims services, road safety and loss management services) to premiums earned. The lower the percentage, the more profitable the product is.

### **Minimum Capital Test ("MCT")**

An industry measure used to determine whether a company has sufficient capital levels, commensurate with the risks within its business. The measure is based on guidelines set by the Office of the Superintendent of Financial Institutions.

### **Non-controlling interest**

ICBC's financial reporting standards attribute the total comprehensive income of investment partnerships between the majority and minority partners based on their respective ownership

interests. Non-controlling interest represents the portion of ICBC's net income and assets that are attributable to minority partner.

**Prior years' claims adjustments**

Prior years' claims adjustments are the change since the prior fiscal year-end in claims cost estimates for losses that occurred in prior fiscal periods.