Insurance Corporation of British Columbia

2017/18
ANNUAL SERVICE PLAN REPORT

For more information on the ***Insurance Corporation of British Columbia*** contact:

In the Lower Mainland
604-661-2800

Elsewhere in B.C., Canada, or the U.S.
1-800-663-3051

Head Office

151 West Esplanade
North Vancouver, British Columbia, V7M 3H9
icbc.com

Email address: icbc.com/contact-us

ICBC's Corporate Service Plans, Annual Service Plan Reports and Financial reports are available on the ICBC website.

Board Chair's Accountability Statement

The *2017/18 Annual Service Plan Report* of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction.

The information presented in the *ICBC 2017/18 Annual Service Plan Report* reflects the actual performance of ICBC between April 1, 2017 and March 31, 2018, in relation to the September *2017/18-2019/20 Service Plan*. The measures presented are consistent with ICBC's mandate and corporate strategy, and focus on aspects critical to the organization's performance. I am accountable for those results as reported.

Sincerely,

Joy MacPhail

Joy MacPhail
Chair of the Board of Directors

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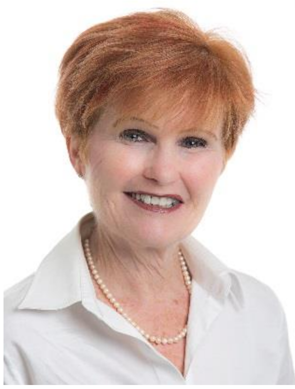
Chair/CEO Report Letter



Since ICBC was created over 45 years ago, the Corporation has worked closely with the Provincial Government to ensure all British Columbians have access to the auto insurance products and services they need and rely on, at the lowest rate possible. As a Crown corporation, ICBC is bound by overall Government expectations included in an annual Mandate Letter.

Despite significant and escalating cost pressures, ICBC worked with Government to accomplish the priorities in the 2017/18 Mandate Letter. ICBC continues to work with Government to meet financial targets and Government's public policy objectives.

2017/18 marked the beginning of a transitional period for the Corporation. Working under Government's direction, ICBC began laying the groundwork to make fundamental changes to fix British Columbia's auto insurance system. These improvements are complex, requiring changes to insurance legislation and regulations. They will take time to fully implement, but ICBC and the Government remain committed to restoring ICBC's financial stability, mitigating claims costs, improving care for injured customers, and making insurance rates more fair and affordable for British Columbians.

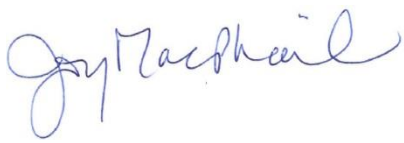
When the new Provincial Government took office in July 2017, ICBC was shifted to a new ministry and Attorney General, David Eby, was appointed minister responsible for ICBC. Over the past year, a new chair and a number of new directors were appointed to ICBC's board. ICBC's President and CEO left the Corporation in December, 2017 and Nicolas Jimenez, Vice President of Insurance, was appointed Interim President and CEO.

ICBC's executive leadership team, board members and the Government are actively working together with a focus on stabilizing ICBC's financial position and improving the Corporation's long term sustainability. In addition to regular meetings between the Minister, the ICBC Board Chair and CEO, representatives from ICBC participate in regularly scheduled meetings with senior Ministry of Attorney General officials and attend other operational meetings.

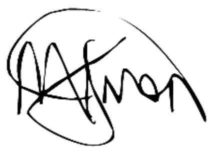
The Board of Directors continue to receive ongoing education and evaluation opportunities intended to expand their individual and collective understanding of ICBC and their role in overseeing its operations. This included a number of presentations to the Board of Directors by ICBC staff.

As part of our commitment to fiscal responsibility and to ensure the best possible use of Government resources, ICBC will continue to work with Government to meet all objectives set out in the Mandate Letter.

Sincerely,



Joy MacPhail
Chair of the Board of Directors



Nicolas Jimenez
Interim President and Chief Executive Officer

Purpose of the Organization

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation mandated by the *Insurance Corporation Act*, *Insurance (Vehicle) Act* and the *Motor Vehicle Act* to provide universal compulsory auto insurance (Basic insurance) to drivers in B.C., with Basic insurance rates regulated by the BCUC.

ICBC is committed to providing customers with the insurance products and services they count on and the coverage they need. In addition to providing Basic vehicle insurance, ICBC offers various Optional vehicle insurance coverages, including extended third-party liability, collision, comprehensive and vehicle storage.

ICBC is one of B.C.'s largest corporations and one of Canada's largest property and casualty insurers. Our insurance products and services are available through a province-wide network of approximately 900 independent brokers, Government agents and appointed agents. Each year, ICBC processes approximately one million claims through a 24-hour telephone claims handling service and online claims reporting. ICBC continues to have a presence in communities across the province and works with material damage suppliers (e.g., collision and glass repair shops) and healthcare professionals to help customers after a crash.

In addition to providing insurance products and services, ICBC also provides a number of non-insurance services on behalf of the Provincial Government, including vehicle registration and licensing, driver licensing, and fines collection. ICBC also assists with the B.C. Services Card and as a partner on various road safety campaigns and initiatives. ICBC operates as an integrated company for the benefit of our customers and partners with businesses and organizations in communities across B.C. to deliver services and programs. Autoplan brokers are key business partners, distributing ICBC's insurance products and providing other services such as vehicle registration and licensing. ICBC delivers services in partnership with a broad base of suppliers in the automotive industry. Law enforcement agencies, health services providers, lawyers and community organizations are among ICBC's other key partners.

ICBC does not have any active operating subsidiary companies. ICBC has 58 nominee holding companies, which hold investment properties for the purpose of generating investment income. ICBC has disclosed a listing of all of its nominee holding companies in Appendix B.

Strategic Direction and Operating Environment

As per the priorities identified in the 2017/18 Mandate Letter, ICBC continues to operate with a corporate strategy focused on containing all costs to the best of their ability to make rates more affordable, while delivering quality services. This includes increasing access to online services and improving the quality, consistency and timeliness of claims handling.

A major challenge for ICBC over the past few years is that insurance rates have not kept pace with substantial cost pressures. Key cost pressures include an elevated number of crashes, the rapidly rising cost of bodily injury claims and material damage costs (e.g. vehicle repair). In the past four years, ICBC has seen a sharp increase in the number of people claiming bodily injury. Of these claims, there was an unexpected shift in 2017/18 toward many more larger and extremely costly claims, which significantly increased overall claims costs in the past year. During that time, the number of injured customers who retained a lawyer also increased. Minor or soft tissue injuries and associated claims costs now account for the majority of injury claims costs. The growing sophistication of cars is also driving up vehicle repair costs.

These cost pressures show no signs of easing and, combined, will require significant rate increases if not addressed. Managing these costs, along with exaggerated claims and increasing legal representation rates, is critical to ensure ICBC's long-term sustainability and its ability to keep rates affordable for British Columbians.

In September 2017, the Attorney General and Minister responsible for ICBC, announced the need for an increase to Basic insurance rates due to high crashes levels and rising claims costs. The 6.4 percent rate application was approved by the British Columbia Utilities Commission (BCUC) and took effect on November 1, 2017. But even with this rate change, ICBC is not covering the costs of the increase in crashes and claims – which would have required a rate increase of 20 percent.

Also in November, the Attorney General announced that PwC Canada had been selected to lead an operational review of ICBC. The review was intended to identify cost savings by improving business processes; specifically looking at fraud prevention, supplier billing and other opportunities for business reform. The PwC Canada report, which was completed on January 12, 2018, found that ICBC operations, including how it manages fraud, are performing at or above industry average standards and confirmed that the greatest opportunity for significant savings at ICBC are changes to the Basic insurance product.

Moving forward on recommendations from both the PwC report and the 2017 Ernst & Young (EY) report, over the past year, ICBC and the Government began laying the groundwork to fundamentally change B.C.'s auto insurance system and address the Corporation's financial challenges in a more impactful way. Two key changes started in 2017/18 as a result of the reviews – improvements to the Basic insurance product and major revisions to ICBC's rate structure.

In March 2018, the B.C. Government and ICBC launched a public engagement process to ask British Columbians for their input on some proposed changes to determine criteria for how individual rates are set. The feedback will be used to help design a new rating model, with the goal of ensuring rates are more fair.

ICBC also started a robust and ongoing consultation process with associations representing medical treatment providers, and with individual treatment providers, to improve customer access to medical care to help them recover from injuries.

The goal of these and many other ongoing efforts is to make insurance more affordable for British Columbians, by addressing rising claims costs and improving rate fairness.

Report on Performance

As a Crown corporation, ICBC continually works to align with Government goals and objectives. ICBC fulfilled the expectations outlined in the 2017/18 Mandate Letter.

Despite ever-increasing financial and business environment challenges in 2017/18, ICBC remained committed to providing customers with the insurance products and services they count on and the coverage they need, while making insurance rates more fair and affordable. To support this, ICBC's corporate strategy remains focused on four key goals: deliver value and service for customers, ensure financial stability, deliver operational excellence, and align people and business capabilities.

ICBC's commitment to containing controllable operating expenses is demonstrated in its continued dedication to operational excellence. Following an operational excellence mandate helped ICBC improve the way the Corporation delivered services to customers, achieved key business objectives and managed controllable operating expense pressures in 2017/18.

Throughout 2017/18, ICBC continually evaluated its performance against the measures set out in its Service Plan. Together, ICBC's executive leadership team, Board members and the Government are actively communicating and working together with a continued focus on stabilizing ICBC's financial position and improving the Corporation's long term sustainability.

Goals, Strategies, Measures and Targets

To assess progress against our goals, ICBC relies on a number of financial and non-financial corporate performance measures. ICBC uses both International Financial Reporting Standards (IFRS) and non-IFRS measures to assess performance. Non-IFRS measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures used by other companies in the industry. Where possible, ICBC uses standard industry measures that enable benchmarking against other insurers; and when external sources of data are used, the most current available information is included in this report. In other cases, because of ICBC's unique business model, it develops distinct measures relevant to the area of performance.

Unless otherwise noted, the 2017/18 targets included in this report were established in the September *2017/18-2019/20 Service Plan,* and the targets for future years reflect those in the February *2018/19-2010/21 Service Plan*.

In 2016, ICBC changed its fiscal year-end date from December 31 to March 31 to align with the B.C. Government's fiscal year-end. As a result of this change, the 2016/17 actuals included in this report reflect a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. For 2017/18 and thereafter, ICBC's fiscal year is the 12-month period from April 1 to March 31.

The data used in the calculation of performance results are derived from ICBC's financial and operating systems. Management is responsible for ensuring appropriate controls over the financial systems and are regularly reviewing these to ensure they are operating effectively.

Goal 1: Deliver Value and Service for Customers

A key part of improving value and service to customers is to deliver the services that they count on, while ensuring fairness in pricing and keeping rates as low as possible.

In 2017/18, ICBC focused on providing consistent, quality products and services to its customers and addressed business needs by cost-effectively serving customers in ways that were convenient for them. For example, ICBC simplified the authentication process for customers using the online claims service, streamlined the collector vehicle plate application process and expanded online driver licensing road test bookings. In addition, much work was completed to move insurance policies for new fleet and garage customers into ICBC's new insurance system. Having all insurance products and customer information in one system improves efficiencies and allows ICBC and its Autoplan brokers to better serve customers.

In 2017/18, ICBC put an even greater focus on its road safety efforts to address distracted driving and intersection crashes to help reduce injury and death on B.C. roads. Distracted driving-related crashes continue to be one of the leading causes of car crash fatalities and serious injuries in B.C., which is why ICBC continues to invest in road safety initiatives and partners with the Province of B.C. and police on various awareness and enforcement campaigns each year.

ICBC and the Provincial Government launched its first distracted driving technology pilot in March 2018. Over 130 ICBC customers volunteered to download an app on their phone, which blocks the use of a handheld device when the telematics device installed in the vehicle senses that the vehicle is being driven. Findings from the pilot will be used to inform future decisions around distracted driving prevention and enforcement, as well as changes to improve the fairness of how insurance rates are set.

ICBC remained committed to the Road Improvement Program and Intersection Safety Camera Program last year and continues to partner with the Provincial Government and police across the province on enhanced traffic enforcement.

In August 2017, ICBC launched a new road safety campaign, Drive Smart, to bring awareness to deteriorating driver behaviour in B.C. and to make a provincial call to action for all B.C. drivers to improve their driving habits.

The following strategies helped ICBC deliver value and service for customers in 2017/18. These strategies are further explained in the discussion section below.

Strategies

- Work with partners and Government to support Government priorities
- Keep rates as low as possible while ensuring fairness in pricing
- Design and deliver quality products and services in ways that meet customer and business needs
- Reduce injury and death on B.C. roads

Performance Measure 1: Customer Service Performance

Performance Measures	2015 Actual	2016/17 Actual (15 months)	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
1.1 Insurance Services Satisfaction	93%	95%	90%	95%	94%	95%
1.2 Driver Licensing Satisfaction[1]	94%	93%	93%	93%	93%	93%
1.3 Claims Services Satisfaction[2]	n/a	92%	92%	92%	93%	93%

Data Source: Customer service performance is measured based on the percentage of satisfied customers for each major transaction type across our lines of business. The design of our measures and targets reflects the inherent differences of key transactions. Two independent research firms conduct customer survey interviews throughout the year to monitor transactional satisfaction.

[1] This performance measure covers the fiscal year less a month due to the transactional data for the final month not being available in time for reporting purposes.

[2] Starting in 2017/18 and moving forward, the Claims Services Satisfaction score is the overall average of results from First Notice of Loss and Closed Claims, including Centralized Claims Injury Centre (CCIC) and glass claims. Previously, CCIC and glass claims were excluded.

Discussion

Performance Measure 1.1: Insurance Services Satisfaction

- Independent insurance brokers process over three million Autoplan policies each year. The insurance services satisfaction measure is typically based on surveys by approximately 5,000 customers over the course of a year. The survey was reinstated in October 2017 after being suspended for 13 months during the stabilization of ICBC’s new insurance system.
- Since the survey restarted, satisfaction scores have been consistently above the target of 90 percent. The fiscal year-end score was 95 percent.

Performance Measure 1.2: Driver Licensing Satisfaction

- Each year, ICBC conducts approximately 1.6 million driver licence related key transactions concerning the issuance of driver licences and driver exams. These include renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 3,000 customers surveyed throughout the year.
- Driver licensing customer satisfaction was slightly lower in the first half of the year, impacted by lower scores in testing transactions. However, changes in the testing process have resulted in a better customer experience, which led to incremental improvement to the satisfaction scores. The fiscal year end score was 93 percent.

Performance Measure 1.3: Claims Services Satisfaction

- Claims are processed through ICBC’s claims contact centre, claim offices and specialty departments such as commercial claims and rehabilitation services. Claims surveying draws upon personal claims only and is based on the average of First Notice of Loss and closed claims. In a typical year, there are over 15,000 completed surveys.
- As part of ICBC’s commitment to modernizing the Corporation and aging technology, the claims management system was replaced in May 2014. ICBC then transitioned into an 18-month stabilization period. During the stabilization period, the technological requirements for

collecting data required for customer surveying was not available. As such, claims customer satisfaction reporting was suspended at the end of May 2014 and resumed in 2016/17.

- Overall, claims customer satisfaction remained stable to maintain a 92 percent level for the 2017/18 fiscal year. Despite pressures from high claims volumes, new processes and training of new staff, the Claims division was still able to deliver a high level of customer service.

Goal 2: Ensure Financial Stability

Basic insurance rates in B.C. have not kept pace with rapidly increasing claims costs in recent years. Claims costs represent the majority of ICBC's costs and exceed the revenue collected in customer premiums. In 2017/18, claims costs accounted for approximately $1.14 for every premium dollar collected. The two main elements that have an impact on claims costs are frequency (how many claims are made each year per a given number of policies) and severity (the average pay-out for a claim). Managing the frequency of crashes is challenging as it is subject to driver behaviour, weather and other factors largely beyond ICBC's control.

In response to recommendations presented in the PwC Canada and the EY reviews, ICBC, in partnership with the Provincial Government, established a steering committee with a goal of identifying and delivering initiatives to moderate increases in claims costs and restore ICBC's long-term financial stability. To support the steering committee, a number of working groups were established in the areas of road safety, legal and litigation, product, rate fairness and cost effectiveness.

Under Government's lead, ICBC supported consultations with key stakeholder groups to open the dialogue on major improvements to ICBC's accident benefits. These improvements, along with other changes to Basic insurance, were announced by Government on February 6. Once fully implemented, these changes are expected to shift the focus away from maximizing claim payouts to increasing the care available to anyone injured in a crash.

Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to offset the pressure on insurance rates from rising claims costs. While the 2017/18 investment portfolio continued to perform well and exceeded industry benchmarks, in the current low-interest rate environment and with lower capital levels, ICBC cannot rely as heavily upon investment income to help offset claims costs as it did in the past.

Strategies

- Operate the Corporation in a low-cost manner
- Manage increasing bodily injury and material damage claims costs
- Balance risk and return within the investment portfolio

Performance Measure 2: Ensure Financial Stability

Performance Measures	2015 Actual	2016/17 Actual *(15 months)*	2017/18 Target	2017/18 Actual	2018/19 Target	2019/20 Target
2.1 MCT	157%	112%	TBD[1]	31%	TBD[1]	TBD[1]
2.2 Combined Ratio	120%	128%	116%	136%	124%	112%
2.3 Investment Return[2] (Market Return)	Benchmark +0.43%	Benchmark +0.31%	Benchmark or better	Benchmark +0.35%	Benchmark or better	Benchmark or better

Data Source: Financial performance measures are derived from actual financial information, forecasted trends, management targets, and assumptions.

[1] Management is working collaboratively with government to develop capital management targets for 2018/19-2019/20 and beyond. The long-term MCT target was 175%.

[2] Actual and benchmark investment returns are measured gross of management fees. ICBC's management fees and operating costs are 9 bps. Overall benchmark return is determined by the weighted average of the respective benchmark returns of the asset class in the same period. The actual result shown is the performance relative to the benchmark return.

Discussion

Performance Measure 2.1: Minimal Capital Test

- The Minimum Capital Test (MCT) ratio is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. It is calculated as the ratio of capital available to capital required, and is used to assess financial risk and long-term financial stability.
- The 2017/18 corporate MCT ratio was 31 percent, primarily due to lower capital available as a result of ICBC's net loss for the year caused by rapidly increasing claims costs and not being able to set Basic insurance rates to cover costs.
- On February 26, 2018, Government issued direction to temporarily suspend the *Special Direction IC2* (IC2) requirement to maintain Basic MCT at 100 percent and requirement for capital maintenance. This suspension is effective until March 31, 2022.
- Legislative changes have been made to ICBC's Basic insurance product that are intended to mitigate rising claims costs and support the long-term sustainability of the Corporation.

Performance Measure 2.2: Combined Ratio

- The combined ratio is a key industry measure for overall profitability and is the ratio of all costs to premium dollars earned. A ratio below 100 percent indicates an underwriting profit (i.e. premiums are sufficient to cover costs), while a ratio above 100 percent indicates an underwriting loss (i.e. premiums are not sufficient and investment income is needed to help cover costs). Expenses included in the combined ratio are claims related operating expenses and acquisition (e.g., broker commission) costs.
- ICBC's ratio is higher than typical for the property and casualty industry and reflects the unique nature of our business model. The property and casualty industry benchmark for 2017 was 96 percent.[1] Basic insurance premiums, which make up approximately 60 percent of our total premiums earned, are not set to generate underwriting profits. ICBC delivers non-

[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2017. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).*

insurance services on behalf of Government; in 2017/18, non-insurance costs represented approximately three percentage points of the combined ratio.

- The combined ratio targets for 2018/19 and 2019/20 differ from the 2017/18-2019/20 Service Plan, and align with the 2018/19-2020/21 Service Plan. The target changes reflect the expected increases in claims and claims related costs.
- The 2017/18 combined ratio result did not achieve our target of 116 percent mainly due to rapidly increasing claims costs and not being able to set Basic insurance rates to cover costs.

Performance Measure 2.3: Investment Return

- ICBC manages an investment portfolio with a carrying value of $15,796 million at the end of 2017/18. The portfolio is conservatively invested, with the majority of assets held in investment grade bonds, primarily to provide for future claims payments and unearned premiums. Investment income helps to reduce the amount of premiums needed from policyholders. Equities, mortgages and real estate are held in the investment portfolio to generate an added return over bonds.
- Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy market benchmark calculated based on individual asset class market benchmark returns weighted according to the portfolio's strategic asset mix.
- Investment returns over the last four years have benefited from small allocations to equity, mortgages and real estate, all of which have provided an added return over bonds.
- ICBC's investment returns continue to compare favourably to market returns. The 2017/18–2019/20 investment portfolio performance targets are set at the policy market benchmark four year annualized return. For performance measurement purposes, ICBC does not forecast the policy market benchmark return, as it is the result of market forces beyond the Corporation's control.
- As of March 31, 2018, ICBC's four year annualized return at 3.42 percent was 0.35 percentage points higher than the comparable policy market benchmark of 3.07 percent.[2] Based on average portfolio values over this period, the estimated impact of this is about $52 million annually or about $208 million over four years.
- ICBC's one year return of 1.68 percent was 0.61 percentage points higher than the comparable policy market benchmark of 1.07 percent. This excess return was generated almost entirely on internally-managed low-risk Canadian bond, mortgage and real estate assets, representing value to ICBC of approximately $96 million.

[2] *Sources: FTSE TMX Debt Market Indices; Bank of America Merrill Lynch BB/B High Yield Index; S&P/TSX Capped Composite Index; Morgan Stanley Capital International (MSCI) EAFE Index & World Index ex Canada; S&P 500; Customized REAL/pac IPD Canadian Property Index; (REAL/pac IPD = Real Property Association of Canada Investment Property Databank) & Canadian Consumer Price Index.*

Goal 3: Deliver Operational Excellence

In striving toward more affordable and fair rates, ICBC employees are doing what is in their control to manage operating expenses and deliver quality services.

ICBC achieves this balance through a culture of operational excellence and continuous improvement, along with a focus on expanding the capability of employees, business systems and practices.

In 2017/18, ICBC continued to leverage operational excellence principles in its day-to-day operations through the expansion of team check-in meetings to keep teams focused on quality and performance. ICBC continued to pursue cost savings through ongoing negotiation of existing contracts, avoiding activities that do not provide a return on investment, and encouraging customer-facing teams to be more self-sufficient in applying operational excellence principles to find business improvements and solve problems.

Building internal capability to support a culture of continuous improvement has been a key goal of operational excellence, especially in the areas of Claims and Driver Licensing. Significant effort has been placed in refreshing workforce capacity and capability in 2017/18. Quality programs have been expanded and there is continued emphasis on coaching and training managers and employees to provide consistent quality services to customers.

Strategies

- Continuously improve the business by leveraging operational excellence principles
- Develop organizational flexibility to respond to a changing environment

Performance Measure 3: Deliver Operational Excellence

Performance Measure	2015 Actual	2016/17 Actual *(15 months)*	2017/18 Target[1]	2017/18 Actual	2018/19 Target	2019/20 Target
3.1 Loss Adjustment Ratio	N/A	16.6%	15.9%	15.7%	TBD[2]	TBD[2]
3.2 Insurance Expense Ratio	N/A	17.3%	17.0%	16.8%	17.0%	16.8%

Data Source: Financial performance measures are derived from actual financial information, forecasted trends and assumptions.

[1] Fiscal 2017/18 target was developed subsequent to tabling the September 2017/18-2019/20 Service Plan.

[2] In light of the anticipated changes to the Basic insurance product, targets are subject to review.

Discussion

To better monitor and measure how ICBC is leveraging Operational Excellence to manage claims costs, the loss adjustment ratio and the insurance expense ratio were introduced in the *2017/18-2019/20 Service Plan.*

Performance Measure 3.1: Loss Adjustment Ratio

- The loss adjustment ratio is the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services costs, external expenses and loss management expenses divided by claims paid net of external expenses.
- The 2017/18 result of 15.7 percent was lower than the 2017/18 target due to a focus on settling large bodily injury claims, which led to higher claims paid. ICBC anticipated the loss adjustment ratio to be stable or decreasing in the current environment of increasing claims costs.

Performance Measure 3.2: Insurance Expense Ratio

- The insurance expense ratio is a standard industry measure to assess the operational efficiency of an insurer. It is calculated as a ratio of insurance operating expenses (excluding claims, claims related costs, and non-insurance expenses) to insurance premium dollars earned.
- The property and casualty industry benchmark for 2017 was 32.2 percent.[3]
- The 2017/18 result of 16.8 percent was slightly better than the 2017/18 target and is lower than that of the property and casualty industry.

[3] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2017. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).*

Goal 4: Aligned People and Business Capabilities

Critical to achieving the corporate strategy is having the right people and the right business capabilities in place. ICBC continues to build its people capabilities through the implementation of human resource initiatives, including leadership development and ICBC's recently launched employee commitments.

In 2017/18, ICBC leveraged its technical investments to continuously improve and enhance business operations in the Claims and Insurance business areas, for example, by delivering more services to customers online and providing more ways for customers to interact with ICBC. This was achieved through business updates that focused on improving customer experience, such as checking key information about a claim online, and equipping employees and business partners with the right information to make data driven decisions.

Strategies

- Develop accountable, aligned, enabled and motivated leaders and employees
- Leverage people, technology and practices to build business value

Performance Measure 4: Aligned People and Business Capabilities

Performance Measures	2014 Actual	2015 Actual	2016/17 Actual (15 months)	2017/18 Target[1]	2017/18 Actual	2018/19 Target[1]	2019/20 Target
Employee Opinion Indices							
Aligned	77	76	78	≥81	81	≥81	Index scores will be maintained or increased.
Enabled	63	63	66	≥69	70	≥70	
Motivated	60	59	64	≥67	67	≥67	
Accountable	87	82	87	≥87	86	≥86	
Leadership[2]	67	n/a	70	n/a	n/a	≥70	

Data Source: Employee Opinion Survey conducted by an independent firm.

[1] Fiscal 2017/18 targets were presented as numerical values subsequent to tabling the September 2017/18 – 2019/20 Service Plan.

[2] The leadership index can only be updated in a full survey year.

Score Legend

80-100 = Extremely positive
60-79 = Moderately positive
40-59 = Moderately negative
0-39 = Extremely negative

Discussion

Employee Opinion Survey

- ICBC's current approach to the Employee Opinion Survey (EOS) calls for a biennial running of the full survey and a shortened focused "pulse check" survey in the in-between years. In 2017/18, ICBC conducted a pulse check survey involving a random sample of 20 percent of employees, representing all divisions.
- Results of the 2017/18 pulse check indicate that the Corporation has met or surpassed target scores in three of the four EOS indices. The fourth index, "accountable," remains in the "extremely positive" zone and is still the highest scoring index. Significant progress was also noted in the "Enabled" index score, which for the first time was higher than the desired target.

Financial Report

Discussion of Results

Highlights

ICBC continues to face financial strain as insurance rates have not kept pace with substantial cost pressures from the high number of crashes on our roads and the rapidly rising cost of claims from those crashes. Together, ICBC and Government began taking bold steps in 2017/18 toward restoring ICBC's financial sustainability and making rates more fair. The Corporation is focused on controlling operating expenses and working with Government to mitigate claims costs to stabilize its financial position. To continue to address the high volume and severity of injury claims, ICBC further increased front-line claims related staff in 2017/18.

ICBC continues to experience ongoing pressure from worsening claims trends in 2017/18, including an increasing bodily injury claims frequency, continued acceleration in the increase in large bodily injury claims and an extension in the time required to resolve claims. Additional pressures include higher material damage costs, which is consistent with trends affecting other jurisdictions. In addition, ICBC continues to face challenging financial market conditions and low interest rates.

Financial Resource Summary Table

This report contains statements regarding the business of the Corporation. The table below provides an overview of ICBC's 2017/18 financial performance relative to its *2017/18-2019/20 Service Plan* tabled in September 2017.

($ millions)[1]	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Budget	2017/18 Actual	2017/18 Variance
Premiums earned [2]	4,159	4,448	6,051	4,914	5,319	5,329	10
Service fees and other	88	94	130	106	108	113	5
Total earned revenues	**4,247**	**4,542**	**6,181**	**5,020**	**5,427**	**5,442**	**15**
Provision for claims occurring in the current year	3,379	3,798	5,660	4,612	4,719	5,084	(365)
Change in estimates for losses occurring in prior years [3]	181	244	306	202	(63)	563	(626)
Net claims incurred	**3,560**	**4,042**	**5,966**	**4,814**	**4,656**	**5,647**	**(991)**
Claims service and loss management [4]	335	321	445	365	395	402	(7)
Insurance operations expenses [4]	218	217	284	231	237	231	6
Transformation Program [4]	24	27	38	31	30	30	-
Premium taxes and commissions [4, 5]	468	601	819	688	707	792	(85)
Total expenses	**4,605**	**5,208**	**7,552**	**6,129**	**6,025**	**7,102**	**(1,077)**
Underwriting loss	**(358)**	**(666)**	**(1,371)**	**(1,109)**	**(598)**	**(1,660)**	**(1,062)**
Investment income	852	920	615	624	499	462	(37)
Income (loss) - insurance operations	**494**	**254**	**(756)**	**(485)**	**(99)**	**(1,198)**	**(1,099)**
Non-insurance operations expenses [4]	99	100	126	102	101	102	(1)
Non-insurance commissions [4]	28	30	38	31	32	31	1
Non-insurance - other income	(5)	(7)	(7)	(6)	(7)	(6)	(1)
Net income (loss)	**372**	**131**	**(913)**	**(612)**	**(225)**	**(1,325)**	**(1,100)**
Excess Optional capital transfer to the Government of British Columbia	139	138	-	-	-	-	-
At year end:							
Long-term debt	-	-	-		-	-	
Total liabilities	12,267	13,552	15,098		16,000	16,999	
Equity:							
- Retained earnings	3,380	3,372	2,458 [6]		2,233	1,133	
- Other components of equity	236	(262)	(31) [6]		(223)	(161)	
- Non-controlling interest	-	36	19		20	15	
Total equity	**3,616**	**3,146**	**2,446**		**2,030**	**987**	
Capital Expenditures							
Transformation Program	50	54	32		-	-	
Non-Transformation Program	31	40	49		60	54	
Total Capital Expenditures	81	94	81		60	54	
Autoplan policies earned [7]	3,493,000	3,596,000	4,613,000			3,833,000	
Average premium ($) [8]	1,153	1,196	1,280			1,364	
Claims reported during the year [9]	900,000	858,000	1,182,000			1,047,000	

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). The 2014 numbers reflect revenue and expense reclassifications, which had no impact on net income. Fiscal period 2016/17 is a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. The unaudited financial results for the 12-month period from April 1, 2016 to March 31, 2017 are used here to provide a more relevant comparison.

[2] Premiums earned are net of mid-term changes and cancellation refunds.

[3] ( ) denotes a favourable adjustment, i.e., a reduction in expense.

[4] See Note 17 of the consolidated financial statements for details of Operating Expenses by Nature.

[5] Premium taxes and commissions include deferred premium acquisition cost adjustments.

[6] Balance adjusted due to rounding.

[7] Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.

[8] Average premium is based on Autoplan premiums earned.

[9] Claims reported represent the number of claims reported against purchased insurance coverages.

Basic and Optional Comparative Summary Table

($ millions)[1]	Basic - Actual vs. Prior Year			Optional - Actual vs. Prior Year		
	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual	2017/18 Variance	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual	2017/18 Variance
Premiums earned [2]	2,926	3,149	223	1,988	2,180	192
Service fees and other	65	69	4	41	44	3
Total earned revenues	**2,991**	**3,218**	**227**	**2,029**	**2,224**	**195**
Provision for claims occurring in the current year	3,149	3,451	(302)	1,463	1,633	(170)
Change in estimates for losses occurring in prior years [3]	(78)	218	(296)	280	345	(65)
Net claims incurred	**3,071**	**3,669**	**(598)**	**1,743**	**1,978**	**(235)**
Claims service and loss management	245	274	(29)	120	128	(8)
Insurance operations expenses	120	122	(2)	111	109	2
Transformation Program	-	-	-	31	30	1
Premium taxes and commissions [4]	179	451	(272)	509	341	168
Total expenses	**3,615**	**4,516**	**(901)**	**2,514**	**2,586**	**(72)**
Underwriting loss	**(624)**	**(1,298)**	**(674)**	**(485)**	**(362)**	**123**
Investment income	422	325	(97)	202	137	(65)
Loss - insurance operations	**(202)**	**(973)**	**(771)**	**(283)**	**(225)**	**58**
Non-insurance operations expenses	102	102	-	-	-	-
Non-insurance commissions	31	31	-	-	-	-
Non-insurance - other income	(6)	(6)	-	-	-	-
Net loss	**(329)**	**(1,100)**	**(771)**	**(283)**	**(225)**	**58**
Optional net income transfer to Basic business	201	99	(102)	(201)	(99)	102
Net loss after income transfer	**(128)**	**(1,001)**	**(873)**	**(484)**	**(324)**	**160**
At year end:[5]						
Liabilities:						
Unearned premiums	1,430	1,550		985	1,080	
Provisions for unpaid claims	7,851	8,608		2,667	3,288	
Equity:						
- Retained earnings	1,460	928		998	205	
- Other components of equity	(17)	(112)		(14)	(49)	
- Non-controlling interest	13	10		6	5	
Total equity	**1,456**	**826**		**990**	**161**	

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). Fiscal period 2016/17 is a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. The unaudited financial results for the 12-month period from April 1, 2016 to March 31, 2017 are used here to provide a more relevant comparison.
[2] Premiums earned are net of mid-term changes and cancellation refunds.
[3] ( ) denotes a favourable adjustment, i.e., a reduction in expense.
[4] Premium taxes and commissions include deferred premium acquisition cost adjustments.
[5] Balances presented at year end as of March 31, 2017 and March 31, 2018, respectively.

In 2016, ICBC changed its fiscal year-end date from December 31 to March 31 to align with the Province of B.C.'s fiscal year-end date. As a result of this change, ICBC's fiscal year is now a 12-month period from April 1 to March 31. The comparative audited financial information for 2016/17 reflects a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017.

However, to provide a more meaningful and relevant analysis of the current fiscal year's results to prior year, the unaudited figures for the 12-month period from April 1, 2016 to March 31, 2017 were included in the tables, where applicable, and the focus of related discussions will be based on these 12-month prior year comparatives.

The 2017/18 net loss of $1,325 million was $713 million higher than the $612 million net loss for the same period of 2016/17. This was mainly due to increasing claims costs and lower investment income compared to the previous period. Compared to budget, the current year's net loss was $1,100 million higher than the budgeted net loss of $225 million. This is largely due to higher than expected claims costs, particularly many more large and extremely costly claims, which can run into hundreds of thousands of dollars each.

Premiums earned

Premiums earned in 2017/18 increased to $5,329 million which is an increase of $415 million compared to the same period of 2016/17. This is due to the impact of the Basic insurance rate increase of 4.9 percent effective November 1, 2016. To a lesser extent, the Basic insurance rate increase of 6.4 percent effective November 1, 2017, Optional insurance rate increases and a growth in the number of insured vehicles also contributed to increased premiums earned. Premiums earned were consistent with budget.

Service fees and other

Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period. Compared to the same period of 2016/17, in 2017/18 service fees increased in line with higher premiums earned. Service fees and other were consistent with budget.

Claims costs

Cost of claims incurred account for approximately three quarters of ICBC's total costs. They are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period, regardless of when the crash is reported to ICBC, and the change in estimates for losses that occurred in prior periods. Claims incurred costs include payments made to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on known claims and claims not yet reported.

Claims incurred costs are affected by the growth in the number of policies, the chance of having a claim (frequency) and the average expected costs to settle those claims (severity). Frequency is influenced by factors that include driving and claimant behaviour, driver experience, weather and the effectiveness of road safety and loss management programs. Severity is influenced by factors that include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

Bodily injury claims frequency is continuing to increase. In 2017/18, there was a recent emergence of two new, extraordinary adverse trends affecting bodily injury claims. These trends involve a continued acceleration in the increase in large bodily injury claims, in particular, claims that become large losses over many years, and an increase in the time required to resolve claims.

Overall, 2017/18 net claims incurred costs of $5,647 million were higher than the claims costs incurred during the same period of 2016/17 due to the worsening claims trends discussed above. This increase was driven by the increase in current period claims costs and the prior periods' claims costs adjustments.

Net claims incurred costs in 2017/18 were $991 million higher than budget, with an increase of $365 million in current period claims costs and $626 million in prior periods' adjustments. These increases are attributable to a continued acceleration in the increase in large bodily injury claims and an increase in the time required to resolve claims.

ICBC continues to face financial strain as insurance rates undergo substantial pressure from the elevated number of crashes and the rapidly rising cost of claims from those crashes.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months)* *(unaudited)*	2017/18 Actual
Net Claims Incurred Costs	**3,113**	**3,560**	**4,042**	**5,966**	**4,814**	**5,647**
Injury	2,039	2,438	2,748	3,955	3,177	3,902
Material Damage and Other	1,074	1,122	1,294	2,011	1,637	1,745

Data Source: ICBC financial systems

Injury claims

Current year injury claims account for approximately 65 percent of current year claims incurred costs in 2017/18, and include bodily injury claims and accident benefit claims. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses and external claims handling expenses.

Overall, the total cost of current year injury claims have increased in 2017/18 compared to the same period of 2016/17. This reflects an increased frequency of injury claims and the continued acceleration in the emergence of large bodily injury claims as discussed above.

Bodily injury claims costs accounted for over 90 percent of the total injury claims costs and increased in 2017/18 compared to 2016/17.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months)* *(unaudited)*	2017/18 Actual
Current Year Injury Claims Incurred (major categories)	**2,089**	**2,295**	**2,563**	**3,570**	**2,910**	**3,334**
Bodily Injury	1,930	2,130	2,380	3,308	2,698	3,114
Accident & Death Benefits	159	165	183	262	212	220

Data Source: ICBC financial systems

Material damage (non-injury) claims

Material damage claims can largely be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current year material damage claims was higher than the same period of 2016/17 due to increases in the average cost of material damage claims. Vehicle repair costs continue to rise due to an increase in embedded technology in vehicles. As a result, the hours of labour required to repair vehicles and the cost of replacement parts continue to increase, particularly for newer vehicles. Implementing a material damage strategy to manage claims costs and ensure appropriate controls and governance are in place continues to be a key priority for ICBC.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual
Current Year Material Damage Claims Incurred (major categories)	**980**	**1,038**	**1,156**	**1,755**	**1,422**	**1,555**
Property damage	382	401	433	704	573	673
Collision	416	427	491	727	587	583
Comprehensive	126	150	166	222	182	198
Windshield	56	60	66	102	80	100

Data Source: ICBC financial systems

Change in estimates for losses occurred in prior years

Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined.

In 2017/18, the change in estimates for losses that occurred in prior periods was unfavourable as compared to 2016/17. This is a result of a continued acceleration in the emergence of large bodily injury claims and an increase in the time required to resolve claims. This is also due to higher material damage claims from prior periods that have cost more than anticipated.

Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the fiscal year based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as at March 31, 2018 was $11,896 million; however, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury claims accounts for approximately 90 percent of total unpaid claims costs. As illustrated in the following table, 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 portion of the costs being an estimate of claims costs payable in future years.

	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	End of Year 6
Breakdown of Bodily Injury Costs (%) (typical accident year)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Paid	4%	15%	30%	45%	67%	81%
Unpaid	96%	85%	70%	55%	33%	19%

Data Source: ICBC financial systems

ICBC commissions the services of an external actuary to provide an independent assessment of the provision for unpaid claims and, as part of the annual audit of the financial results, the external auditor's actuary also reviews the adequacy of the unpaid claims reserves.

ICBC earns investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims are ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports the provision for unpaid claims 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 (see note 13 to the consolidated financial statements). The discount rate is based on the expected return of our 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. As of March 31, 2018, the discount rate of 3.1 percent increased by 30 basis points from the prior period's discount rate of 2.8 percent, which helped to decrease the balance of unpaid claims.

Road safety and loss management

In 2017/18, ICBC invested $51 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs.

Using a safe systems approach, ICBC targets its road safety investments on the major risks that impact customers and costs in the business, including distractions, high-risk driving, impaired driving and vulnerable road users. Over the past year, ICBC worked with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

ICBC continued to support enhanced enforcement initiatives through a funding agreement with the Ministry of Justice. In 2017/18, ICBC invested approximately $22 million in enhanced enforcement, such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in advertising and community initiatives to help change driver behaviours.

Operating expenses

Operating expenses include compensation and other expenses required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes.

In 2017/18, ICBC continued to manage controllable operating expenses by being an operationally excellent, low-cost organization, with a continued focus on prudent management of administration costs.

In 2017/18, claims related operating expenses of $402 million were higher than in the same period of 2016/17. This is primarily due to higher compensation costs from hiring more front-line claims related staff in an effort to manage the rise in claims volumes. Claims related operating expenses in 2017/18 were consistent with budget.

The Transformation Program, a multi-year initiative, was completed in 2016/17. The depreciation expenses related to assets resulting from the Transformation Program totaled $30 million in 2017/18.

Included in total operating expenses are non-insurance operating expenses of $102 million, which consist of expenses for administering driver licensing, vehicle registration and licensing, and Government fines collection. Non-insurance costs are funded from Basic insurance premiums.

($ millions)	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months)* *(unaudited)*	2017/18 Budget	2017/18 Actual
Operating Expenses	**676**	**665**	**893**	**729**	**763**	**765**
Claims related costs	335	321	445	365	395	402
Insurance	218	217	284	231	237	231
Non-Insurance	99	100	126	102	101	102
Transformation Program[1]	24	27	38	31	30	30

[1] Transformation Program was completed in 2016, and the expenses for fiscal 2017/18 refer to the depreciation of Transformation Program assets.

Below is a table of total operating expenses by nature:

($ millions)	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months)* *(unaudited)*	2017/18 Actual
Operating Expenses by Nature	**676**	**665**	**893**	**729**	**765**
Employee benefit expense	433	423	570	462	489
Professional, administrative and other	174	172	227	187	191
Depreciation & amortization	37	37	55	45	55
Road improvements and other traffic safety programs	32	33	41	35	30

Acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of our insurance products and the administration of driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4 percent of premiums) collected and paid to the Provincial Government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are deferred and amortized as expense on a similar basis. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, deferred premium acquisition costs (DPAC) are written down and a premium deficiency liability is recognized. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses. The premium deficiency as at March 31, 2018, was $117 million, and the premium deficiency adjustment expense was $157 million (see notes 17 and 18 to the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $823 million were higher than prior period. This is mainly due to an unfavourable premium deficiency adjustment from higher claims costs that resulted in decreased profitability. Broker commissions and premium taxes were also higher than in the same period of 2016/17 mainly due to higher premiums earned. Premium taxes were higher than budget largely due to a premium tax assessment for 2015 to 2017 payment plan fees. In the past, ICBC was not assessed premium taxes on payment plan fees.

Investments

ICBC has an investment portfolio with a carrying value of $15,796 million, which represented 88 percent of the Corporation's total assets as at March 31, 2018.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims. ICBC maintains a conservative investment portfolio, with a significant allocation to high-quality fixed income securities.

As at March 31, 2018, 72 percent of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 28 percent of the portfolio was invested in equity and real estate investments.

Investment income

In 2017/18, investment income was $462 million. This was lower than investment income in the same prior period, mainly due to lower equity dividends as the pooled funds distributed less income and capital dividends than in prior period, lower gains due to realized losses on bond trading activity as the market value of bond investments were negatively impacted by increasing interest rates and a decline in the U.S. dollar.

Overall, these results equate to an accounting investment return of 2.9 percent in 2017/18, compared to 4.1 percent for the 15 month period in 2016/17, based on the average investment balance during the period on a cost basis.

Investment income was $37 million lower than budget mainly due to foreign exchange losses on U.S. high-yield bonds from the weaker U.S. dollar and the planned gain on the sale of an investment property being delayed to the next fiscal period. This was partially offset by higher interest income, equity gains and equity dividends.

($ millions)	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Budget	2017/18 Actual
Investment Income	**852**	**920**	**615**	**624**	**499**	**462**
Interest, dividends & other income	418	333	515	461	402	377
Gains	434	587	100	163	97	85

Equity

Our equity at March 31, 2018 included retained earnings of $1,133 million and accumulated loss in other components of equity of $161 million. Retained earnings have historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets. However, given the impact of rapidly rising claims costs and volatile financial markets, the capital base has been diminished.

As at March 31, 2018, ICBC had a net unrealized loss of $164 million. Unrealized gains and losses included in other components of equity reflect the cumulative changes in fair value for bonds and equities and the realization of gains and losses at the end of the year. The increase in interest rates for the bond portfolio and the downturn in the fair market value of the equity portfolio led to a net decrease in the fair market value of these investments, resulting in the unrealized loss.

The adequacy of equity or capital base is an important factor in assessing the financial stability of an insurance company and is closely monitored by regulators. For federally regulated insurance companies, the common industry method used to measure financial stability is the MCT ratio, an OSFI risk-based capital adequacy framework which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. Although ICBC is not federally regulated, legislation and regulation require ICBC to use the OSFI MCT framework to set capital targets.

As at March 31, 2018, ICBC's corporate MCT level of 31 percent was lower than the prior year. This was primarily due to the net loss for the current fiscal year. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 9, 20 and 22 to the accompanying consolidated financial statements.

Optional income and capital transfers to Basic

In 2016, ICBC was directed to transfer $300 million of income from the Corporation's Optional insurance business to the Basic insurance business. The transfer of income, which is for the sole purpose of rate setting, allowed ICBC to achieve the BCUC approved Basic insurance rate increase of 4.9 percent and bolster Basic MCT level. On November 1, 2016, $201 million was transferred, and the remaining $99 million was transferred on April 1, 2017.

However, with the increasing claims costs and net losses, capital levels continue to decrease. The capital transfer of $470 million from the Optional insurance line of business to the Basic insurance line of business on September 15, 2017 was aimed at bolstering the Basic MCT ratio and maintaining it above the regulatory minimum of 100 percent. This transfer was insufficient to offset the worsening claims trends. On February 26, 2018, Government issued direction to temporarily suspend the IC2 requirement to maintain Basic MCT at 100 percent and requirement for capital maintenance. This suspension is effective until March 31, 2022.

Basic and Optional insurance operations

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 costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. Detailed financial information on Basic and Optional lines of business is included in note 22 to the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business incurred a net loss of $1,001 million after the Optional income transfer of $99 million noted above. The Basic net loss was worse than the same prior period due to higher claims costs and lower investment income, which are partially offset by higher premium revenues from the Basic insurance rate increase of 4.9 percent effective November 1, 2016 and 6.4 percent increase effective November 1, 2017.

In 2017/18, the Optional insurance business incurred a net loss of $324 million after the Optional insurance income transfer to Basic noted above. The Optional insurance net loss is better than the net loss for the comparable period in 2016/17, mainly due to higher revenues from vehicle growth and Optional insurance rate increases, partially offset by higher claims costs and lower investment income.

Risks and uncertainties

ICBC has a well-established risk management process in place to identify significant risks to the achievement of corporate objectives, and protect ICBC against financial and reputational harm. Identified risks are captured in a corporate risk register for periodic monitoring and reporting. Risks are categorized in accordance with COSO ERM[4] and aggregated for quarterly reporting to ICBC's executives and the Board of Directors.

As a provider of vehicle insurance products, a sub-set of the risks ICBC is exposed to include industry and financial risks which may have an impact on ICBC's financial results. Refer to note 9 to the accompanying consolidated financial statements for further details on ICBC's management of these industry and financial risks.

[4] COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM is a widely accepted framework used by management to enhance an organization's ability to manage uncertainty, consider how much risk to accept, and improve understanding of opportunities as it strives to increase and preserve stakeholder value.

INSURANCE CORPORATION OF BRITISH COLUMBIA

CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2018

Management's Responsibility for the Consolidated Financial Statements

Scope of Responsibility

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

Internal Controls

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

Board of Directors and Audit Committee

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

Independent Auditor and Actuary

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

William T. Weiland of Eckler Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of ICBC's policy liabilities, which include a provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. In performing the evaluation, the appointed actuary makes assumptions as to the future rates of claims, frequency and severity, inflation, reinsurance recoveries and expenses, taking into consideration the circumstances of ICBC and the insurance policies in force. The appointed actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Mr. Weiland meets every year with PricewaterhouseCoopers' valuation actuaries and ICBC's management to discuss business developments, changes in claims processing and claims trends. These discussions assist the independent parties in developing expectations around and assessing management's estimate of the claims provision.

Nicolas Jimenez
Interim President and Chief Executive Officer

June 11, 2018

William M. Carpenter

Bill Carpenter
Chief Financial Officer and Chief Actuary

June 11, 2018

Independent Auditor's Report

To the Minister Responsible for the Insurance Corporation of British Columbia and the Board of Directors of the Insurance Corporation of British Columbia

We have audited the accompanying consolidated financial statements of the Insurance Corporation of British Columbia and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Insurance Corporation of British Columbia and its subsidiaries as at March 31, 2018 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 11, 2018

Actuary's Report

I have valued the policy liabilities, including reinsurance recoverables, in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at March 31, 2018 and their changes in its consolidated statement of comprehensive loss for the period then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

W.T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
June 11, 2018

Consolidated Statement of Financial Position

($ THOUSANDS)		2018		2017
Assets				
Cash and cash equivalents	$	17,568	$	27,128
Accrued interest		62,997		75,863
Assets held for sale (note 5)		-		25,712
Financial investments (note 5)		14,644,466		14,411,033
Derivative financial instruments (note 7)		2,744		-
Premiums and other receivables (note 9)		1,629,085		1,455,676
Reinsurance assets (note 9)		23,417		18,070
Investment properties (note 5)		1,133,699		1,048,549
Property and equipment (note 11)		110,128		106,286
Intangible assets (note 12)		296,786		302,508
Accrued pension benefits (note 16)		44,488		37,302
Deferred premium acquisition costs and prepaids (note 18)		20,977		36,502
	$	17,986,355	$	17,544,629
Liabilities and Equity				
Liabilities				
Cheques outstanding (note 7)	$	89,077	$	78,540
Accounts payable and accrued charges		283,172		267,773
Derivative financial instruments (note 7)		-		10,702
Bond repurchase agreements, investment related, and other liabilities (note 8)		1,605,987		1,346,749
Premium deficiency (note 18)		117,623		-
Premiums and fees received in advance		67,763		51,809
Unearned premiums (note 14)		2,629,744		2,414,503
Pension and post-retirement benefits (note 16)		310,130		410,396
Provision for unpaid claims (note 13)		11,895,696		10,517,971
		16,999,192		15,098,443
Equity				
Retained earnings		1,132,998		2,458,480
Other components of equity		(161,340)		(31,865)
Equity attributable to owners of the corporation		971,658		2,426,615
Non-controlling interest (note 6)		15,505		19,571
		987,163		2,446,186
	$	17,986,355	$	17,544,629

Critical accounting estimates and judgments (note 3)
Contingent liabilities and commitments (note 21)
Subsequent events (note 24)

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

Approved by the Board

Joy MacPhail
Chair of the Board of Directors

Cathy McLay
Director

Consolidated Statement of Comprehensive Loss

($ THOUSANDS)	12 months ended March 31 2018	15 months ended March 31 2017
Premiums written		
Premium revenue – vehicle	$ 5,529,874	$ 6,237,805
Premiums ceded to reinsurers – vehicle	(9,512)	(11,289)
Net premium revenue – vehicle	5,520,362	6,226,516
Premium revenue – driver	23,817	26,583
	$ 5,544,179	$ 6,253,099
Revenues		
Premiums earned		
Premium revenue – vehicle	$ 5,315,627	$ 6,035,942
Premiums ceded to reinsurers – vehicle	(9,512)	(11,289)
Net premium revenue – vehicle	5,306,115	6,024,653
Premium revenue – driver	22,823	25,989
	5,328,938	6,050,642
Service fees and other income	113,298	130,383
Total earned revenues	5,442,236	6,181,025
Claims and operating expenses		
Provision for claims occurring in the current period (note 13)	5,084,234	5,659,692
Change in estimates for losses occurring in prior periods (note 13)	562,957	306,665
Net claims incurred (note 13)	5,647,191	5,966,357
Claims services (note 17)	351,366	383,789
Road safety and loss management services (note 17)	51,128	60,943
	6,049,685	6,411,089
Operating expenses – insurance (note 17)	260,588	322,799
Premium taxes and commissions – insurance (notes 17 and 18)	792,683	818,696
	7,102,956	7,552,584
Underwriting loss	(1,660,720)	(1,371,559)
Investment income (note 10)	462,203	614,870
Loss – insurance operations	(1,198,517)	(756,689)
Non-insurance operations		
Provincial licences and fines revenue (note 19)	618,387	711,947
Licences and fines transferable to the Province of BC (note 19)	618,387	711,947
Operating expenses – non-insurance (note 17)	101,912	125,986
Commissions – non-insurance (notes 17 and 18)	31,226	37,517
Other income – non-insurance	(6,493)	(7,151)
	745,032	868,299
Loss – non-insurance operations	(126,645)	(156,352)
Net loss	$ (1,325,162)	$ (913,041)
Other comprehensive (loss) income		
Items that will not be reclassified to net loss		
Pension and post-retirement benefits remeasurements (note 16)	$ 134,246	$ 78,762
Items that will be reclassified to net loss		
Net change in available for sale financial assets	(263,721)	152,050
	(129,475)	230,812
Total comprehensive loss	$ (1,454,637)	$ (682,229)
Net loss attributable to:		
Non-controlling interest (note 6)	$ 320	$ (150)
Owners of the corporation	(1,325,482)	(912,891)
	$ (1,325,162)	$ (913,041)
Total comprehensive loss attributable to:		
Non-controlling interest (note 6)	$ 320	$ 727
Owners of the corporation	(1,454,957)	(682,956)
	$ (1,454,637)	$ (682,229)

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

Consolidated Statement of Changes in Equity

($ THOUSANDS)	**Retained Earnings**	Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements	**Total Other Components of Equity**	**Total attributable to owners of the corporation**	**Non-Controlling Interest**	**Total Equity**
	12 months ended March 31, 2018						
		Other Components of Equity					
Balance, beginning of period	$ 2,458,480	$ 99,940	$ (131,805)	$ (31,865)	$ 2,426,615	$ 19,571	$ 2,446,186
Acquisition of entities with non-controlling interest (note 6)						2,205	2,205
Contributions						57	57
Change in net assets						(277)	(277)
Distributions						(6,371)	(6,371)
Comprehensive (loss) income							
Net (loss) income	(1,325,482)	-	-	-	(1,325,482)	320	(1,325,162)
Other comprehensive (loss) income							
Net gains reclassified to investment income	-	(134,166)	-	(134,166)	(134,166)	-	(134,166)
Net loss arising on available for sale financial assets in the period	-	(129,555)	-	(129,555)	(129,555)	-	(129,555)
Pension and post-retirement benefits remeasurements (note 16)	-	-	134,246	134,246	134,246	-	134,246
Total other comprehensive (loss) income	-	(263,721)	134,246	(129,475)	(129,475)	-	(129,475)
Total comprehensive (loss) income	(1,325,482)	(263,721)	134,246	(129,475)	(1,454,957)	320	(1,454,637)
Balance, end of period	$ 1,132,998	$ (163,781)	$ 2,441	$ (161,340)	$ 971,658	$ 15,505	$ 987,163

($ THOUSANDS)	**Retained Earnings**	Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements	**Total Other Components of Equity**	**Total attributable to owners of the corporation**	**Non-Controlling Interest**	**Total Equity**
	15 months ended March 31, 2017						
		Other Components of Equity					
Balance, beginning of period	$ 3,371,371	$ (51,233)	$ (210,567)	$ (261,800)	$ 3,109,571	$ 36,460	$ 3,146,031
Acquisition of entities with non-controlling interest (note 6)						7,927	7,927
Loss of control of Canadian pooled fund (note 6)						(24,974)	(24,974)
Distributions						(569)	(569)
Comprehensive (loss) income							
Net loss	(912,891)	-	-	-	(912,891)	(150)	(913,041)
Other comprehensive (loss) income							
Net gains reclassified to investment income	-	(196,526)	-	(196,526)	(196,526)	-	(196,526)
Net gains arising on available for sale financial assets in the period	-	347,699	-	347,699	347,699	877	348,576
Pension and post-retirement benefits remeasurements (note 16)	-	-	78,762	78,762	78,762	-	78,762
Total other comprehensive income	-	151,173	78,762	229,935	229,935	877	230,812
Total comprehensive (loss) income	(912,891)	151,173	78,762	229,935	(682,956)	727	(682,229)
Balance, end of period	$ 2,458,480	$ 99,940	$ (131,805)	$ (31,865)	$ 2,426,615	$ 19,571	$ 2,446,186

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

Consolidated Statement of Cash Flows

($ THOUSANDS)	12 months ended March 31 2018	15 months ended March 31 2017
Cash flow from operating activities		
Net loss	$ (1,325,162)	$ (913,041)
Items not requiring the use of cash (note 23)	(151,458)	(32,952)
Changes in non-cash working capital (note 23)	1,534,306	1,396,925
Cash flow from operating activities	57,686	450,932
Cash flow used in investing activities		
Purchase of financial investments and investment properties	(12,009,868)	(15,039,726)
Proceeds from sales of financial investments and investment properties	11,845,020	14,743,299
Purchase of property, equipment and intangibles, net	(42,098)	(75,179)
Cash flow used in investing activities	(206,946)	(371,606)
Cash flow from (used in) financing activities		
Net securities sold under repurchase agreements (note 23)	129,163	26,327
Excess Optional capital transfer to Province of BC (notes 19, 20 and 23)	-	(138,118)
Cash flow from (used in) financing activities	129,163	(111,791)
Decrease in cash and cash equivalents during the period	(20,097)	(32,465)
Cash and cash equivalents, beginning of period	(51,412)	(18,947)
Cash and cash equivalents, end of period	$ (71,509)	$ (51,412)
Represented by:		
Cash and cash equivalents (note 7)	$ 17,568	$ 27,128
Cheques outstanding	(89,077)	(78,540)
Cash and cash equivalents, net	$ (71,509)	$ (51,412)

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

Notes to Consolidated Financial Statements

For the 12 month period ended March 31, 2018

1. **Corporate Information**

The Insurance Corporation of British Columbia (the Corporation) is a wholly-owned Crown corporation of the Province of British Columbia (B.C.), not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act* (ICA), R.S.B.C. 1996 Chapter 228. The head office of the Corporation is 151 West Esplanade, North Vancouver, British Columbia. The Corporation operates and administers plans of universal compulsory vehicle insurance (Basic) and optional vehicle insurance (Optional) 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 driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection. As a result of amendments to the ICA in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to Basic rates and services (note 22).

Basic insurance includes the following coverages: $200,000 third party liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 ($300,000 beginning January 1, 2018 – note 3e) for medical and rehabilitation expenses and up to $300 per week for wage loss ($740 per week effective April 1, 2019 – note 3e), $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside the Province of B.C. The Corporation also offers Optional insurance in a competitive environment, which includes, but is not limited to, the following coverages: extended third party 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 of B.C. 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 vehicle insurer.

In January 2016, the Corporation's Board of Directors approved a change to the Corporation's fiscal year-end from December 31 to March 31 to align the fiscal year-end date with its shareholder, the Province of B.C. This was followed by a change to the ICA effective March 10, 2016 setting the Corporation's fiscal year-end at March 31. The transition to the new fiscal year-end occurred in the 15 months ended March 31, 2017. The current period consists of the 12 months ended March 31, 2018, with comparative financial statements for the 15 month period ended March 31, 2017. As a result, information contained in these consolidated financial statements may not be comparable.

On June 11, 2018, the Board of Directors authorized these consolidated financial statements for issue.

2. Summary of Significant Accounting Policies

The significant accounting policies applied in preparation of these consolidated financial statements are set out below. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value.

a) Basis of reporting

The consolidated financial statements of the Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and required by the *Budget Transparency and Accountability Act*. The consolidated financial statements include the accounts of the Corporation and its subsidiary companies. The Corporation's reporting currency and functional currency for all of its operations is the Canadian dollar, unless otherwise stated.

The Corporation reports revenues and expenses attributable to Basic insurance separately from the other operations of the Corporation (note 22). The Corporation presents investment income separately from underwriting results as this reflects how the business operations are managed and provides more relevant, reliable, comparable and understandable information of these consolidated financial statements. The Corporation also provides a number of non-insurance services on behalf of the Province of B.C. The costs associated with these non-insurance activities are borne by the Corporation. The amounts collected and remitted as well as the related costs are accounted for and disclosed separately in the consolidated statement of comprehensive loss under non-insurance operations for greater transparency (note 19).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.

b) Basis of consolidation

Control

The Corporation consolidates the financial statements of all subsidiary companies over which it has control. Control is achieved when the Corporation is exposed, or has rights to, variable returns from the entity and has the ability to use its power to affect the amount of the returns. Entities are fully consolidated from the date on which control is transferred to the Corporation. All but two of the Corporation's investment properties are held individually in nominee holding companies. The Corporation does not have any active operating subsidiary companies. All inter-company transactions and balances are eliminated.

Non-controlling interest (NCI), presented as part of equity, represents the portion of an entity's profit or loss and net assets that are not attributable to the Corporation. The Corporation attributes total comprehensive income or loss of entities between the parent and the NCI based on their respective ownership interests. All subsidiaries are wholly-owned, except for the Canadian limited partnerships listed in note 6.

When the Corporation loses control over an entity, it derecognizes the assets and liabilities of the entity, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the entity is measured at fair value when control is lost.

Significant influence

Associates are entities over which the Corporation has significant influence, which means it has the power to participate in the financial and operating decisions of the investee but does not have control or joint control over the financial or operating policies. Associates generally involve a shareholding of 20% to 50% of the voting rights. In some cases, voting rights in themselves are not sufficient to assess power or significant influence over the relevant activities of the investee. In such cases, judgment is applied through the analysis of management agreements, the effectiveness of voting rights, the significance of the benefits to which the Corporation is exposed and the degree to which the Corporation can use its power or significant influence to affect its returns from investees. Associates are accounted for using the equity method. The Corporation has determined that it does not have significant influence in an investment in a limited partnership for real estate (note 3d), thus the investment is not classified as an associate.

Joint operation

The Corporation accounts for its interest in joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. The Corporation owns 50% share of each of its three joint operations, one of which is with a Limited Partner. The nature of all joint operations are investment properties in Canada.

c) **Service fees**

Service fees on the Corporation's payment plan are recognized monthly over the term of the policy. For six or twelve month term Autoplan policies, the Corporation's payment plan enables customers to make monthly or quarterly payments. The related interest bearing receivables are carried at amortized cost as determined using the effective interest method.

d) **Insurance contracts**

The Corporation issues insurance contracts that transfer insurance risk, which results in the possibility of having to pay benefits on the occurrence of an insured event. The Corporation accounts for insurance contracts as follows:

Premiums earned

The Corporation recognizes vehicle premiums on a straight-line basis over the term of each vehicle policy written. Driver premiums are earned over 12 months. Unearned premiums are the portion of premiums relating to the unexpired term, net of any premium refunds.

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, 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. When this occurs, the premium deficiency is recognized as a liability and any deferred premium acquisition costs are written down.

Provision for unpaid claims

The provision for unpaid claims represents the estimated amounts required to settle all unpaid claims. It includes amounts for claims that are incurred but not reported (IBNR) plus development on known case reserves and loss adjustment expenses, and is gross of recoveries from reinsurance. The provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money, and includes a provision for adverse deviations (PfAD).

Similar to any insurance company's provision, the Corporation's provision for unpaid claims is an estimate subject to volatility, which could be material in the near term. 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 more time required for the settlement of a group of claims, the more variable the estimates will be. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, significant changes in the Corporation's claims operations, the timing of claims payments, and future rates of investment return.

The ultimate cost of long settlement term claims is particularly 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. 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. Provisions for such 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.

To recognize the uncertainty in establishing best estimates, as set out in the Standards of Practice of the Canadian Institute of Actuaries, the Corporation includes a PfAD, consisting of three elements: an interest rate margin, a reinsurance margin, and a claims development margin. The interest rate margin reduces the expected investment rate of return used for discounting to make allowance for i) asset liability mismatch risk, ii) uncertainty in the timing of claims settlement, and iii) credit risk within the investment portfolio. The reinsurance margin makes allowance for the collectability of recoverable amounts from reinsurers and is a reduction in the expected amount of reinsurance recoverable. The claims development margin makes allowance for the various factors that can create greater uncertainty in the estimates of ultimate claims costs, including i) changes in the Corporation's operations (e.g. claims practices), ii) the underlying data upon which the unpaid claims estimates are based, and iii) the nature of the lines of business written. The claims development margin is a percentage of the unpaid claims, gross of reinsurance, and is larger for injury lines that generally require more time for claims to settle and close.

The Corporation also assesses the adequacy of its insurance liabilities at the end of each reporting period to ensure that they are sufficient to capture expected future cash outflows. All changes to the estimate since the end of the last reporting period are recorded in the current period as a 'Change in estimates for losses occurring in prior periods'. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

Reinsurance

Reinsurance balances are presented separately on the consolidated statement of financial position to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of comprehensive loss to indicate the results of its retention of premiums written.

Reinsurance assets, including both reinsurance recoverable and reinsurance receivable, are shown on the consolidated statement of financial position. A PfAD is included in the discounted amount recoverable from reinsurers. The PfAD is applied on a consistent basis with the underlying provision for unpaid claims and includes a reinsurance recovery portion that reflects considerations relating to potential collectability issues with reinsurers.

e) **Cash and cash equivalents**

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in fair value, including 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 from the date of acquisition.

f) **Assets held for sale**

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, and the sale is considered to be highly probable, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured at cost less accumulated depreciation and impairment losses. Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale, and subsequent gains and losses on remeasurement, are recognized in profit or loss; these gains are not recognized in excess of any cumulative impairment loss. Once classified as held for sale, non-current assets are no longer amortized or depreciated
(note 5).

g) **Financial assets**

The Corporation categorizes its financial instruments as fair value through profit or loss (FVTPL), loans and receivables (Loans) or available for sale (AFS) depending upon the purpose for which the financial assets were acquired. Monetary assets are assets that are to be received in a fixed or determinable number of units of currency. Monetary financial assets include bonds and non-monetary financial assets include equities. The Corporation's financial assets are accounted for based on their classification as follows:

Fair value through profit or loss

The Corporation's cash and cash equivalents (note 2e) and derivative financial instruments (note 2j) are accounted for as FVTPL. A financial asset is classified in this category if it is acquired or originated principally for the purpose of selling in the short-term. The Corporation's derivative financial instruments are forward contracts and an interest rate swap that are not in a hedging relationship, which are classified as FVTPL.

FVTPL financial assets are recorded at fair value on initial recognition and for subsequent measurement. Transaction costs and changes in the fair value are recognized in investment income on the consolidated statement of comprehensive loss.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation has classified its mortgage portfolio, loan, and premiums and other receivables as Loans. The mortgage portfolio consists of mortgages and mortgage bonds. In 2017, the Corporation had one loan to a Canadian entity to acquire a non-controlling interest in a Canadian limited partnership.

Loans are recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest rate method. Transaction costs are included in the initial carrying amount of the assets. Impairment losses on loans are recognized in investment income on the consolidated statement of comprehensive loss.

Available for sale

Non-derivative financial assets that are not classified as Loans or FVTPL are accounted for as AFS. The Corporation has classified its money market securities with a term greater than 90 days from the date of acquisition, and its bond and equity portfolios as AFS.

AFS financial assets are recorded at fair value on initial recognition or the trade date and for subsequent measurement. Transaction costs are included in the initial carrying amount of the assets.

Changes in the fair value, other than due to foreign exchange, of an AFS financial asset are recorded in other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired, at which time the gain or loss will be recognized in investment income. Changes in the fair value due to foreign exchange on a non-monetary AFS financial asset are recorded in OCI. Changes in fair value due to foreign exchange on a monetary AFS financial asset are recorded in investment income. Interest calculated using the effective interest method is accrued daily and recognized in investment income. Dividends are recognized in investment income when the right to receive payments is established on the ex-dividend date.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with substantially all of the risks and rewards of ownership.

h) **Translation of foreign currencies**

Foreign currency transactions are translated at exchange rates at the date of the sale or purchase. Foreign currency assets and liabilities considered as monetary items are translated at exchange rates in effect at the period end date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in investment income.

Translation differences on non-monetary AFS financial assets, such as equity securities, are recognized as part of the change in fair value in OCI until the security is disposed of or impairment is recorded. Translation differences on monetary AFS financial assets are recorded in investment income.

i) **Fair value of financial assets**

In accordance with IFRS 13 *Fair Value Measurement*, the Corporation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is classified as Level 1, 2 or 3, based on the degree to which fair value is observable:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs to the valuation methodology include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs to the valuation methodology are not based on observable market data.

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Where an active market does not exist, and quoted prices are unavailable, fair values are determined using valuation techniques that refer to observable market data. Where observable market data is unavailable, the estimated fair value is determined using valuation techniques.

The estimated fair value of money market securities greater than 90 days, which are not considered cash and cash equivalents, is approximated by cost. The estimated fair value for bonds and equities is based on quoted prices or on other observable market information, where available. The estimated fair value for mortgages is determined by referencing the yield curve of Government of Canada bonds to the corresponding maturity dates of the underlying mortgages, plus an estimated risk premium. The risk premium is determined by factors such as the location of the property, tenant profile, and degree of leverage of the property.

These valuations are reviewed each reporting date by management.

j) **Derivative financial instruments**

The Corporation uses derivative financial instruments to manage the foreign exchange and interest rate risks (note 7).

Derivative financial instruments that are not designated as hedges are recorded using the FVTPL method of accounting whereby instruments are recorded at fair value as an asset or liability with changes in fair value recognized in investment income in the period of change.

k) **Investment properties**

Properties held for rental income or capital appreciation that are not occupied by the Corporation are classified as investment properties.

The estimated fair value of the Corporation's investment properties is based on independent appraisals by professionally qualified external valuators made during the period.

The Corporation has certain properties that serve dual purposes; investment and own-use portions. If the investment and own-use portions can be sold separately, or leased out separately under a finance lease, the portions are accounted for separately. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held for own-use in the supply of services or for administrative purposes. Where the portion held for own-use is significant, then it would be treated as property and equipment. The Corporation has two properties that serve dual purposes, both of which are classified as investment properties.

Investment properties comprise of land and buildings and are initially recognized at the fair value of the purchase consideration plus directly attributable costs. Subsequent to initial recognition, the investment properties are carried at cost, less accumulated depreciation, for the building portion and impairment, if any.

Depreciation is provided on a straight-line basis at 2.5% to 5.0% of initial carrying value annually over the investment properties' useful life.

l) **Investment-related liabilities**

Investment-related liabilities include mortgage debt associated with investment properties (note 2k) and are initially recognized at fair value and subsequently measured at amortized cost.

m) **Bond repurchase agreements**

The Corporation participates in the sale and repurchase of Government of Canada and Provincial 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 and are initially recognized at fair value and subsequently measured at amortized cost. The repurchase interest rate at the time of the sale is the cost of borrowing the funds and is recognized as interest expense. Assets transferred under repurchase agreements are not derecognized as substantially all the risks and rewards of ownership are retained by the Corporation and a liability equal to the consideration received has been recorded.

n) **Accounts payable and accrued charges**

Accounts payable and accrued charges are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accruals are recognized initially at fair value and subsequently measured at amortized cost.

o) **Provisions**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These costs are included in the accounts payable and accrued charges presented on the consolidated statement of financial position. Future operating losses are not recognized.

Where these amounts are due more than 12 months after the reporting date, they are measured at the present value of the expenditures expected to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

p) **Pension and post-retirement benefits**

The amounts recognized in net loss in respect of defined benefit pension plans and post-retirement benefits are as follows:

- The Corporation's portion of the current service costs;
- Non-investment costs;
- Interest costs;
- Past service costs; and
- Impact of any curtailment or settlements during the period.

The current service cost is equal to the present value of benefits earned by members during the reporting period.

The non-investment costs are equal to expenses paid from the plans in the reporting period relating to the administration of the plans.

The interest costs are calculated using the discount rate at the beginning of the reporting period and applied to the net liability at the beginning of the reporting period.

Past service costs arise from plan amendments that increase or decrease the obligation. Past service costs are recognized immediately in net loss.

The changes in the defined benefit obligation and the changes in the fair value of plan assets that result from a curtailment or settlement of plan liabilities during the reporting period are recognized in net loss.

A plan's surplus is equal to the excess, if any, of the plan's assets over its obligations. For plans in surplus, an asset is recognized on the consolidated statement of financial position to the extent that the Corporation can realize an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the plan or when the plan liabilities are settled. For plans in deficit, the resulting net liability is recognized on the consolidated statement of financial position.

The value recognized on the consolidated statement of financial position for each defined benefit pension plan and for post-retirement benefits is calculated at the end of the reporting period as follows:

- The defined benefit obligation of the plan;
- Less the fair value of the plan assets out of which the obligations are to be settled directly; and
- Adjusted for the net change of any surplus derecognized.

The Corporation recognizes all actuarial remeasurements in the reporting period in which they arise, through OCI on the consolidated statement of comprehensive loss.

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. This is a multi-employer defined benefit plan for which the Corporation applies defined contribution accounting. Since the BC Public Service Pension Plan pools risks amongst the current and former members of many employers, there is no consistent or reliable basis for allocating the Corporation's portion of the obligation, assets, and costs. As a result, the Corporation expenses the contributions made. Contributions are subject to change in the future, depending on the funded status of the plan, and are split equally between all participating employers and all contributing active plan members.

q) **Property and equipment**

Property and equipment are initially recorded at fair value and subsequently measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the items, including retirement costs. Subsequent costs, such as betterments, are included in the asset only when it is probable that future economic benefits associated with the item will flow to the Corporation. All other subsequent expenditures are recognized as repairs and maintenance. Capitalized software that is an integral part of the equipment is accounted for as equipment.

Property and equipment are depreciated when they are available for use on a straight-line basis over the estimated useful life of each asset, taking into account the residual value, at the following annual rates:

- Buildings 2.5% to 10%
- Furniture and equipment 10% to 33%
- Leasehold improvements Term of the lease

The assets' residual values and useful lives are reviewed annually and adjusted, if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recorded in net loss.

r) **Intangible assets**

Capitalized software that is not an integral part of the equipment is accounted for as an intangible asset. Software development costs, which are comprised of labour and material costs for design, construction, testing, and other costs directly attributable to bringing the asset to a condition where it can be applied in its intended use, are capitalized for infrastructure projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

Finite life intangible assets are initially recorded at fair value and subsequently carried at cost less accumulated amortization and impairment losses. Intangible assets with finite useful lives are amortized over their estimated useful lives when they are available for use on a straight-line basis at 10% to 33%, taking into account the residual value.

Indefinite life and not available for use intangible assets are not subject to amortization, but are assessed for indicators of impairment at each reporting date.

s) **Impairment of assets**

Impairment of financial assets

Financial assets not carried at FVTPL are assessed at each reporting date to determine if there is objective evidence of impairment such as deterioration in the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and the significance of deterioration in the fair value of the asset below cost. In addition, for equity investments, a prolonged decline is also considered objective evidence of impairment. Where objective evidence of impairment exists, an impairment loss will be recognized as follows:

- For AFS financial assets, the related unrealized loss charged to OCI is reclassified to investment income.
- For Loans, the related difference between the amortized cost carrying amount and the fair value, calculated as the present value of the estimated future cash flows, directly from the loan or the sale of collateral, discounted at the asset’s original effective interest rate, is recognized in investment income.

If the fair value of a previously impaired debt instrument classified as AFS or a financial asset measured at amortized cost increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed in investment income. Impairment losses on equity instruments are not reversed.

Impairment of non-financial assets

The Corporation’s non-financial assets consist primarily of investment properties, property and equipment, and intangible assets. An impairment review is carried out at the end of each reporting period to determine if there are any indicators of impairment. When indicators of impairment exist, the Corporation assesses the asset for impairment. Investment properties are assessed for impairment as separate and identifiable cash-generating units, distinct from the other operations of the Corporation. All other assets are assessed as a group as their cash flows are generated from the operations of the Corporation. If an asset is impaired, the Corporation's carrying amount is written down to its estimated recoverable amount when material. The recoverable amount is the higher of fair value less costs to sell and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. If there is a change in estimate of the recoverable amount, an impairment loss is reversed to net loss only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation, if no impairment loss had been recognized.

t) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to net loss on the consolidated statement of comprehensive loss on a straight-line basis over the period of the lease. Where substantially all of the risks and rewards have been transferred to the lessee, the lease is classified as a finance lease. In these cases, an obligation and an asset are recognized based on the present value of the future minimum lease payments and balances are amortized over the lease term or useful life, as applicable.

u) **Current and non-current classification of assets and liabilities**

Assets are classified as current when expected to be realized within one year of the reporting date. Liabilities are classified as current when expected to be settled within one year of the reporting date. All other assets and liabilities are classified as non-current.

v) **Restricted Cash**

Restricted cash includes cash balances which the Company does not have immediate access to as they have been pledged to counterparties as security for investments or trade obligations. These balances are available to the Company only upon settlement of the trade obligations for which they have been pledged as security.

3. Critical Accounting Estimates and Judgments

The Corporation makes estimates and judgments that affect the reported amounts of assets and liabilities. These are continually evaluated based on historical experience and other facts, and expectations of future events that are believed to be reasonable under the circumstances. Management believes its estimates and judgments to be appropriate; however, actual results may be materially different and would be reflected in future periods.

Significant accounting estimates and judgments include:

a) Actuarial methods and assumptions

The Corporation typically employs three standard actuarial methods to analyze the ultimate claims costs, augmented by more in-depth analyses as needed:

- The incurred development method;
- The paid development method; and
- The Bornhuetter-Ferguson method.

The standard methods call for a review of historical loss and count development patterns. As part of this review, the Corporation calculates loss and count development factors, which represent the period-to-period changes in a given loss year's incurred loss amount. Based on an examination of the loss development factors, the Corporation's Chief Actuary selects a best estimate of development factors that forecast future loss development.

The loss and count development factors rely on a selected baseline. The baseline for the majority of the coverages is the average of the most recent four loss years. The use of a baseline helps maintain consistency in the loss and count development factors from one reserve review to another. Circumstances may arise when the standard methods are no longer appropriate to use. In these cases, and in accordance with accepted actuarial practice, modifications to the methods are made or alternative methods are employed that are specific and appropriate to the circumstances. Circumstances may include a change in the claims settlement environment, a change in the handling or reserving of claims, or an emerging trend in the statistical data used in the analysis.

An additional method is employed to address the increasingly complex bodily injury claims environment, which includes a growing legal representation rate, a shifting frequency mix of bodily injury claims by severity of injury, and a slowdown in the settlement of claims. This additional method used legal status and claim severity to separate bodily injury claims data into segments of similar complexity and is based on the Adler-Kline claim closure model. It has allowed the Corporation's Chief Actuary to capture changes in the claim settlement rates within each segment, and changes in the mix of claims by segment, which impacts the bodily injury severity trend rate.

The injury segment analysis includes assumptions about the future emergence of large bodily injury claims (those costing in excess of $200,000). In determining best estimates consistent with accepted actuarial practice, which requires assumptions that are independently reasonable and appropriate in aggregate, a modification was made in 2018 to the determination of count development factors. An acceleration in the recognition of large bodily injury claims was observed in the period, which produced a substantial increase in the statistical data. In response, certain count development factors for large bodily injury claims were revised to put less weight on the most recent experience, relative to the baseline, which reflects that relatively fewer large claims remain to be recognized in the future, relative to the accelerated number that have already been recognized. This represents a change from 2017, in which more weight was put on the experience most recent at that time.

The timing of when the unpaid ultimate claims costs will be paid depends on both the line of business and historical data. Bodily injury lines of business generally take longer to settle than the material damage claims and exhibit greater variability as to the timing and amount ultimately paid to settle a claim. Historical patterns of claims payment data are used to estimate the future claims payment pattern. Expected future paid amounts are then discounted, using the discounted cash flow method, to determine a present value as of the reporting date. The discount rate is based upon the expected return on the Corporation's current investment portfolio, the expected asset default risk of its investment portfolio, and assumptions for interest rates relating to reinvestment of maturing investments. These estimates are based on current market returns as well as expectations about future economic and financial developments.

A PfAD is then added to the estimate to recognize sources of uncertainty in the assumptions behind the provision for unpaid claims (note 2d). The PfAD is calculated according to accepted actuarial practice in Canada (note 13).

b) **Impairment of financial assets**

Judgment is required to determine if there is objective evidence of impairment for financial assets. The Corporation evaluates, among other factors, the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and the significance of deterioration in the fair value of the asset below cost. In addition, for equity investments a prolonged decline is considered objective evidence of impairment (note 10).

c) **Pension and post-retirement benefits**

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the Projected Unit Credit Method and management's best estimate of future compensation levels and healthcare costs.

The key assumptions used in calculating the cost of pension and post-retirement benefits are the discount rate, rate of compensation increase, inflation rate, life expectancies, Medical Services Plan (MSP) trends, and extended healthcare cost trends. Together with plan member data, these and other assumptions are used to estimate future benefit eligibility, amount and duration of payments. The rate determined for each of the key assumptions is disclosed in note 16.

The discount rate is used to calculate the present value of the expected future benefit payments and to calculate interest on the net liability. The discount rate is based on high-grade corporate bond yields at the measurement date.

The rate of compensation increase reflects individual job progression, general price level increases, productivity, seniority, promotion, and other factors.

The inflation rate assumption is based on an assessment of historical data, the Bank of Canada target inflation range and the inflation expectations implied by the Government of Canada nominal and real return long-term bond yields.

Life expectancies are based on Canadian mortality tables, and contain a provision for future longevity improvements.

The MSP trend rate is based on information provided by the B.C. provincial government in the budget and other announcements.

The extended healthcare trend rate is based on an analysis of plan experience, assumptions about the trend in total healthcare costs, and the proportion that will be covered by private plans.

With the exception of the discount rate, which is based on market conditions at the financial statement date, all other assumptions are management's best estimate (note 16).

d) **Significant influence**

The Corporation owns more than 20% of the nominal voting interests in an investment in a limited partnership for real estate. The factors the Corporation considered in making the determination that the Corporation does not have significant influence include the following:

- The Investment Committee of this investment is responsible for overseeing the investing activities. The Corporation does not have any influence over the Investment Committee; and
- Although the Corporation has one of five seats on the Governance Committee, the Governance Committee itself has no power over the Investment Committee. The role of the Governance Committee is to provide protective rights and is to ensure the investments are compliant with the Statement of Investment Policy. Further, the Governance Committee does not have any influence over the investing activities or over the management and operation of the partnership.

e) **Product reform**

Legislation has been enacted to reform the Basic insurance product to limit pain and suffering payouts for minor injuries and create an independent dispute resolution process for injury claims (note 24). Judgment was required to determine the impacts of the legislation changes in reducing claims cost pressures with the resulting improvement in the Corporation's financial stability and ability to continue as a going concern, ensuring the assets of the Corporation are not impaired.

4. New Accounting Pronouncements

a) Standards and interpretations effective for the period ended March 31, 2018

The Corporation has adopted the standards and interpretations that are relevant to the operations of the Corporation and effective for the 12 month period ended March 31, 2018. There were no material impacts from the adoption of new standards.

b) Standards and interpretations issued but not yet effective and not early adopted

Standards and interpretations issued that are relevant to the operations of the Corporation, but not yet effective include:

- IFRS 9 *Financial Instruments*. Effective for annual periods beginning on or after January 1, 2018; early adoption is permitted. The Corporation will defer the implementation of IFRS 9 until its fiscal period beginning April 1, 2021, as allowed under the amendments to IFRS 4 *Insurance Contracts* outlined below. IFRS 9 brings together the classification and measurement, impairment and hedge accounting to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are measured at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets at amortized costs. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks and requires additional disclosures.

- IFRS 4 (Amendment) *Insurance Contracts.* Effective for annual periods beginning on or after January 1, 2018. The amendments introduce two approaches to address concerns about the differing effective dates of IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*: the overlay approach and the deferral approach. The overlay approach provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard. The deferral approach provides companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until January 1, 2021. By adopting IFRS 9 and IFRS 17 simultaneously, there will not be any unintended interactions that may result from accounting mismatches. The Corporation will defer adopting IFRS 9 until the fiscal period beginning April 1, 2021.

- IFRS 15 *Revenue Recognition*. Effective for annual periods beginning on or after January 1, 2018; early adoption is permitted. The standard establishes a comprehensive framework for determining how much and when revenue is recognized. It replaces existing revenue recognition guidance. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4. The Corporation has performed an impact analysis and does not expect the standard to have a material impact to the consolidated financial statements.

- IFRS 17 *Insurance Contracts.* Effective for annual periods beginning on or after January 1, 2021. Early adoption is permitted for entities that apply IFRS 9 and IFRS 15 on or before the initial application of IFRS 17. The standard establishes the principles of recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4. The standard was issued in May 2017 and requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values. The information will be updated regularly, providing more useful information to users of financial statements. The Corporation will be evaluating the impact of this standard on its consolidated financial statements.

- IFRS 16 *Leases*. Effective for annual periods beginning on or after January 1, 2019; early adoption permitted. IFRS 16 was issued in January 2016 and is intended to replace IAS 17 *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting will remain largely unchanged with previous classifications of operating and finance lease being maintained. The Corporation has performed an impact analysis and does not expect the standard to have a material impact to the consolidated financial statements.

- IAS 28 (Amendment) *Long term Interests in Associates and Joint Ventures*. Effective for annual periods beginning on or after January 1, 2019. Amends the existing requirements to clarify that IAS 39, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity’s net investment in these investees. The adoption of this amendment is not expected to have a material impact to the Corporation’s consolidated financial statements.

- IAS 40 (Amendment) *Investment Properties*. Effective for annual periods beginning on or after January 1, 2018. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. A change in intention, in isolation, is not enough to support a transfer. The adoption of this amendment is not expected to have a material impact to the Corporation’s consolidated financial statements.

The Corporation has not early adopted these standards.

5. Investments

a) Financial investments

($ THOUSANDS)		2018	2017
	Classification	Carrying Value	Carrying Value
Financial investments			
Money market securities	AFS	$ 182,116	$ 202,991
Bonds			
Canadian			
Federal	AFS	3,786,935	3,029,508
Provincial	AFS	1,703,126	1,677,549
Municipal	AFS	127,868	143,479
Corporate	AFS	3,456,093	4,326,543
Total Canadian bonds		9,074,022	9,177,079
United States			
High yield corporate	AFS	-	774,853
Total bonds		9,074,022	9,951,932
Mortgages	Loans	1,970,164	1,752,352
Equities			
Canadian	AFS	1,833,720	1,718,939
United States	AFS	31,812	-
Global	AFS	1,552,632	784,819
Total equities		3,418,164	2,503,758
Total financial investments		$ 14,644,466	$ 14,411,033

The Corporation’s investment in pooled funds are denominated 99.0% (2017 – 100.0%) in Canadian dollars. The above equity disclosure presents the Corporation’s interest in pooled funds by looking through the funds, and classifying by the location of issue of the underlying investments.

Money market securities, bonds, and equities are carried at their fair value. Mortgages are measured at amortized cost and have an estimated fair value of $1.97 billion (2017 – $1.78 billion). The fair value of mortgages is determined to be consistent with Level 3 investments based on the inputs to the valuation technique used (note 2i). The fair value of the mortgages is determined by applying a discount rate ranging from 3.0% to 5.2% (2017 – 2.2% to 4.6%).

Pooled funds

The Corporation invests in several pooled funds; the investment strategies of some of these funds include the use of leverage. As at March 31, 2018, the Corporation's interests range from 4.4% to 95.1% (2017 – 8.7% to 94.1%) of the net assets of the respective funds. The funds are managed by external asset managers. The Corporation holds redeemable units in each of the pooled funds that entitle the holder to a proportional share in the respective fund's net assets. The carrying value of the Corporation's investments in pooled funds as at March 31, 2018 is $3.26 billion (2017 – $1.88 billion).

Pooled fund investments are included in financial investments as equities. The change in fair value of each pooled fund is included in the OCI section within the consolidated statement of comprehensive loss in 'Net change in available for sale financial assets.'

The Corporation's maximum loss exposure from its interests in the pooled funds is equal to the total fair value of these investments.

Asset-backed securities

The Corporation purchases bonds that are secured by various assets as part of its investment strategy. The majority of the bonds are issued by Canadian corporate entities and are secured by credit card, auto, or equipment receivables. Also, the Corporation invests in AAA rated senior securities issued by securitization trusts that have a first lien on assets. The weighted-average duration of the asset-backed securities in the Corporation's portfolio is 1.8 years (2017 – 2.5 years) and the coupon interest rates range from 1.2 % to 3.4% (2017 – 1.2% to 2.8%).

As at March 31, 2018, the carrying value of asset-backed securities included in financial investments in the consolidated statement of financial position is $500.6 million (2017 – $482.9 million). This amount also represents the maximum exposure to losses at that date.

The Corporation also has one mortgage backed security with a carrying value of $18.5 million (2017 – three at $72.5 million) and an estimated fair value of $19.7 million (2017 – $76.5 million). Mortgage backed securities are included in financial investments as mortgages and each security is secured by a first priority mortgage charge on a Class A real estate property. The fixed interest rate on the mortgage backed security is 4.9% (2017 – ranged from 3.0% to 4.9%) and the mortgage will mature in five years.

b) Investment properties

The movement in the carrying value of investment properties is as follows:

($ THOUSANDS)	2018	2017
Cost		
Balance, beginning of period	$ 1,171,566	$ 874,357
Additions	106,220	320,000
Capital improvements	13,299	9,677
Reclassification - asset held for sale	-	(34,225)
Acquisitions in progress	-	412
Impairment (loss) reversal	(1,441)	1,345
Balance, end of period	1,289,644	1,171,566
Accumulated depreciation		
Balance, beginning of period	123,017	102,174
Depreciation	32,928	29,356
Reclassification - asset held for sale	-	(8,513)
Balance, end of period	155,945	123,017
Carrying value, end of period	$ 1,133,699	$ 1,048,549

The fair value of investment properties is $1.52 billion (2017 – $1.35 billion) and has been categorized as a Level 3 investment based on the inputs to the valuation technique used. As at March 31, 2018 and March 31, 2017, the estimated fair value is based on independent appraisals, by professionally qualified external valuators.

There are no investment properties reclassified to assets held for sale in 2018. In 2017, two investment properties were reclassified to assets held for sale and both properties were sold in 2018.

c) Lease income

The Corporation leases out its investment properties. As of March 31, 2018, the future minimum lease cash receipts under non-cancellable leases over the next five years and beyond is as follows:

($ THOUSANDS)	2018		2017	
	Lease Income	**Net Present Value**	**Lease Income**	**Net Present Value**
Up to 1 year	$ 61,172	$ 59,361	$ 60,576	$ 58,955
Greater than 1 year, up to 5 years	149,352	135,284	155,688	142,522
Greater than 5 years	86,267	72,038	104,611	88,897
	$ 296,791	$ 266,683	$ 320,875	$ 290,374

6. **Entities with Non-Controlling Interest (NCI)**

The following table presents the summarized financial information for the NCI in the Corporation's Canadian limited partnership subsidiaries. The amounts disclosed are based on those amounts included in the consolidated financial statements before inter-company eliminations.

Until May 2016, the Corporation controlled one Canadian equity pooled fund (Fund). After May 2016, the Fund was no longer consolidated and the Corporation's remaining ownership was measured at fair value and recorded as an equity investment. For 2017, a gain of $32.5 million was recorded as investment income as a result of the cessation of control (note 10).

($ THOUSANDS)	Canadian Limited Partnership I	Canadian Limited Partnership II	Canadian Limited Partnership III	Total
March 31, 2018				
NCI percentage	**10.0%**	**10.0%**	**10.0%**	
Revenue	$ 8,073	$ 18,720	$ 8,058	$ 34,851
Expenses	8,100	15,207	7,389	30,696
Net income (loss)	$ (27)	$ 3,513	$ 669	$ 4,155
Net income (loss) attributable to NCI	**$ (3)**	**$ 351**	**$ (28)**	**$ 320**
Current assets	$ 755	$ 7,900	$ 1,281	$ 9,936
Non-current assets	107,801	166,998	90,063	364,862
Current liabilities	(1,764)	(5,018)	(1,863)	(8,645)
Non-current liabilities	(54,409)	(91,345)	(40,978)	(186,732)
Net assets	$ 52,383	$ 78,535	$ 48,503	$ 179,421
Net assets attributable to NCI	**$ 5,238**	**$ 7,854**	**$ 2,413**	**$ 15,505**

Canadian Limited Partership III and the Corporation have agreed to financing on the mortgage payments of this property, therefore the net income (loss) and net assets attributable to NCI will not equal the NCI percentage.

($ THOUSANDS)	Canadian Limited Partnership I	Canadian Limited Partnership II	Canadian Equity Pooled Fund	Total
March 31, 2017				
NCI percentage	**10.0%**	**10.0%**	**0.0%**	
Revenue	$ 13,731	$ -	$ 2,524	$ 16,255
Expenses	10,809	203	12,343	23,355
Net income (loss)	2,922	(203)	(9,819)	(7,100)
Other comprehensive income	-	-	20,402	20,402
Total other comprehensive income (loss)	$ 2,922	$ (203)	$ 10,583	$ 13,302
Net income (loss) attributable to NCI	**$ 292**	**$ (20)**	**$ (422)**	**$ (150)**
Other comprehensive income attributable to NCI	**$ -**	**$ -**	**$ 877**	**$ 877**
Current assets	$ 6,846	$ -	$ -	$ 6,846
Non-current assets	110,732	171,115	-	281,847
Current liabilities	(1,134)	-	-	(1,134)
Non-current liabilities	-	(91,850)	-	(91,850)
Net assets	$ 116,444	$ 79,265	$ -	$ 195,709
Net assets attributable to NCI	**$ 11,644**	**$ 7,927**	**$ -**	**$ 19,571**

7. Financial Assets and Liabilities

a) Fair value hierarchy

The following table presents the fair value hierarchy for financial assets and liabilities measured at fair value in the consolidated statement of financial position. During fiscal 2018 and 2017, there were no transfers between Level 1, Level 2 and Level 3. The Corporation's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

($ THOUSANDS)	Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2018				
Cash	$ 17,568	$ -	$ 17,568	$ -
Money market securities	182,116	-	182,116	-
Bonds	9,074,022	-	9,074,022	-
Equities	3,418,164	160,356	2,989,351	268,457
Total financial assets	$ 12,691,870	$ 160,356	$ 12,263,057	$ 268,457
March 31, 2017				
Cash	$ 27,128	$ -	$ 27,128	$ -
Money market securities	202,991	-	202,991	-
Bonds	9,951,932	-	9,951,932	-
Equities	2,503,758	619,637	1,737,742	146,379
Total financial assets	$ 12,685,809	$ 619,637	$ 11,919,793	$ 146,379

Cash (Level 2) is valued using the end of day exchange rates. Level 2 money market securities are valued using the cost plus accrued interest. Level 2 bonds are valued using the quoted market price or dealer quotes for similar instruments exchanged in active markets. Level 2 equities (pooled funds) are valued using the net asset value.

The following table shows the movement of financial assets where fair value has been determined based upon significant unobservable inputs (Level 3). Level 3 equity investments consist of two investments in Canadian real estate pooled funds, a United States (US) commercial real estate debt and mortgage fund, and an investment in a Canadian private fixed income fund. The period end fair values of the real estate pooled funds are provided by the investment managers and are based on the appraised values of the properties combined with any working capital. The US commercial real estate debt and mortgage fund value is provided by the investment manager and is based on the discounted cash flow method using yields of assets with similar characteristics. The private fixed income fund valuation is provided by the investment manager and is based on the observed external price, if one exists, or if one does not exist, discounted cash flows using the yields of externally priced comparable private or public fixed income assets.

($ THOUSANDS)	Fair Value Measurements using Level 3 Inputs	
	Bonds	Equities
March 31, 2018		
Balance, beginning of period	$ -	$ 146,379
Additions	-	109,449
Principal repayments	-	(2,651)
Market value adjustment	-	15,280
Balance, end of period	$ -	$ 268,457
March 31, 2017		
Balance, beginning of period	$ 15,773	$ 18,917
Additions	-	119,137
Principal repayments	(15,773)	-
Market value adjustment	-	8,325
Balance, end of period	$ -	$ 146,379

The fair value of derivative instruments not designated as accounting hedges is as follows:

($ THOUSANDS)	2018		2017	
	Notional Amount	Fair Value Assets (Liabilities)	Notional Amount	Fair Value Assets (Liabilities)
Non-designated derivative instruments				
Forward contracts	$ -	$ -	$ 412,396	$ (10,499)
Interest rate swap	91,850	2,744	91,850	(203)
Total derivative financial instruments	$ 91,850	$ 2,744	$ 504,246	$ (10,702)

As at March 31, 2018, the Corporation had liquidated the US fixed income portfolio and did not have any outstanding forward contracts. For the period ended March 31, 2018, a gain of $1.7 million was recognized in investment income. In fiscal 2017, the Corporation entered into contracts for derivative instruments not designated as accounting hedges, and a loss of $32.8 million offset by $24.3 million in foreign currency gains was recorded in investment income with respect to the US fixed income portfolio.

The non-designated derivative financial instruments are classified as Level 2 and are valued based on the difference between the forward rate at the contract initiation date and the prevailing floating rate on the reporting date.

b) **Other financial assets**

Other financial assets include accrued interest, premiums and other receivables, and reinsurance assets. The fair values of the majority of other financial assets approximate their carrying values due to their short-term nature. The non-current portion of these other financial assets is $48.2 million (2017 – $45.6 million).

c) **Financial liabilities**

Financial liabilities include cheques outstanding, accounts payable and accrued charges, bond repurchase agreements, and investment-related and other liabilities. All financial liabilities are carried at cost or amortized cost. Except for investment-related and other liabilities, the fair values of the remaining financial liabilities approximate their carrying values due to their short-term nature. The assumptions used in estimating the fair value of investment-related and other liabilities are discussed in note 8.

As at March 31, 2018, the general ledger bank balances representing cash inflows were $171.9 million (2017 - $140.5 million) and the general ledger bank balances representing cash outflows were $261.0 million (2017 - $219.0 million), netting to a cheques outstanding balance of $89.1 million (2017- $78.5 million) on the consolidated statement of financial position.

8. **Bond Repurchase Agreements, Investment-Related, and Other Liabilities**

($ THOUSANDS)	2018	2017
	Carrying Value	Carrying Value
Bond repurchase agreements	$ 1,310,249	$ 1,180,060
Investment-related liabilities	260,088	143,637
Other liabilities	35,650	23,052
Total bond repurchase agreements, investment-related, and other liabilities	$ 1,605,987	$ 1,346,749
Non-current portion	$ 258,181	$ 144,617

Investment-related liabilities are comprised of mortgages payable of $260.1 million (2017 – $143.6 million) with repayment terms ranging from one to eleven years and interest rates ranging from 2.6 % to 6.6% (2017 – 3.5% to 6.6%). The fair value of investment-related liabilities approximates carrying value. Other liabilities consist of finance lease obligations, accrued interest payable, and unsettled trades. All of these liabilities are classified as Level 2 under the fair value hierarchy.

Estimated principal repayments for investment-related and other liabilities are as follows:

($ THOUSANDS)	2018	2017
Up to 1 year	$ 37,557	$ 22,072
Greater than 1 year, up to 5 years	114,566	117,524
Greater than 5 years	143,615	27,093
	$ 295,738	$ 166,689

9. **Management of Insurance and Financial Risk**

As a provider of vehicle insurance products, effective risk management is fundamental in protecting earnings, cash flow, and ultimately the financial stability of the Corporation. The Corporation is exposed to various types of insurance and financial risks.

a) **Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the event and its severity are random and therefore unpredictable.

The principal risk that the Corporation faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur when the frequency or severity of claims and benefits are greater than estimated. Insurance events have an element of randomness and the actual number and amount of claims and benefits will vary each year from the level established using statistical techniques.

Frequency and severity of claims

Frequency is the average number of claims per policy, calculated by dividing the total number of claims by the total number of policies. Severity is the average cost of a claim calculated by dividing the total cost of claims by the total number of claims. There are a number of factors that influence the frequency and severity of claims.

Some factors are affected by the actions of the Corporation and a number of strategies are used to try and reduce cost pressures created by these factors, including claims operational changes, road safety programs, programs to influence driver behaviour such as impaired driving and distracted driving programs, public awareness campaigns, auto crime reduction initiatives, and fraud detection and investigation.

There are other factors that the Corporation has little or no control over, including weather, demographics, court issued settlement awards, plaintiff legal fees, and economic changes, including vehicle parts/repair inflation and medical expense inflation that influence the cost of claims.

Sources of uncertainty in the estimation of the provision for unpaid claims

To manage the uncertainty associated with estimating the provision for unpaid claims, the Corporation's Chief Actuary employs standard actuarial methods. The provision for unpaid claims estimate is determined in accordance with accepted actuarial practice in Canada and is based on reasonable assumptions and appropriate methods that are consistently applied (note 3a).

There is inherent uncertainty regarding the assumptions to estimate the amount and timing of future claims payments that make up the provision for unpaid claims. The Corporation is liable for all insured events that occurred during the term of the contract, even if the loss is reported after the end of the contract term. In addition, injury claims may take a long period of time to settle.

Injury claims include bodily injury, accident benefits, and death benefits, which account for approximately 66% (2017– 65%) of total claims costs. The timing of injury claims can be extended due to delayed reporting, and the timing and amount of injury payments can exhibit considerable uncertainty because of the complex bodily injury claims environment, the subjective nature of pain and suffering damages, internal claims operational changes, the judicial environment, and settlement awards.

The provision for unpaid claims also includes having to estimate direct expenses to be incurred in settling claims net of the expected salvage and subrogation recoveries. The Corporation takes all reasonable steps to ensure that it has appropriate information regarding its individual claims. However, given the uncertainty during the early stages of a claim, it is likely that the final outcome will be different from the original estimate. The provision for unpaid claims includes a provision for reported claims not yet paid and an amount estimated for IBNR claims (note 2d).

The Corporation's provision for unpaid claims can be affected by the frequency and severity of claims, the discount rate, and actuarial methods and assumptions. The frequency and severity of claims are discussed above, while the discount rate and the actuarial methods and assumptions are discussed in note 3.

A one percentage point increase in the discount rate would have a favourable impact on the provision for unpaid claims, net loss, and equity of $276.7 million (2017 – $252.8 million), and a one percentage point decrease in the discount rate would have an unfavourable impact on the provision for unpaid claims, net loss, and equity of $291.3 million (2017 – $266.7 million). A one percentage point change in the cost of unpaid claims, with all other variables held constant, would result in an estimated change to the provision for unpaid claims of $118.9 million (2017 – $105.0 million). The change in certain count development factors as discussed in note 3a would have had an estimated favourable impact to the provision for unpaid claims pertaining to large bodily injury claims of approximately $259.0 million, holding all other assumptions constant. However, this favourable change in assumptions was more than offset by an increase in large bodily claims observed during the current period, after which applying the lower factors results in an estimated net adverse development of approximately $410.0 million pertaining to future emergence of large bodily injury claims. In general, a one percent increase in the future emergence of large bodily injury claims would have an unfavourable impact on the provision for unpaid claims for large bodily injury claims of approximately $28.0 million, all else being equal.

Concentration of insurance risk

The Corporation has a diverse customer base as the sole provider of Basic insurance to all drivers in British Columbia. The Corporation operates in one jurisdiction and provides vehicle insurance only, so there is a concentration of insurance risk with respect to geography, jurisdiction, demographics, and product type.

The impact of the concentration of insurance risk is quantified through CAT (catastrophe) modeling that the Corporation's reinsurance broker updates annually. This testing allows the Corporation to assess and manage these risks effectively. The concentration of insurance risk is also managed through a CAT reinsurance treaty, a casualty reinsurance treaty, and road safety programs such as road improvement strategies, the graduated licensing program, and the distracted driving campaign. As the sole provider of Basic insurance, the Corporation invests in and benefits the most from these programs.

Premium pricing risk

The Corporation is the sole provider of Basic insurance and is not subject to competitive risk for its Basic insurance product. However, the Basic insurance rate level is sensitive to investment market conditions and claims experience, which can result in premiums being insufficient to cover costs. The Corporation is subject to regulations over its Basic insurance and applies to BCUC for approval to change its Basic insurance rate. The Corporation is required to make Basic insurance rate applications on an annual basis, and BCUC is required to set rates according to accepted actuarial practice. These aspects of regulation mitigate the underwriting risk associated with pricing for the Basic insurance product (note 22).

The Province of B.C. may direct income transfers from Optional insurance to Basic insurance in order to keep Basic rates as low as possible. In addition, the Province of B.C. may direct capital transfers from Optional insurance to bolster Basic insurance capital.

Regulation establishes the rate smoothing framework that allows for the use of capital to remove adverse rate volatility. As a result of the framework, the Corporation's ability to set rates to cover costs can be impacted by BCUC setting rates below cost for a period of time. An independent review has been commissioned by the Corporation's Board, tasked with examining all key cost drivers impacting the affordability and sustainability of Basic insurance rates, and potential mitigation strategies. Subject to the changes arising from the independent review and the other initiatives, the Corporation's capital may continue to face added risk (note 22).

The Corporation's Optional insurance products compete with other insurers and are subject to underwriting risk and competitive risk.

b) **Financial risk**

Concentration of financial risk

The Corporation establishes investment portfolio level targets and limits with the objective of ensuring that portfolios are diversified across asset classes and individual investment risks. The Corporation monitors actual investment positions and risk exposures for concentration risk.

As at March 31, 2018, the equity portfolio was 24.1% (2017 – 27.9%) invested in the financial sector, 11.8 % (2017 – 11.3%) in the industrial sector, and 10.7% (2017 – 15.0%) in the energy sector. The bond portfolio was 61.9% (2017 – 48.7%) invested in the government sector and 18.4% (2017– 23.1%) invested in the financial sector. See credit risk for a discussion of the government bonds.

Concentration of geographical risk

Geographical concentration risks results when the investments are located in the same geographical region. The Corporation reduces geographical concentration risk by dispersing the investments in more than one geographical region. The Corporation has contracted external investment managers to manage its foreign equity investments in diversified global and US pooled funds. As at March 31, 2018, the investment portfolio was 88.9% (2017 – 89.2%) invested in Canada, 5.9% (2017 – 8.8%) invested in the United States, and 5.2% (2017 – 2.0%) was invested elsewhere around the world.

Price risk

General economic conditions, political conditions, and other factors affect the equity markets, thereby also affecting the fair value of the securities and the pooled funds held by the Corporation.

Fluctuations in the value of these securities impact the recognition of unrealized gains and losses on equity securities and on the units of funds held. As at March 31, 2018, the impact of a 10 percent change in prices, with all other variables held constant, would result in an estimated corresponding change to OCI of approximately $341.8 million (2017 – $250.3 million).

The Corporation manages a widely diversified portfolio, diversified geographically, by sector, and by company, and has policies in place to limit and monitor total equity exposure and individual issuer exposure.

Interest rate risk

When interest rates increase or decrease, the market value of fixed income securities will decrease or increase respectively with a larger market value impact on instruments with a long duration compared to instruments with a short duration. Fluctuations in interest rates have a direct impact on the market valuation of the Corporation's fixed income portfolio. A natural hedge exists between the Corporation's fixed income portfolio and the provision for unpaid claims, as the Corporation's investment yields are used to derive the discount rate for the provision for unpaid claims (note 9a).

The Corporation has policies in place to limit and monitor its exposure to interest rate risk in relation to the duration of its claims liabilities.

The carrying values reported in the consolidated statement of financial position for cash and cash equivalents, premiums and other receivables, and accounts payable and accrued charges approximate their fair values and are not significantly impacted by fluctuations in interest rates.

In 2018 and 2017, the Corporation did not use material derivative financial instruments to hedge interest rate risk on its investment portfolio.

	2018		2017	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canadian				
Federal	1.4	2.8	1.1	3.2
Provincial	1.6	2.8	1.4	2.9
Municipal	1.7	2.3	1.6	2.5
Corporate	2.1	2.8	1.9	2.6
United States				
High yield corporate	-	-	5.9	4.1
Total bonds	1.7	2.8	1.9	2.9
Mortgages	3.6	2.3	3.5	2.6
Total bonds and mortgages	2.0	2.7	2.1	2.9

As at March 31, 2018, a 100 basis point change in interest rates would result in a change of approximately $294.7 million (2017 – $337.9 million) in fair value of the Corporation's fixed income portfolio and a corresponding impact of approximately $294.7 million (2017 – $337.9 million) to OCI. Interest rate changes would also result in an inverse change to the provision for unpaid claims and the corresponding claims costs (note 9a).

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 concentrations of credit risk include cash and cash equivalents, fixed income securities, accounts receivable, reinsurance receivables and recoverables, and structured settlements (note 21a). The total credit risk exposure is $9.00 billion (2017 – $10.24 billion).

Fixed income securities

Fixed income securities are comprised of Canadian investment grade bonds and mortgages. The Corporation liquidated the high yield corporate bond portfolio during the fiscal period. The Corporation mitigates its overall exposure to credit risk in its fixed income securities by holding the majority of its fixed income portfolio in investment grade bonds, and by limiting mortgages to a maximum of 14.0% (2017 – 14.0%) of total investment assets. Credit risk in mortgages is mitigated by the security of the underlying mortgaged property. Risk is also mitigated through a stringent underwriting process which involves review of the underlying property to ensure sufficient cashflow to service the debt, appraisals of the underlying property, review of market conditions and of the financial capacity of the borrower. Mortgages are subject to an independent review annually.

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 maximum credit risk exposure for fixed income securities pertain to all bond investments and to mortgage investments; however, the Corporation considers Canadian government bonds to be risk-free. Therefore, the total carrying amount is $7.26 billion (2017 – $8.67 billion). There is minimal credit risk exposure to cash.

The counterparty risk associated with repurchase agreements for 2018 and 2017 is not material.

The Corporation’s money market securities and bonds by credit quality according to Standard and Poor’s are as follows:

($ THOUSANDS)		2018		2017
Money market securities				
AAA	$	182,116	$	202,991
Bonds				
AAA	$	4,564,901	$	3,881,943
AA		1,011,683		1,201,331
A		2,687,514		2,943,512
BBB		809,924		1,175,212
Below BBB		-		749,934
	$	9,074,022	$	9,951,932

Premiums and other receivables

The Corporation has a diverse customer base as it the sole provider of Basic insurance to all drivers in British Columbia. While there is no significant individual concentration of credit risk, the Corporation's premiums and other receivables are comprised of customers with varying financial conditions.

The credit risk for premiums receivables is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. The maximum credit risk for all other receivables equals their carrying amount. As at March 31, 2018, the Corporation considered $70.2 million (2017 – $64.1 million) of its premiums and other receivables to be uncollectible and has provided for them. The allowance was determined by applying a percentage derived from four to five years of collection experience by receivable type to the total of current and prior periods' gross billings.

The following table outlines the aging of premiums and other receivables as at March 31, 2018 and at March 31, 2017:

($ THOUSANDS)	Current	Past Due 1 – 30 days	Past Due 31 – 60 days	Over 60 days	Total
March 31, 2018					
Premiums and other receivables	$ 1,593,409	$ 5,651	$ 3,219	$ 96,994	$ 1,699,273
Provision	(1,761)	(1,798)	(1,899)	(64,730)	(70,188)
Total premiums and other receivables	$ 1,591,648	$ 3,853	$ 1,320	$ 32,264	$ 1,629,085
March 31, 2017					
Premiums and other receivables	$ 1,427,302	$ 4,094	$ 3,401	$ 85,003	$ 1,519,800
Provision	(1,785)	(1,490)	(1,441)	(59,408)	(64,124)
Total premiums and other receivables	$ 1,425,517	$ 2,604	$ 1,960	$ 25,595	$ 1,455,676

The movements in the provision for premiums and other receivables are as follows:

($ THOUSANDS)	2018	2017
Balance, beginning of period	$ (64,124)	$ (60,175)
Charges for the period	(24,003)	(26,243)
Recoveries	4,952	6,209
Amounts written off	12,987	16,085
Balance, end of period	$ (70,188)	$ (64,124)

Reinsurance assets

Failure of reinsurers to honour their obligations could result in losses to the Corporation. The maximum credit risk exposure equals the carrying amount of $23.4 million (2017 – $18.1 million). The Corporation has policies that require reinsurers to have a minimum credit rating of A-. No single reinsurer represents more than 15% of the total reinsurers' share of the provision for unpaid claims and adjusting expenses in a contract year. Both these items mitigate the Corporation's exposure to credit risk. No amount owing from the reinsurers has been considered impaired as at March 31, 2018 (2017 - nil).

($ THOUSANDS)	2018	2017
Reinsurance recoverable (note 13)	$ 23,258	$ 16,977
Reinsurance receivable	159	1,093
Reinsurance assets	$ 23,417	$ 18,070

Liquidity risk

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

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, except for the provision for unpaid claims, pension and post-retirement benefits, and investment-related and other liabilities, are due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities. Where overall cash flows are negative, the Corporation maintains sufficient liquid assets (money market securities) to cover any shortfall from operations. In addition, the Corporation has a netting arrangement with its banks that permits positive bank balances to be offset against negative bank balances.

Liquidity risk is primarily controlled by holding government bonds and other highly liquid investments, which can be readily sold. In addition, the Corporation takes into account the overall historical liability settlement pattern and the historical cash in-flows as a basis to broadly define diversification and duration characteristics of the investment portfolio.

The following table summarizes the maturity profile of the Corporation's fixed income investments by contractual maturity or expected cash flow dates:

($ THOUSANDS)	Within One Year	One Year to Five Years	After Five Years	Total
March 31, 2018				
Bonds				
Canadian				
Federal	$ 13,469	$ 3,773,466	$ -	$ 3,786,935
Provincial	-	1,703,126	-	1,703,126
Municipal	-	127,868	-	127,868
Corporate	66,481	3,119,358	270,254	3,456,093
Total bonds	79,950	8,723,818	270,254	9,074,022
Mortgages	338,118	1,548,335	83,711	1,970,164
	$ 418,068	$ 10,272,153	$ 353,965	$ 11,044,186
March 31, 2017				
Bonds				
Canadian				
Federal	$ 10,115	$ 2,891,340	$ 128,053	$ 3,029,508
Provincial	-	1,677,549	-	1,677,549
Municipal	-	143,479	-	143,479
Corporate	187,746	4,065,062	73,735	4,326,543
United States				
High yield corporate	3,465	186,780	584,608	774,853
Total bonds	201,326	8,964,210	786,396	9,951,932
Mortgages and other loan	277,034	1,426,941	48,377	1,752,352
	$ 478,360	$ 10,391,151	$ 834,773	$ 11,704,284

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 not exposed to direct foreign exchange risk on its US fixed income portfolio as the portfolio has been liquidated. Therefore a 10% change in the US exchange rate as at March 31, 2018 would not change the fair value of the fixed income portfolio and would not result in a change to net loss (2017 – $39.1 million).

The Corporation has direct foreign exchange risk on its US pooled fund investment in the current period (2017 – nil). A 10% change in the US exchange rate as at March 31, 2018 would change the fair value of the US pooled fund investment and result in a change to OCI of approximately $3.2 million (2017 – nil). The Corporation does not have direct foreign exchange risk on its global equity portfolio, however the Corporation is exposed to indirect foreign exchange risk.

The Corporation has policies in place to limit and monitor its exposure to currency risks.

10. **Investment Income**

($ THOUSANDS)	Classification	12 months ended March 31, 2018	15 months ended March 31, 2017
Interest			
Money market securities	AFS	$ 2,016	$ 1,629
Bonds	AFS	198,691	238,703
Equities	AFS	1,360	-
Mortgages	Loans	72,930	77,764
		274,997	318,096
Gains on investments			
Equities	AFS	118,913	142,113
Bonds	AFS	15,253	54,413
Net unrealized fair value changes [1]	AFS	(48,703)	(96,102)
		85,463	100,424
Dividends, distributions and other income			
Equities	AFS	93,347	192,025
Income from investment properties	Other	38,594	44,610
Investment management fees [2]	Other	(10,229)	(15,204)
Impairment loss	AFS	(13,936)	(18,761)
Other	Other	(6,033)	(6,320)
		101,743	196,350
Total investment income		$ 462,203	$ 614,870

[1] *includes changes in unrealized foreign exchange gains and losses on monetary AFS assets*

[2] *includes internal and external fees*

($ THOUSANDS)	12 months ended March 31, 2018	15 months ended March 31, 2017
Amounts recognized in investment income for investment properties		
Rental income	$ 123,959	$ 119,253
Direct operating expenses that generated rental income	(81,271)	(70,206)
Direct operating expenses that did not generate rental income	(4,094)	(4,437)
Income from investment properties	38,594	44,610
Impairment (expense) reversal	(1,441)	1,345
Gain on sale of investment property	6,198	-
Total amount recognized in investment income	$ 43,351	$ 45,955

As a result of the loss of control on the previously consolidated Canadian pooled equity fund (note 6), a gain of $32.5 million was recognized in investment income in 2017.

As at March 31, 2018, the ‘Net change in available for sale financial assets’ portion of other components of equity (OCE) is comprised of $54.9 million (2017 – $166.2 million) in unrealized gains and $218.7 million (2017 – $66.2 million) in unrealized losses.

11. **Property and Equipment**

($ THOUSANDS)	Land	Buildings	Furniture & Equipment	Leasehold Improvements	Total
March 31, 2018					
Cost					
Balance, beginning of period	$ 30,759	$ 170,264	$ 117,197	$ 15,475	$ 333,695
Additions	-	3,008	10,005	6,183	19,196
Disposals	(60)	(267)	(10,406)	(1,202)	(11,935)
Balance, end of period	30,699	173,005	116,796	20,456	340,956
Accumulated depreciation					
Balance, beginning of period	-	141,872	78,687	6,850	227,409
Disposals	-	(255)	(10,406)	(1,201)	(11,862)
Depreciation charge for the period	-	3,066	10,534	1,681	15,281
Balance, end of period	-	144,683	78,815	7,330	230,828
Net book value, end of period	$ 30,699	$ 28,322	$ 37,981	$ 13,126	$ 110,128
March 31, 2017					
Cost					
Balance, beginning of period	$ 30,734	$ 165,190	$ 112,367	$ 9,872	$ 318,163
Additions	25	5,466	12,521	5,603	23,615
Disposals	-	(392)	(7,691)	-	(8,083)
Balance, end of period	30,759	170,264	117,197	15,475	333,695
Accumulated depreciation					
Balance, beginning of period	-	138,143	71,618	4,969	214,730
Disposals	-	-	(7,691)	-	(7,691)
Depreciation charge for the period	-	3,729	14,760	1,881	20,370
Balance, end of period	-	141,872	78,687	6,850	227,409
Net book value, end of period	$ 30,759	$ 28,392	$ 38,510	$ 8,625	$ 106,286

The balances in property and equipment include $3.3 million (2017 – $14.0 million) in assets under development.

Property and equipment includes a net disposal of $0.5 million (2017– $1.7 million) related to the Transformation Program (TP) (note 20).

12. **Intangible Assets**

($ THOUSANDS)	2018	2017
Cost		
Balance, beginning of period	$ 413,415	$ 356,675
Additions	34,444	57,991
Disposals	(112)	(1,251)
Balance, end of period	447,747	413,415
Accumulated amortization		
Balance, beginning of period	110,907	77,120
Disposals	(49)	(561)
Amortization charge for the period	40,103	34,348
Balance, end of period	150,961	110,907
Net book value, end of period	$ 296,786	$ 302,508

The Corporation's intangible assets consist of externally purchased software and any directly attributable costs required to bring the software to a condition where it is available for use.

The balance in intangible assets include $6.6 million (2017 – $4.1 million) in assets under development.

There were no additions to intangibles in 2018 (2017– $31.7 million) related to TP (note 20). TP ended in December 2016. There were no indefinite life intangible assets as at March 31, 2018 and March 31, 2017.

13. **Provision for Unpaid Claims**

The movements in the provision for unpaid claims and reinsurance recoveries and their impact on claims incurred for the period are as follows:

($ THOUSANDS)	2018			2017		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Notified claims	$ 6,874,682	$ (16,977)	$ 6,857,705	$ 5,343,964	$ (10,407)	$ 5,333,557
Incurred but not reported	3,643,289	-	3,643,289	3,749,176	-	3,749,176
Balance, beginning of period	10,517,971	(16,977)	10,500,994	9,093,140	(10,407)	9,082,733
Change in liabilities (assets):						
Provision for claims occurring in the current period	5,085,543	(1,309)	5,084,234	5,662,515	(2,823)	5,659,692
Change in estimates for losses occurring in prior periods:						
Prior periods' claims adjustments	620,314	(5,271)	615,043	298,086	(7,004)	291,082
Prior periods' changes in discounting provision	(51,734)	(352)	(52,086)	16,020	(437)	15,583
	568,580	(5,623)	562,957	314,106	(7,441)	306,665
Net claims incurred per consolidated statement of comprehensive income	5,654,123	(6,932)	5,647,191	5,976,621	(10,264)	5,966,357
Cash (paid) recovered for claims settled in the period for:						
Claims incurred in current period	(1,556,317)	-	(1,556,317)	(1,866,522)	-	(1,866,522)
Recoveries received on current period claims	94,029	-	94,029	104,468	-	104,468
	(1,462,288)	-	(1,462,288)	(1,762,054)	-	(1,762,054)
Claims incurred in prior periods	(2,888,960)	-	(2,888,960)	(2,868,384)	-	(2,868,384)
Recoveries received on prior periods' claims	74,850	651	75,501	78,648	3,694	82,342
	(2,814,110)	651	(2,813,459)	(2,789,736)	3,694	(2,786,042)
Total net payments	(4,276,398)	651	(4,275,747)	(4,551,790)	3,694	(4,548,096)
Balance, end of period	$ 11,895,696	$ (23,258)	11,872,438	$ 10,517,971	$ (16,977)	$ 10,500,994
Notified claims	$ 8,479,993	$ (23,258)	$ 8,456,735	$ 6,874,682	$ (16,977)	$ 6,857,705
Incurred but not reported	3,415,703	-	3,415,703	3,643,289	-	3,643,289
Balance, end of period	$ 11,895,696	$ (23,258)	$ 11,872,438	$ 10,517,971	$ (16,977)	$ 10,500,994

The Corporation discounts its provision for unpaid claims using a discount rate of 3.1% (2017 – 2.8%). The Corporation determines the discount rate based upon the expected return on its investment portfolio, the expected asset default risk of its investment portfolio, and uses assumptions for interest rates relating to reinvestment of maturing investments. As a result of the increase in the discount rate, there was a favourable adjustment to both current and prior periods' provision of $85.8 million (2017 – $54.2 million unfavourable).

In 2017, the Corporation refined its ULAE reserve methodology for the additional cost of increased injury claims staffing. The impact of this change to the 2017 fiscal loss year net provision for unpaid claims was unfavourable by $73.9 million.

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

($ THOUSANDS)	Undiscounted	Effect of Present Value	PfADs	Discounted
March 31, 2018				
Provision for unpaid claims, net	$ 11,423,007	$ (825,417)	$ 1,274,848	$ 11,872,438
Reinsurance recoverable	22,006	(1,728)	2,980	23,258
Provision for unpaid claims, gross	$ 11,445,013	$ (827,145)	$ 1,277,828	$ 11,895,696
March 31, 2017				
Provision for unpaid claims, net	$ 10,054,790	$ (678,640)	$ 1,124,844	$ 10,500,994
Reinsurance recoverable	16,073	(1,284)	2,188	16,977
Provision for unpaid claims, gross	$ 10,070,863	$ (679,924)	$ 1,127,032	$ 10,517,971

Claims development table

A review of the historical development of the Corporation’s insurance estimates provides a measure of the Corporation’s ability to estimate the ultimate value of claims. The top half of the table illustrates how the Corporation’s estimate of total undiscounted claims costs for each loss year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

As a result of the change in period end in fiscal 2017, there are two claims development tables: one as at March 31, 2018 and one as at December 31, 2015. The Corporation changed to a March 31 period end in 2016, and therefore there are two years of historical data in the first table as at March 31, 2018 (note 1). The history for eight prior periods ending December 31 is shown in the second table as at December 31, 2015.

Claims development table as at March 31, 2018:

($ THOUSANDS)	Insurance Claims - Gross of Reinsurance										
Fiscal Loss Year*	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of undiscounted ultimate claims costs:											
- At end of fiscal loss year									$ 4,372,966	$ 4,968,820	
- One year later								$ 4,037,775	4,529,126		
- Two years later							$ 3,695,574	4,184,489			
- Three years later						$ 3,313,949	3,757,390				
- Four years later					$ 3,042,291	3,432,710					
- Five years later				$ 2,837,869	3,111,271						
- Six years later			$ 2,863,073	2,888,556							
- Seven years later		$ 2,677,669	2,869,460								
- Eight years later	$ 2,710,932	2,684,965									
- Nine years later	2,710,428										
Current estimate of cumulative claims	2,710,428	2,684,965	2,869,460	2,888,556	3,111,271	3,432,710	3,757,390	4,184,489	4,529,126	4,968,820	35,137,215
Cumulative payments to date	(2,670,429)	(2,633,167)	(2,772,843)	(2,700,691)	(2,738,058)	(2,674,552)	(2,382,739)	(2,248,203)	(2,028,659)	(1,462,288)	(24,311,629)
Undiscounted provision for unpaid claims	$ 39,999	$ 51,798	$ 96,617	$ 187,865	$ 373,213	$ 758,158	$ 1,374,651	$ 1,936,286	$ 2,500,467	$ 3,506,532	$ 10,825,586
Undiscounted provision for unpaid claims in respect of 2008 and prior years											$ 141,912
Undiscounted unallocated loss adjustment expense reserve											477,515
Total undiscounted provision for unpaid claims											**$ 11,445,013**
Discounting adjustment											450,683
Total discounted provision for unpaid claims (gross)											**$ 11,895,696**

*Fiscal Loss Year refers to the 12 month period ended March 31

The table above reflects the total discounted provision for unpaid claims of $11.90 billion (2017 – $10.52 billion) before the amount for reinsurance recoverable. The total discounted provision for unpaid claims after the amount for reinsurance recoverable of $0.03 billion (2017 – $0.02 billion) would be $11.87 billion (2017 – $10.50 billion). The cumulative payments of fiscal loss year 2018 for the period ended March 31, 2018 are $1.46 billion (2017 – $1.76 billion).

Claims development table as at December 31, 2015:

($ THOUSANDS)	Insurance Claims - Gross of Reinsurance							
Accident Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Estimate of undiscounted ultimate claims costs:								
- At end of accident year	$ 2,676,918	$ 2,657,831	$ 2,743,503	$ 2,866,833	$ 3,030,779	$ 3,146,388	$ 3,372,304	$ 3,765,040
- One year later	2,682,830	2,640,001	2,732,070	2,863,942	3,065,562	3,194,080	3,518,858	
- Two years later	2,692,277	2,626,760	2,730,183	2,830,063	2,985,690	3,200,324		
- Three years later	2,654,416	2,587,367	2,699,473	2,815,440	3,024,045			
- Four years later	2,621,457	2,594,054	2,779,267	2,841,115				
- Five years later	2,641,489	2,656,694	2,778,347					
- Six years later	2,676,603	2,639,312						
- Seven years later	2,712,010							

The expected maturity of the provision for unpaid claims is analyzed below (undiscounted and gross of reinsurance):

($ THOUSANDS)	Less than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Over Five Years	Total
March 31, 2018	$ 3,088,224	$ 2,574,559	$ 2,113,634	$ 1,600,226	$ 907,172	$ 1,161,198	$ 11,445,013
March 31, 2017	$ 2,764,809	$ 2,324,378	$ 1,568,492	$ 1,292,585	$ 890,677	$ 1,229,922	$ 10,070,863

The non-current portion of the undiscounted provision for unpaid claims is $8.36 billion (2017 - $7.31 billion).

The weighted-average term to settlement of the discounted provision for unpaid claims as at March 31, 2018 is 2.4 years (2017 – 2.5 years).

14. **Unearned Premiums**

All unearned premiums are earned within 12 months of the reporting date. The movements in unearned premiums net of reinsurance and the impact on premiums earned for the period are as follows:

($ THOUSANDS)	2018	2017
Balance, beginning of period	$ 2,414,503	$ 2,210,364
Premiums written during the period	5,544,179	6,253,099
Premiums earned during the period	(5,328,938)	(6,050,642)
Premium adjustment	-	1,682
Balance, end of period	$ 2,629,744	$ 2,414,503

15. **Reinsurance**

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

The Corporation entered into 12 months casualty and catastrophe reinsurance contracts beginning January 1, 2018, 2017, and 2016 as follows:

a) For both 2017 and 2018 calendar years, for catastrophic occurrences, portions of losses up to $225.0 million (2016 – $225.0 million) in excess of $25.0 million (2016 – $25.0 million); and
b) For both 2017 and 2018 calendar years, for individual casualty loss occurrences, portions of losses up to $45.0 million (2016 – $45.0 million) in excess of $5.0 million (2016 – $5.0 million).

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.

16. **Pension and Post-Retirement Benefits**

Plan information

The Corporation sponsors a defined benefit registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). Subject to the terms of the plan, the Management and Confidential Plan provides benefits to members based on their length of service and eligible earnings in the best five years of plan membership. Employees are required to contribute to the Management and Confidential Plan. In addition, it sponsors two supplemental pension plans for certain employees. The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. Subject to the terms of the plans, pensions are indexed in line with increases in the Consumer Price Index (CPI).

The Corporation also contributes to two other defined benefit pension plans for which it is not the sole sponsor. Current and former employees of the Corporation who are or were members of the Canadian Office & Professional Employees Union (COPE) Local 378 are members of the COPE 378/Insurance Corporation of British Columbia Pension Plan (COPE Plan). Half of the Trustees of the COPE Plan are appointed by the Corporation and the other half by COPE Local 378. The Board of Trustees of the COPE Plan is the legal plan administrator. The COPE Plan provides benefits to members based on their length of service and eligible earnings in the best five years of plan membership. Subject to the terms of the plan, pensions are indexed in line with increases in the CPI. The Corporation’s former Motor Vehicle Branch employees participate in the BC Public Service Pension Plan. The Corporation has no fiduciary responsibility for, or role in the governance of, the COPE Plan or the BC Public Service Pension Plan.

The Management and Confidential Plan, COPE Plan, and the BC Public Service Pension Plan are subject to the statutory requirements (including minimum funding requirements) of the British Columbia *Pension Benefits Standards Act (PBSA)* and the *Income Tax Act (Canada)*. Each plan’s pace of funding is set out in their respective funding policies.

The Corporation pays MSP premiums, life insurance premiums, extended healthcare, and dental costs as post-retirement benefits for its qualifying retirees. The benefits are not prefunded. Benefit entitlements differ for management and confidential and bargaining unit employees, as stated within the terms of the plans.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes each period as at the end of the Corporation’s fiscal period. Defined benefit obligations are extrapolated from the most recent actuarial valuation date for each of the plans. The Management and Confidential Plan and the post-retirement benefits actuarial valuations are as at December 31, 2015 and the COPE Plan is as at December 31, 2014. Updated actuarial valuations for each plan will be as of no later than three years from their most recent actuarial valuation date and will be reflected in the financial statements in the year immediately following their preparation.

On its consolidated statement of financial position, the Corporation does not recognize its portion of any surplus assets held by the COPE Plan because it cannot realize a future economic benefit in respect of those assets.

An additional liability may be recognized in some instances if minimum future funding requirements are expected to generate a future surplus. These instances are ones where the Corporation would not be able to access or realize a future economic benefit from the future surplus. The Corporation has determined that no additional liability is required to be recognized in respect of solvency funding payments made to the Management and Confidential Plan. This is because the British Columbia PBSA permits the Corporation to secure these payments with a letter of credit in lieu of cash solvency payments or to deposit them in the Plan's Solvency Reserve Account (SRA), for which any surpluses in this account would ultimately be refundable to the Corporation.

The weighted-average durations of the pension plans and post-retirement benefits are shown below, along with the approximate proportions of the defined benefit obligation by membership category:

	Pension Plans		Post-Retirement Benefits	
	2018	2017	2018	2017
Weighted-average duration	20 years	18 years	17 years	20 years
Proportion of obligation in respect of:				
- Active members	62.5%	61.9%	57.0%	64.1%
- Deferred members	5.0%	5.0%	0.0%	0.0%
- Retired members	32.5%	33.1%	43.0%	35.9%

Since pensions are adjusted to changes in the CPI, the pension plans are exposed to changes in levels and volatility in Canada's inflation rate. In addition, the plans' obligations are exposed to interest rate risk and changes in the life expectancy for pensioners. As the plan assets include significant investments in quoted equity shares, the Corporation is also exposed to equity market risk.

Contributions to all pension and post-retirement benefit plans

Total contributions for employee future benefits for 2018, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of benefits paid from its unfunded pension and post-retirement benefits, were \$61.9 million (2017 – \$131.6 million). Estimated employer contributions for the year ending March 31, 2019 are \$47.4 million (2017 – \$59.7 million). The estimate is based on the plans' most recent actuarial funding valuations. This includes ongoing minimum payments for the solvency deficiency funding as permitted by the B.C. *PBSA* until July 2018.

As at March 31, 2018, the Corporation secured certain solvency funding requirements through payments made into SRA totalling \$19.5 million (2017 – \$83.1 million). The SRA is a separate account, established to hold solvency deficiency payments made under a defined benefit component of a pension plan. The only funds that may be deposited to the SRA are payments made in respect of a solvency deficiency.

Financial information

These consolidated financial statements include the asset and liabilities of all plans sponsored by the Corporation. The amounts recorded on the statement of financial position are as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Accrued pension benefits	$ 44,488	$ 37,302	$ -	$ -	$ 44,488	$ 37,302
Liabilities						
Pension and post-retirement benefits	(118,063)	(60,945)	(192,067)	(349,451)	(310,130)	(410,396)
Net total liability	$ (73,575)	$ (23,643)	$ (192,067)	$ (349,451)	$ (265,642)	$ (373,094)

One of the pension plans is in a net asset position and, as a result, that plan is required to be reported as an asset on the consolidated statement of financial position. The net total liability for all of the Corporation's pension plans and post-retirement benefits as at March 31, 2018 is $265.6 million (2017 – $373.1 million), which is reflected in the consolidated statement of financial position as a $44.5 million asset and a $310.1 million liability as illustrated in the table above.

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

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2018	2017	2018	2017
Plan assets				
Fair value, beginning of period	$ 2,135,924	$ 1,883,824	$ -	$ -
Interest on plan assets	79,212	93,963	-	-
Actuarial gain on assets	82,402	88,557	-	-
Employer contributions	54,616	123,397	6,762	7,451
Employee contributions	24,063	27,170	-	-
Benefits paid	(73,554)	(80,237)	(6,762)	(7,451)
Non-investment expenses	(600)	(750)	-	-
Fair value, end of period	2,302,063	2,135,924	-	-
Defined benefit obligation				
Balance, beginning of period	2,159,567	2,025,062	349,451	337,796
Current service cost	83,829	88,966	11,997	14,481
Interest cost	81,773	103,328	13,248	17,278
Remeasurements on obligation				
- due to changes in financial assumptions	89,252	23,430	11,891	14,560
- due to changes in demographic assumptions	35,228	-	(187,758)	20,029
- due to participant experience	(457)	(982)	-	(47,242)
Benefits paid	(73,554)	(80,237)	(6,762)	(7,451)
Balance, end of period	2,375,638	2,159,567	192,067	349,451
Funded status – plans in deficit	(118,063)	(60,945)	(192,067)	(349,451)
Funded status – plan in surplus	44,488	37,302	-	-
Net total liability	$ (73,575)	$ (23,643)	$ (192,067)	$ (349,451)

The net total expense for the pension plans and post-retirement benefits is $88.2 million (2017 – $103.7 million). In addition, the Corporation contributed $0.5 million in 2018 (2017 – $0.7 million) to the BC Public Service Pension Plan.

Assets

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2018	**2017**
Cash and accrued interest	0.3%	0.2%
Equities		
Canadian	21.6%	23.7%
Foreign	42.3%	40.7%
Fixed income		
Government	27.9%	26.5%
Corporate	7.9%	8.9%
	100.0%	100.0%

All equity securities and bonds have quoted prices in active markets. All bonds are rated from BBB to AAA, based on rating agency ratings.

Pension plan assets generated a return of 7.6% for the period ended March 31, 2018 (2017 – 9.5%).

For the Management and Confidential Plan, the administrator compares the investment performance of the fund against the median investment performance of a peer group of comparable pension funds at least quarterly. In addition, there are monthly and quarterly asset allocation reviews performed to ensure compliance with investment policies. For the COPE Plan, the long-term objective is to obtain an investment return that will exceed the investment return assumption used in the actuarial valuation and to provide positive real growth. The Trustees review the fund managers' performance on a quarterly basis.

As at March 31, 2018 and March 31, 2017, the Corporation's pension plans did not hold any of the Corporation's securities or assets nor were any of the plans' assets used by the Corporation during these periods.

Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's defined benefit obligation are as follows (weighted-average assumptions):

	Pension Plans		Post-Retirement Benefits	
	2018	2017	2018	2017
Discount rate	3.50%	3.70%	3.50%	3.70%
Rate of compensation increase	2.63%	2.63%	n/a	n/a
Pension inflation rate	1.75%	1.75%	n/a	n/a

Mortality assumptions are significant in measuring the obligations under the defined benefit plans. Future longevity improvements have been considered and included where appropriate. The following table summarizes the life expectancy for members, in years, based on the mortality assumption used:

2018				2017			
Life expectancy at 65 for a member currently				Life expectancy at 65 for a member currently			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
22.3	24.7	23.7	26.0	21.6	24.4	22.7	25.3

As at March 31, 2018, the MSP trend rate is assumed to be reduced to zero due to the 50 percent reduction in MSP premiums effective January 1, 2018 as approved in the 2017 Province of B.C. budget and subsequent plans to eliminate MSP premiums in their entirety in 2020, as per the 2018 Province of B.C. budget. As at March 31, 2017, the MSP trend rate was assumed to be four percent per annum.

As at March 31, 2018, the extended healthcare trend rate is assumed to be six and nine tenths percent per annum for the first year, decreasing linearly over eight years to four and a half percent per annum thereafter. As at March 31, 2017, the extended healthcare trend rate was assumed to be seven and a fifth percent per annum for the first year, decreasing linearly over nine years to four and a half percent per annum thereafter.

The Plans' sensitivity to significant assumptions is shown below:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2018	2017	2018	2017
Estimated increase in defined benefit obligation - end of period due to:				
1ppt[1] decrease in discount rate	$ 488,011	$ 392,818	$ 32,871	$ 69,956
1ppt increase in salary increase rate	$ 94,094	$ 86,875	n/a	n/a
1ppt increase in pension inflation rate	$ 342,687	$ 313,966	n/a	n/a
1ppt increase in healthcare trend rate	n/a	n/a	$ 8,865	$ 8,787
1ppt increase in medical services premium increase rate	n/a	n/a	$ 30	$ 36,506
1 year increase in life expectancy	$ 68,855	$ 63,592	$ 4,090	$ 6,789

[1] *ppt = percentage point*

The sensitivity to the significant assumptions has been determined assuming all other assumptions remain unchanged. If multiple assumptions were to change at the same time, there may be correlations between assumptions that could result in different impacts than simply adding the individual sensitivities above.

17. **Operating Expenses by Nature**

($ THOUSANDS)	12 months ended March 31, 2018	15 months ended March 31, 2017
Operating expenses – by nature		
Premium taxes and commission expense	$ 666,673	$ 763,261
Premium deficiency adjustments	157,236	92,952
Employee benefit expense:		
Compensation and other employee benefits	400,485	465,464
Pension and post-retirement benefits (notes 16 and 23)	88,701	104,418
Professional and other services	41,064	53,303
Road improvements and other traffic safety programs	30,158	41,610
Building operating expenses	28,432	36,038
Merchant and bank fees	39,211	47,603
Office supplies and postage	23,339	26,103
Computer costs	27,798	36,862
Depreciation and amortization (notes 11 and 12)	55,384	54,718
Other	30,422	27,398
	$ 1,588,903	$ 1,749,730
Operating expenses – consolidated statement of comprehensive loss		
Premium taxes and commissions – insurance	$ 792,683	$ 818,696
Claims services	351,366	383,789
Operating expenses – insurance	260,588	322,799
Operating expenses – non-insurance	101,912	125,986
Road safety and loss management services	51,128	60,943
Commissions – non-insurance	31,226	37,517
	$ 1,588,903	$ 1,749,730

18. **Deferred Premium Acquisition Costs and Prepaids and Premium Deficiency**

($ THOUSANDS)	2018	2017
Deferred premium acquisition costs, beginning of period	$ 16,481	$ 86,776
Acquisition costs related to future periods	-	16,481
Amortization of prior period acquisition costs	(16,481)	(86,776)
Deferred premium acquisition costs, end of period	$ -	$ 16,481
Deferred premium acquisition costs	$ -	$ 16,481
Prepaid expenses	20,977	20,021
Deferred premium acquisition costs and prepaids	$ 20,977	$ 36,502

($ THOUSANDS)	2018	2017
Premium deficiency, beginning of period	$ -	$ -
Actuarial valuation adjustment	(117,623)	-
Premium deficiency, end of period	$ (117,623)	$ -

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
March 31, 2018			
Amount payable	$ 434,495	$ 255,310	$ 689,805
Amortization of prior period deferred premium acquisition costs	38,574	(22,093)	16,481
Premium deficiency	(16,101)	133,724	117,623
Premium taxes, commission expense and deferred premium acquisition costs	$ 456,968	$ 366,941	$ 823,909
Represented as:			
Insurance	$ 425,742	$ 366,941	$ 792,683
Non-insurance	31,226	-	31,226
	$ 456,968	$ 366,941	$ 823,909
March 31, 2017			
Amount payable	$ 509,926	$ 275,992	$ 785,918
Amortization of prior period deferred premium acquisition costs	93,165	(6,389)	86,776
Deferred premium acquisition costs	(38,574)	22,093	(16,481)
Premium taxes, commission expense and deferred premium acquisition costs	$ 564,517	$ 291,696	$ 856,213
Represented as:			
Insurance	$ 527,000	$ 291,696	$ 818,696
Non-insurance	37,517	-	37,517
	$ 564,517	$ 291,696	$ 856,213

19. **Related Party Transactions**

ICBC is a wholly-owned Crown corporation of the Province of B.C.

All transactions with the Province of B.C.'s ministries, agencies, and Crown corporations occurred in the normal course of providing insurance, registration, and licensing for motor vehicles, which is representative of fair value unless otherwise disclosed in these notes. The Corporation has elected to apply the exemption for government-related entities under IAS 24 *Related Party Disclosures*.

All transactions with the Corporation's subsidiary companies occurred in the normal course of investing in investment properties (note 2k).

The Corporation acts as an agent for the Ministry of Finance regarding the collection of provincial taxes on imported and privately sold used vehicles and motor vehicle-related debts. The Corporation is the sole provider of Basic insurance (note 1) in the Province of B.C. and, therefore, insures, at market rates, vehicles owned or leased by the Province of B.C. 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 also responsible for collecting and remitting in full to the Province of B.C. all driver license fees as well as vehicle-related fees for acquiring and distributing licence plates and decals including permits and other fees and fines. These collections are not revenue to the Corporation. The costs associated with the licensing and compliance activities conducted on behalf of the Province of B.C. are borne by the Corporation. These collections on behalf of and payments to the Province of B.C. are disclosed in the consolidated statement of comprehensive loss under non-insurance operations.

As at March 31, 2018, there is no (2017 – nil) Excess Optional capital to be transferred to the Province of B.C. (note 20).

The Corporation has defined key management as members of the Board of Directors and management employees at the Senior Director and equivalent level and above. The compensation for key management is shown below:

($ THOUSANDS)	12 months ended March 31 2018	15 months ended March 31 2017
Key management compensation		
Compensation and other employee benefits including restructuring costs	$ 4,665	$ 5,756
Pension and post-retirement benefits	714	932
	$ 5,379	$ 6,688

As at March 31, 2018, $0.7 million (2017 – $0.9 million) was payable to key management.

The Corporation contributes to several defined benefit pension and post-retirement plans. Transactions with these entities are disclosed in note 16. During the period ended March 31, 2018, the Corporation incurred $3.9 million (2017 – $4.3 million) in administrative expenses and investment management fees on behalf of these plans interest-free. In addition, the Corporation provides certain administrative, investment management, and office services to the plans at no charge. As at March 31, 2018, $0.6 million (2017 – $0.6 million) was payable to these plans for employer contributions.

20. **Capital Management**

The Corporation's capital is comprised of retained earnings and other components of equity. The Corporation's objectives for managing capital are to maintain financial strength, including the management of ongoing business risks and protection of its ability to meet the obligations to policyholders and others.

The Corporation operates two lines of insurance business, Basic and Optional. As prescribed in *Special Direction IC2 to the British Columbia Utilities Commission* (IC2) for Basic insurance and the *Insurance Corporation Act* (ICA) for Optional insurance, the Corporation has established capital targets based upon the capital management framework of the Office of the Superintendent of Financial Institutions Canada (OSFI), and the minimum capital test (MCT). The MCT is a ratio of capital available to capital required, and utilizes a risk-based formula to assess the capital adequacy, including financial risk and long-term financial stability, of an insurance company.

For the Basic insurance business, IC2 requires the Corporation to determine capital targets in accordance with a capital management plan approved by the BCUC (note 22) and to set Basic rates in order to maintain an MCT ratio of at least 100%. If the Basic capital is projected to fall below that minimum, a capital plan must be filed with the BCUC. Refer to note 22 for the capital plans filed with the BCUC. To maintain Basic capital above the regulatory minimum, the Province of B.C. directed transfers from Optional insurance capital to Basic insurance capital (note 22) in fiscal periods 2017 and 2018. Throughout parts of the fiscal period and as at March 31, 2018, the Basic MCT ratio was below 100%. On February 26, 2018, the Province of B.C. suspended the Corporation's requirement to maintain Basic MCT at or above 100% until March 31, 2022.

For the Optional insurance business, the ICA requires the Corporation to determine a capital management target that either is calculated by the Corporation based on the MCT guideline and the Guideline on Stress Testing issued by OSFI, or as directed by the Province of B.C. At period end, when Optional capital is in excess of the management target, that amount, less any Treasury Board approved deduction, is to be transferred to the Province of B.C. by July 1 of the following year (notes 19 and 22). In fiscal periods 2017 and 2018, there were no excess capital amounts to be transferred.

The Corporation's capital has been under pressure due to worsening claims trends and Basic rate increases that were insufficient to cover costs. The Province of B.C. has directed the Corporation to implement steps to help reduce claims cost pressures (note 3e).

During fiscal 2017, the Corporation completed and implemented a business renewal program known as the Transformation Program to address key business issues, including increased customer expectations regarding products, service, and price along with replacing aging technology systems. TP included multiple projects to collectively help the Corporation achieve its strategy and future objectives. The funding required for this project was obtained from Optional insurance capital. The TP reserve represents a component of retained earnings internally set aside for this program.

The reserve, net of costs expensed, is a Province of B.C. Treasury Board approved deduction from the excess Optional capital transfer and is as follows:

($ THOUSANDS)		2018		2017
Transformation Program Reserve				
Balance, beginning of period	$	244,452	$	282,723
Costs including depreciation expensed during the period		(29,982)		(38,271)
Balance, end of period	$	214,470	$	244,452

During 2018, there was a net disposal of $0.5 million (2017 – $30.0 million capitalization) of TP costs in property, equipment and intangible assets (notes 11 and 12).

21. **Contingent Liabilities and Commitments**

a) Structured settlements

Certain injury claims are settled through the use of various structured settlements which require the Corporation to provide the claimant with periodic payments. The Corporation's injury claims are primarily settled through the use of structured settlements.

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 risk to the Corporation is mitigated as the claimant will continue to receive payments, up to certain limits, from a not-for-profit organization that is funded by the insurance industry and endorsed by the Federal Government. The Corporation is only responsible for making payments for the excess, if any, between the claimant's annuity payments and the payment from the not-for-profit organization. At present, three federally licensed life insurance companies are approved for use by the Corporation. An insurance company is approved based on an ongoing analysis of total assets, credit rating analysis, and past service history. The present value of these structured settlements as at March 31, 2018 is approximately $1.17 billion (2017 – $1.19 billion), which are not recorded in the consolidated financial statements of the Corporation. Management does not believe any provision for credit risk is required in relation to these annuities as at March 31, 2018, as all approved life insurance companies are rated investment-grade and outstanding balances are backed by the not-for-profit organization. The not-for-profit organization provides guarantees of up to $2,000 a month or 85% of the promised monthly income benefit, whichever is higher. The Corporation's exposure to credit risk beyond the guarantee is insignificant. To date, the Corporation has not experienced any losses resulting from these arrangements.

b) Lease payments

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 and beyond and the net present value are as follows:

($ THOUSANDS)	2018		2017	
	Lease Payments	Net Present Value	Lease Payments	Net Present Value
Up to 1 year	$ 11,014	$ 10,688	$ 9,545	$ 9,290
Greater than 1 year, up to 5 years	29,967	27,133	23,581	21,648
Greater than 5 years	12,610	10,530	15,386	13,075
	$ 53,591	$ 48,351	$ 48,512	$ 44,013

The operating lease payments recognized as an expense during the period were $14.9 million (2017 – $18.9 million).

c) Other

As at March 31, 2018, the Corporation is committed to six (2017 – seven) mortgage funding agreements totalling $27.3 million (2017– $150.7 million).

In 2017, the Corporation invested into a real estate fund in which a commitment of $69.7 million was made. As at March 31, 2018, $56.5 million (2017 - $53.7) of the commitment was funded.

In 2017, the Corporation has an investment in a limited partnership for bonds in which a commitment of $100.0 million was made. As at March 31, 2018, $90.9 million (2017 – $40.0 million) of the commitment was funded.

In 2017, the Corporation has made a commitment to invest $150.0 million USD in a limited partnership for mortgages. As at March 31, 2018, $23.0 million USD (2017 – nil) of the commitment was funded.

In 2015, the Corporation entered into an annually managed mainframe hosting services contract until 2022, with a total contract value of $34.5 million.

In 2014, the Corporation has an investment in a limited partnership for real estate in which a commitment of $75.0 million was made. As at March 31, 2018, $67.9 million (2017 – $46.0 million) of the commitment was funded.

In 2011, the Corporation entered into a commitment for annual telecommunication services until 2021, with a total contract value of $50.6 million.

22. **Regulation over Basic Insurance**

As discussed in note 1, the Corporation is subject to regulation by the BCUC. BCUC has jurisdiction over the Corporation’s rates and services for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation’s Optional insurance business.

For the regulation of the Corporation’s Basic insurance rates, the 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 and/or builds the required Basic insurance 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 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 the 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.

As required by the regulatory framework, the Corporation maintains a capital management plan that is reviewed and approved by the BCUC. This plan as of May 2016 includes both an additional margin above the regulatory minimum of 100% MCT and an additional margin of capital for a rate smoothing framework. The rate smoothing framework limits Basic rate increases to a range of allowable rate changes, and uses Basic insurance capital to smooth through volatility in Basic insurance rates (note 9).

If circumstances should arise where, despite the capital management plan, Basic insurance capital is projected to fall below the regulatory minimum, the Corporation is directed to immediately report to the Treasury Board and, in conjunction with the Treasury Board, develop a plan to address Basic insurance capital levels. This plan is then filed with the BCUC. Over the past several years the Corporation has filed such a plan on a number of occasions. Amendments in calendar year 2016 suspended the capital build and release provisions of the existing capital management plan and kept the capital maintenance provision stable so that it had no impact on the Basic insurance rate change.

The plan filed with the BCUC on August 31, 2016 required a capital transfer of $172.0 million from Optional insurance to Basic insurance during August 2016. In addition, it required a transfer of $300.0 million of income from the Optional insurance business to the Basic insurance business. $201.0 million of this transfer occurred on November 1, 2016 and $99.0 million occurred on April 1, 2017. The transfer of income, which is for the sole purpose of rate setting under the BCUC regulation, allows the Corporation to reduce the Basic rates required under the framework. The $300.0 million transfer of income between the lines of business enabled the Corporation to apply for a rate increase of 4.9% in the 2016 revenue requirements application. This was lower than would otherwise have been required under the rate smoothing framework.

The Corporation filed another plan with the BCUC on August 29, 2017, as the Basic capital was projected to be below the 100% MCT regulatory minimum. The plan stated that the Corporation would transfer $470.0 million of capital from Optional insurance to Basic insurance, which was completed on September 15, 2017. The Corporation filed for a 6.4% rate increase in the 2017 revenue requirements application, which was at the ceiling of the rate smoothing framework (notes 9 and 22).

At December 31, 2017, the Basic MCT ratio was below the regulatory minimum and was projected to fall further by period end. On February 26, 2018 the Province of B.C. suspended the Corporation's requirement to meet the 100% MCT regulatory minimum until the 2021 policy year.

A plan was filed with the BCUC on March 1, 2018 which refers to the suspension of the requirement to meet the 100% MCT regulatory minimum.

Allocation of Basic and Optional amounts

The Corporation operates its business using an integrated business model. The majority of premium revenues and costs are specifically identifiable as Basic or Optional (see note 1). The Corporation also delivers non-insurance services on behalf of the Province of B.C. Non-insurance activities include driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection all of which are reported as Basic costs.

BCUC requires the Corporation to follow an approved financial allocation methodology with respect to allocating costs between the Basic insurance business, the Optional insurance business, and non-insurance services. For those revenues and costs that are not specifically identified, a pro-rata method is used to allocate 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.

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	12 months ended March 31, 2018	15 months ended March 31, 2017	12 months ended March 31, 2018	15 months ended March 31, 2017	12 months ended March 31, 2018	15 months ended March 31, 2017
Net premiums written	$ 3,268,865	$ 3,720,692	$ 2,275,314	$ 2,532,407	$ 5,544,179	$ 6,253,099
Revenues						
Net premiums earned	$ 3,149,312	$ 3,601,709	$ 2,179,626	$ 2,448,933	$ 5,328,938	$ 6,050,642
Service fees and other income	69,046	79,727	44,252	50,656	113,298	130,383
Total earned revenues	3,218,358	3,681,436	2,223,878	2,499,589	5,442,236	6,181,025
Claims and operating expenses						
Provision for claims occurring in the current period (note 13)	3,451,207	3,868,292	1,633,027	1,791,400	5,084,234	5,659,692
Change in estimates for losses occurring in prior periods (note 13)	218,191	(12,198)	344,766	318,863	562,957	306,665
Claim services, road safety and loss management services	273,807	296,410	128,687	148,322	402,494	444,732
	3,943,205	4,152,504	2,106,480	2,258,585	6,049,685	6,411,089
Operating expenses – insurance (note 17)	121,887	149,439	138,701	173,360	260,588	322,799
Premium taxes and commissions – insurance (note 17 and 18)	451,395	220,289	341,288	598,407	792,683	818,696
	4,516,487	4,522,232	2,586,469	3,030,352	7,102,956	7,552,584
Underwriting loss	(1,298,129)	(840,796)	(362,591)	(530,763)	(1,660,720)	(1,371,559)
Investment income (note 10)	324,642	415,505	137,561	199,365	462,203	614,870
Loss – insurance operations	(973,487)	(425,291)	(225,030)	(331,398)	(1,198,517)	(756,689)
Loss – non-insurance operations	(126,645)	(156,352)	-	-	(126,645)	(156,352)
Net loss for the period before income transfer	(1,100,132)	(581,643)	(225,030)	(331,398)	(1,325,162)	(913,041)
Net income transfer from Optional to Basic business	99,000	201,000	(99,000)	(201,000)	-	-
Net loss for the period after income transfer	$ (1,001,132)	$ (380,643)	$ (324,030)	$ (532,398)	$ (1,325,162)	$ (913,041)
Net (loss) income attributable to:						
Non-controlling interest	$ 225	$ (97)	$ 95	$ (53)	$ 320	$ (150)
Owners of the corporation	(1,001,357)	(380,546)	(324,125)	(532,345)	(1,325,482)	(912,891)
	$ (1,001,132)	$ (380,643)	$ (324,030)	$ (532,398)	$ (1,325,162)	$ (913,041)
Equity						
Retained earnings, beginning of period	$ 1,459,879	$ 1,218,425	$ 998,601	$ 2,152,946	$ 2,458,480	$ 3,371,371
Net loss for the period, owners of the corporation	(1,001,357)	(380,546)	(324,125)	(532,345)	(1,325,482)	(912,891)
Capital transfer from Optional to Basic business (note 20)	470,000	622,000	(470,000)	(622,000)	-	-
Retained earnings, end of period	928,522	1,459,879	204,476	998,601	1,132,998	2,458,480
Other components of equity, beginning of period	(17,552)	(171,613)	(14,313)	(90,187)	(31,865)	(261,800)
Net change in available for sale assets	(185,232)	102,157	(78,489)	49,016	(263,721)	151,173
Pension and post-retirement benefits remeasurements (note 16)	90,348	51,904	43,898	26,858	134,246	78,762
Other components of equity, end of period	(112,436)	(17,552)	(48,904)	(14,313)	(161,340)	(31,865)
Total equity attributable to owners of the corporation	816,086	1,442,327	155,572	984,288	971,658	2,426,615
Non-controlling interest, beginning of period	13,415	24,204	6,156	12,256	19,571	36,460
Change in net assets for the period, non-controlling interest	(3,267)	(11,276)	(1,119)	(6,340)	(4,386)	(17,616)
Net income (loss) for the period, non-controlling interest (note 6)	225	(97)	95	(53)	320	(150)
Other comprehensive income for the period, non-controlling interest (note 6)	-	584	-	293	-	877
Total equity attributable to non-controlling interest, end of period (note 6)	10,373	13,415	5,132	6,156	15,505	19,571
Total Equity	$ 826,459	$ 1,455,742	$ 160,704	$ 990,444	$ 987,163	$ 2,446,186

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2018	2017	2018	2017	2018	2017
Liabilities						
Unearned premiums (note 14)	$ 1,549,552	$ 1,430,000	$ 1,080,192	$ 984,503	$ 2,629,744	$ 2,414,503
Provision for unpaid claims (note 13)	$ 8,607,916	$ 7,851,433	$ 3,287,780	$ 2,666,538	$ 11,895,696	$ 10,517,971

23. **Indirect Method Cash Flow Details**

The following table illustrates the details of the consolidated statement of cash flows:

($ THOUSANDS)	12 months ended March 31 2018	15 months ended March 31 2017
a) Items not requiring the use of cash		
Bad debt expense	$ 6,060	$ 6,084
Pension and post-retirement benefits (notes 16 and 17)	88,701	104,418
Amortization and depreciation of:		
Investment properties (note 5)	32,928	20,843
Property, equipment and intangibles (notes 11 and 12)	55,384	54,718
Retirement of property, equipment and intangibles (notes 11 and 12)	136	1,082
Impairment loss on financial investments (note 10)	12,495	20,106
Impairment reversal on investment properties (note 10)	1,441	(1,345)
Gain on assets held for sale (note 10)	(6,198)	-
Gains on investments	(342,405)	(238,858)
	$ (151,458)	$ (32,952)
b) Changes in non-cash working capital		
Accrued interest	$ 12,866	$ (20,536)
Asset held for sale	31,910	(34,225)
Derivative financial instrument asset	(2,744)	-
Derivative financial instrument liability	(10,702)	10,702
Premium and other receivables	(165,206)	(164,628)
Reinsurance assets	(5,347)	(7,623)
Accrued pension benefits	(36,637)	(39,259)
Deferred premium acquisition costs and prepaids	15,525	146,278
Accounts payable and accrued charges	1,959	(5,350)
Bond repurchase agreements and other liabilities	(8,591)	43,445
Premium deficiency	117,623	(75,822)
Premiums and fees received in advance	15,954	7,310
Unearned premiums	215,241	204,139
Pension and post-retirement benefits	(25,270)	(92,337)
Provision for unpaid claims	1,377,725	1,424,831
	$ 1,534,306	$ 1,396,925
c) Supplemental information		
Interest and dividends received	$ 299,159	$ 332,217

The table below details the changes in the Corporation's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing are those for which cash flows were, or future cash flows will be, classified in the Corporation's consolidated statement of cash flows as cash flows from financing activities.

($ THOUSANDS)	**March 31, 2017**	Financing cash flows	Non-cash changes	**March 31, 2018**
Bond repurchase agreements (note 8)	$ 1,180,060	$ 129,163	$ 1,026	$ 1,310,249
	$ 1,180,060	$ 129,163	$ 1,026	$ 1,310,249

($ THOUSANDS)	**December 31, 2015**	Financing cash flows	Non-cash changes	**March 31, 2017**
Bond repurchase agreements (note 8)	$ 1,153,733	$ 26,327	$ -	$ 1,180,060
Excess Optional capital payable to Province of BC (notes 19 and 20)	138,118	(138,118)	-	-
	$ 1,291,851	$ (111,791)	$ -	$ 1,180,060

24. **Subsequent Events**

Between April 1, 2018 and June 8, 2018, the Corporation entered into seven agreements to provide mortgage funding totalling $101.7 million.

On May 17, 2018, the Province of B.C. enacted changes to legislation to reform the Basic insurance product to limit pain and suffering payouts for minor injuries and create an independent dispute resolution process for injury claims.

Major Capital Projects

Major Capital Projects (over $50 million) $ millions	Targeted Completion Date (Year)	Actual Cost to March 31, 2018 ($ millions)	Estimated Cost to Complete ($ millions)	Approved Anticipated Total Capital Cost of Project ($ millions)
Rate Affordability Action Plan Focused on making insurance more affordable by addressing rising claims costs including legal and vehicle repair costs, as well as improving rate fairness and promoting road safety.	2019/20	3.4	92.4	95.8

* This table reflects projects with capital expenditures over $50 million.

Appendix A: Additional Information

(Unaudited)

Corporate Governance

ICBC is governed by a Board of Directors, CEO and management team. They are guided by the public sector guidelines for corporate governance, and must act in accordance with the provisions of the Insurance Corporation Act, the Insurance (Vehicle) Act and the Motor Vehicle Act , and other legislation applicable to ICBC.

Changes to ICBC's Basic insurance rates are regulated by the BC Utilities Commission. They ensure that Basic insurance rates are justified and reasonable.

For additional information, please refer to the Corporate Governance section of our website.

This includes links to information regarding:

- Executive Committee
- Board of Directors
- ICBC Board of Directors Committees
- ICBC Code of Ethics
- Mandate Letter and Taxpayer Accountability Principles

Organizational Overview

The Insurance Corporation of British Columbia is a provincial Crown corporation that provides universal compulsory auto insurance (Basic insurance) to drivers in B.C. with rates regulated by the BCUC. ICBC also sells Optional auto insurance in a competitive marketplace.

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

Contact Information

- See page 2 for full contact information or visit our website at icbc.com.

Appendix B: Nominee Companies

(Unaudited)

The Corporation does not have any active operating subsidiary companies.

All of the fully-owned nominee holding companies listed below hold investment properties for the purpose of generating investment income. All of the nominee holding companies are consolidated into our financial statements, the basis of which is explained in note 2b in the accompanying consolidated financial statements. A consolidated summary of the income from investment properties can be found in note 10 to the accompanying consolidated financial statements.

Nominee Holding Companies
596961 B.C. Ltd
2050376 Ontario Ltd.
1141268 Alberta Ltd.
2091053 Ontario Ltd.
1263146 Alberta Ltd.
2134529 Ontario Ltd.
2140940 Ontario Ltd.
2154855 Ontario Ltd.
2159355 Ontario Ltd.
2166025 Ontario Ltd.
1394626 Alberta Ltd.
2176758 Ontario Ltd.
1467288 Alberta Ltd.
2209079 Ontario Ltd.
1476459 Alberta Ltd.
2210344 Ontario Ltd.
0866691 B.C. Ltd.
2225888 Ontario Ltd.
2232027 Ontario Ltd.
0869391 B.C. Ltd.
1535992 Alberta Ltd.
0879948 B.C. Ltd.
2228366 Ontario Ltd.
0881157 B.C. Ltd.
1575160 Alberta Ltd.
2272811 Ontario Ltd.
2272807 Ontario Ltd.

Nominee Holding Companies continued
2277479 Ontario Ltd.
1611527 Alberta Ltd.
2306519 Ontario Ltd.
1648020 Alberta Ltd.
2309092 Ontario Ltd.
1662170 Alberta Ltd.
1672904 Alberta Ltd.
2329075 Ontario Ltd.
1688141 Alberta Ltd.
1685611 Alberta Ltd.
2353777 Ontario Ltd.
1746615 Alberta Ltd.
1796824 Alberta Ltd.
1884419 Alberta Ltd.
2468434 Ontario Ltd.
SWBC Lena Ltd.
SWBC Ottawa Ltd.
1930933 Alberta Ltd.
2496976 Ontario Ltd.
Plaza Tacoma Centre Ltd.
1961735 Alberta Ltd.
2530694 Ontario Ltd.
2542170 Ontario Ltd.
SWBC MEC 1 Ltd.
SWBC MEC 2 Ltd.
SWBC MEC 3 Ltd.
SWBC MEC 4 Ltd.
2543053 Ontario Ltd.
5757 CSF Inc.
2553178 Ontario Ltd.
2599056 Ontario Ltd.