2012
annual report

building trust. driving confidence.

profile

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

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

vision

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

mission

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

values

In providing products and services, the following values guide our behaviour and decisions:

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

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

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

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

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letter of transmittal and accountability statement

Minister of Transportation and Infrastructure
Members of the Board of Directors for the Insurance Corporation of British Columbia
Province of British Columbia

The 2012 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of ICBC for the 12 months ended December 31, 2012 in relation to the 2012 – 2014 Service Plan. The measures presented are consistent with ICBC's mandate and corporate strategy, and focus on aspects critical to the organization's performance.

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

All significant assumptions, policy decisions, events and identified risks, as of December 31, 2012, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, the goal, objectives, strategies, measures or targets made since the 2012 – 2014 Service Plan was released and any significant limitations in the reliability of data are identified in the report.

On behalf of the Board of Directors and all ICBC employees, it is my pleasure to submit ICBC's Annual Report for the year ended December 31, 2012.

Sincerely,

Paul Taylor
Chair of the Board of Directors

key financial and operating comparatives

five year comparison[1] for the years ended December 31	2012	2011	2010	2009	2008
For the year ($000):					
Premiums earned	3,811,386	3,673,210	3,667,324	3,650,025	3,631,215
Service fees	53,797	50,352	54,628	58,807	69,174
Provision for claims occurring in the current year	3,022,699	2,880,130	2,754,077	2,648,193	2,646,191
Change in estimates for losses occurring in prior years[2]	(69,234)	(14,392)	(2,039)	2,355	(136,447)
Claims services, road safety and insurance operating costs	476,573	497,465	505,923	488,735	457,726
Transformation Program (TP) expenses	24,441	31,645	34,775	–	–
Insurance premium taxes and commissions	474,392	457,437	446,015	432,017	429,011
Deferred premium acquisition cost adjustments[2]	(11,351)	59,924	31,180	2,807	(16,922)
Non-insurance expenses	117,265	112,692	110,139	104,258	103,840
Investment income	443,126	441,480	530,319	532,477	280,449
Restructuring costs	24,968	–	–	–	–
Net income	248,556	140,141	372,201	562,944	497,439
At year end ($000):					
Cash and investments[3]	12,305,412	11,476,238	11,577,928	11,129,061	10,056,546
Total assets	13,849,732	12,928,133	12,957,995	12,643,599	11,476,492
Total liabilities	10,602,415	10,001,659	9,758,908	9,026,784	8,725,110
Equity:					
– Retained earnings	2,893,299	2,654,079	2,683,364	3,214,655	2,651,711
– Other components of equity[4]	354,018	272,395	515,723	402,160	99,671
Total equity	3,247,317	2,926,474	3,199,087	3,616,815	2,751,382
Autoplan policies earned[5]	3,372,000	3,321,000	3,281,000	3,225,000	3,193,000
Average premium ($)[6]	1,100	1,079	1,092	1,100	1,108
Claims reported during the year[7]	915,000	900,000	895,000	946,000	964,000
Loss ratio (%)[8]:					
– Current year (%)	87.5	87.2	84.1	81.3	81.4
– Prior years' claims adjustments (%)[2]	(1.8)	(0.4)	(0.1)	0.1	(3.8)
Loss ratio (%)	85.7	86.8	84.0	81.4	77.6
Expense ratio (%):					
– Insurance expense ratio (%)[9]	16.7	17.3	17.0	16.4	15.9
– Transformation Program expense ratio (%)	0.6	0.8	0.9	–	–
– Non-insurance expense ratio (%)	3.1	3.1	3.0	2.9	2.9
Expense ratio (%) (excluding restructuring costs)	20.4	21.2	20.9	19.3	18.8
Restructuring costs expense ratio (%)	0.7	–	–	–	–
Expense ratio (%)	21.1	21.2	20.9	19.3	18.8

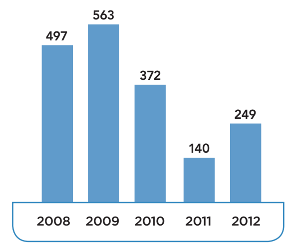
[1] Financial information since 2010 is prepared based on International Financial Reporting Standards (IFRS). Financial information for 2009 and before is prepared in accordance with pre-IFRS changeover Canadian generally accepted accounting principles (GAAP).
[2] ( ) denotes a favourable adjustment, i.e., a reduction in expense.
[3] Includes investment properties.
[4] Formerly known as accumulated other comprehensive income under Canadian GAAP in 2009 and 2008.
[5] Annualized values have been used for policies with a term of less than 12 months.
[6] Average premium is based on premiums earned.
[7] Claims reported represent the number of claims reported against purchased insurance coverages.
[8] Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
[9] Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs, deferred premium acquisition costs and other unusual items).

performance highlights

net income

In 2012, ICBC recorded net income of $249 million up from 2011 due to higher premium revenue, management of operating costs, partially offset by higher net claims costs. Net income contributes to retained earnings which helps protect policyholders against significant unexpected losses and volatile rates.

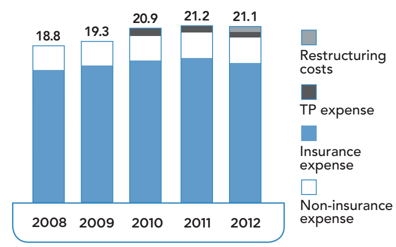
net income ($ millions)



expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization. The expense ratio has remained stable in 2012, and it is consistently better than the industry benchmark. We continue to manage costs effectively and eliminated over 250 positions in 2012.

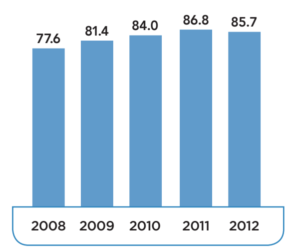
expense ratio (%)



loss ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product. The 2012 loss ratio is lower than 2011 due to higher premiums earned and the release of a portion of prior years' claims reserves, although current year's claims costs, particularly for bodily injury claims continued to increase.

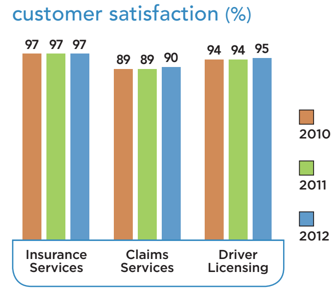
loss ratio (%)



customer satisfaction

In 2012, ICBC continued with strong customer satisfaction levels for Insurance Services, Claims Services and Driver Licensing.

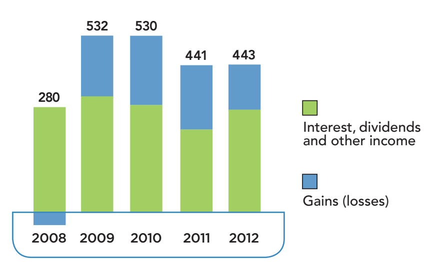
customer satisfaction (%)



investment income

ICBC's investments generated an income of $443 million in 2012. Investment income continues to be challenged by historically low interest rates. Income from investments helps to reduce the amount of premiums that would otherwise have to be paid by customers.

investment income ($ millions)



message from the chair and the president

Throughout 2012, we operated against a backdrop of increasing bodily injury claims costs and low investment returns stemming from an uncertain world economic outlook and low interest rates. While we made a number of adjustments to address these challenges, we did not lose sight of our key corporate objectives: keeping insurance rates as low as possible, improving the customer experience, and providing our employees with the tools and support to do both. We saw progress in all three priority areas while we continued to modernize our systems to achieve cost efficiencies and better customer service. All of our key financial measures for 2012, including net income, were above plan.

The BC Utilities Commission approved ICBC's application for an increase of 11.2% to Basic insurance effective February 1, 2012. It was the first Basic rate increase in five years. At the same time we were able to reduce Optional insurance rates by an average of 6%. This greatly lessened the impact on most customers. As approximately 80 per cent of our personal insurance customers purchase their vehicle insurance (basic and optional insurance) from ICBC, they saw an average total rate increase of just $27 for 2012.

Last year the BC government began an operational review of all provincial Crown corporations. The review of ICBC culminated in a report, released in mid-2012, which made 24 recommendations for change. We immediately committed to implementing all the recommendations; in fact by year-end we had fully met or exceeded 15 of the 24, and were well on the way to completing the remaining nine recommendations.

Among the key changes was a restructuring of the company, involving centralizing support functions and shared services, and lowering staffing levels to 2008 levels (a reduction of over 250 positions) largely achieved by significantly reducing senior management ranks. Other steps we have taken to reduce operating costs include limiting discretionary spending and improving procurement practices, eliminating non-essential project work, and initiating zero-based budgeting. This renewed emphasis on cost control and financial discipline has already achieved significant savings and will continue in 2013.

Cost control is a key priority. However, we also need to ensure claims and related costs, which account for 86 cents in every dollar we collect in premiums, do not grow at an unsustainable pace. Managing claims costs is a balance between ensuring our customers are treated fairly in settling claims and maintaining affordable rates. Claims costs continue to rise, particularly bodily injury (BI) claims. We are implementing a multi-pronged strategy to address rising BI claims costs in both the short and long term.

Our review and prioritization of business improvement projects resulted in some projects being postponed or reduced in scope; however, the core Transformation Program projects remain on track. We remain committed to modernizing our aging technology, putting the right systems and business processes in place to support the services our customers expect, and to deliver future cost savings. We began preparations to implement a new claims system in 2013, which will make our claims handling more efficient by streamlining processes, requiring less paperwork, and saving time for our customers.

Late in the year we were able to reach a new collective agreement with our unionized employees. We are pleased to have a new agreement ending in 2014, which will allow us to focus on providing the best possible service for our customers.

Change is never easy, and we have had to make some tough decisions over the past year in order to better align the company for future success. We wish to thank our customers, employees, brokers and business partners for their continuing support, which is very much appreciated.

Paul Taylor,
Chair of the Board of Directors

Mark Blucher
Interim President and Chief Executive Officer

corporate overview

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

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

In providing our products and services, we operate as an integrated company for the benefit of our customers. We are one of BC's largest corporations and one of Canada's largest property and casualty (P&C) insurers. Our insurance products and services are available through a province-wide network of approximately 900 independent brokers, government agents and appointed agents. We process approximately 900,000 claims each year through our 24-hour, seven-days-a-week telephone claims handling facility, 38 claim centres and other claims handling facilities across the province, including Express Glass and Repair facilities, and icbc.com. We also provide driver licensing services through 119 points of service, including driver licensing centres, government agents and appointed agents throughout BC. Our head office is located in North Vancouver, BC.

In delivering our products and services, we partner with businesses and organizations in communities throughout BC. Autoplan brokers are key business partners for ICBC, distributing our insurance products and providing other services such as vehicle registration and licensing. We deliver our services in partnership with a broad base of suppliers in the automotive industry and liaison groups such as the Automotive Retailers Association. Law enforcement agencies, health services providers, lawyers, and public and community organizations are among our other key partners.

insurance products and services

Similar to other vehicle owners across Canada, motorists in BC are required by law to purchase a minimum level of Basic auto insurance. This provides private passenger and certain commercial vehicle owners with $200,000 in third-party liability protection, $150,000 for medical and rehabilitation costs, and $1 million of underinsured motorist protection. Buses, taxis, limousines, and inter-provincial trucking and transport vehicles have higher mandatory levels. BC's coverage is among the most comprehensive in the country. In addition to providing Basic auto insurance, we also offer various Optional auto insurance coverages, including extended third-party liability, collision, comprehensive, and vehicle storage. The table on the next page illustrates the full spectrum of our Basic and Optional insurance products.

Auto insurance in BC is based on a full tort system, which means that an at-fault driver or vehicle owner may be taken to court for the full amount of damages. In addition, an injured party has access to accident benefits coverage regardless of fault. This coverage includes medical and rehabilitation expenses and up to $300 per week for wage loss. In other provinces in Canada, auto insurance may be based on tort with caps, no-fault or a mixed no-fault and tort system, which means that compensation may be based on predetermined benefit schedules regardless of fault, thresholds and/or caps or deductibles on pain and suffering awards, and little or no ability to sue for further damages. These differences and different driving conditions and traffic density make inter-provincial comparisons difficult since the products, services and cost structures of each are unique.

icbc's basic and optional insurance products

basic coverage

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

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

optional coverage

Additional protection to meet customer needs:

Vehicle

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

Equipment

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

Individual and Family

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

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

We invest in road safety programs that provide a direct benefit to our customers by helping to reduce traffic-related deaths, injuries and crashes. By doing so, we help to reduce the impact of auto crashes for everyone in BC. Fewer crashes also help control claims costs, which ultimately help provide our customers the best coverage at the lowest possible price. Our road safety strategy focuses on safer drivers, safer roads and safer vehicles. We make targeted investments in education and awareness campaigns to help drivers make smart driving decisions, community-based initiatives to promote safe driving, enhanced traffic police enforcement that focuses on high-risk driving behaviours and locations, and road improvements designed to make high-crash intersections and corridors safer for drivers. We also deliver loss management programs to help reduce the impacts of auto crime, including programs that target thieves and help reduce auto crime in high-risk areas, and programs to prevent and reduce the impact of fraud on our customers.

This work cannot be done alone, which is why we partner with many individuals and organizations across the province to deliver these programs, including the Ministry of Justice, the Ministry of Transportation and Infrastructure, Service BC, local governments, the law enforcement community, brokers, driver training schools, industry associations, community groups, and the many volunteers who devote their time and energy to making BC roads safer for everyone.

non-insurance services

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

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

The driver licensing services we provide include driver testing and licensing, the administration of programs such as the Graduated Licensing Program, the regulation and oversight of the driver training industry in the province, and administration of provincial violation tickets. We also support the Office of the Superintendent of Motor Vehicles with programs relating to driver fitness, driver improvement, administrative driving prohibitions, and vehicle impoundment. The programs and services we deliver help ensure safer roads for all British Columbians.

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

report on performance

ICBC's corporate vision is to be BC's preferred auto insurer, providing protection and peace of mind. We are committed to delivering greater value to our customers by providing the best service and coverage at the lowest possible price. To maintain financial stability, we will continue to focus on prudent management of our operating costs, strategies to control claims cost pressures, a conservative investment philosophy, and the continued modernization of our systems and processes.

To achieve more efficient business processes and improved customer experience, we also need the support of our employees. We will therefore continue to focus on improving the experience of our employees, by providing them with the tools and education to help them be successful, develop leadership capabilities, and build workforce readiness for change.

We established key strategies under our corporate objectives. These represent core areas of focus for the work that is under way to achieve our corporate goal and objectives. Therefore, it is important to understand these strategies in the context of our overall vision, mission, goal and objectives.

- **Corporate Goal:** We must improve our customers' experiences and perceptions of us. We will do this by listening to, better meeting the needs of, and trusting our customers while maintaining low and stable auto insurance rates. To be successful, all of us must be empowered, engaged, and accountable for the actions we take to achieve this goal.
- **Improve Customer Perception Objective**
  Understand our customers and exceed their expectations
- **Improve Employee Experience Objective**
  Engaged, inspired, and confident leaders and employees
- **Maintain Financial Stability Objective**
  Streamlined, efficient, and cost-effective systems and processes

performance management systems

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

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

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

The following sections provide further information on our objectives and key strategies, as well as our 2012 performance results relative to the measures and targets outlined in ICBC's 2012 – 2014 Service Plan. Performance targets for 2013, as outlined in our 2013 – 2015 Service Plan, are also provided.

improve customer perception

multi-year strategy and measures: 2012 – 2014 Service Plan*

strategy	measures
understand our customers and exceed their expectations	• insurance services satisfaction • driver licensing satisfaction • claims services satisfaction

** Objectives, strategies and measures for 2013 and future years are reflected in ICBC's 2013 – 2015 Service Plan.*

Improving our customers' experience at all points of interaction is a key strategic focus, and we are working towards achieving this by understanding what is important to our customers and then consistently fulfilling those needs.

In 2012 we began a partnership with the Fix Auto network to provide 24/7 towing and repair service (via Dial-a-Claim) to customers who have a vehicle damage claim while travelling in Alberta. More than 4,800 incidents involving BC vehicles happen in Alberta each year, including crashes, auto crime and glass claims. The partnership allows us to take care of these customers immediately so they can get back on the road as quickly as possible. The service is similar to our existing partnership with Kirmac Collision to provide vehicle repair services for customers who have a claim while travelling the I-5 Corridor in Washington State.

Our Driver Licensing Offices (DLOs) introduced several service improvements in response to customer feedback. For example, driver examiners now give "Tell Me" cards to customers before their road test, asking a few questions to learn their communication preferences. The aim is to improve communication during what is usually a stressful time for customers. In addition, for the benefit of our multicultural customers, the Language Line is now available at all DLOs, providing on-demand, over-the-telephone translation service in 170 languages.

Two existing Claims services have been expanded to provide more hassle-free service. The Centralized Claims Injury Centre (CCIC) is a team of adjusters at the Dial-a-Claim call centre who provide fast-response service on bodily injury (BI) claims that meet certain criteria. The customer gets an immediate consultation with a BI adjuster over the phone, on that first call to ICBC, rather than having to wait to have their initial concerns addressed at an in-person appointment at a claim centre. During 2012 the CCIC team was expanded and took on a larger proportion of our BI claims. Also expanded in 2012 was the Express Repair program, enabling more customers to expedite the handling of their material damage claim by taking their vehicle directly to an accredited body shop for an estimate, rather than waiting for an appointment at a claim centre.

For the fourth consecutive year, several ICBC contact centres were recognized by the Service Quality Measurement (SQM) Group for their world-class service to customers and brokers. The Broker Enquiry Unit, Driver Testing and Vehicle Information, and Dial-a-Claim call centres all received SQM Call Centre World Class Call Certification. Those teams, along with the Customer Service and Victoria Customer Contact units, also won the Highest Customer Satisfaction by Industry Award (Union), and 22 ICBC contact centre employees received individual recognition. SQM bases the awards on annual surveys of customers from about 450 leading North American companies.

We know that it's important to our customers that we protect their personal information, and it's a responsibility we take seriously. Our Privacy and Freedom of Information team completed a comprehensive review of our privacy framework to ensure we have the proper controls in place to protect our customers' privacy. The enhanced framework also addresses several recommendations made by the provincial Privacy Commissioner. To reinforce these controls, all ICBC employees and contractors completed a mandatory annual tutorial on our Information Security and Privacy practices and responsibilities. In addition, as part of our commitment to improve the reliability of our customer information, we revised more than 230,000 customer addresses in our master database to align with Canada Post standards. Not only will this save mailing costs by cutting down on returned mail, it will help ensure customers receive ICBC information, notices and reminders in a timely manner.

Renewed in 2012 for another eight years, the Broker Strategic Accord acknowledges the key role played by our broker partners in helping us improve the customer experience. The Accord — involving brokers in approximately 900 locations across the province — is a commitment by ICBC, the Insurance Broker Association of BC and the Credit Union Insurance Services Association to work towards mutual goals. These include committing to respond to changing customer expectations, and providing customers with the best service at the lowest possible price.

The Transformation Program — our continuing work to modernize and streamline systems and processes — achieved several milestones, including the successful start-up of a new premium rating engine. This system handles the complexities of calculating customers' insurance premiums, allowing us to respond more quickly to customers' changing needs while giving us greater flexibility and control over how we implement insurance rules and rates. Progress also continued toward the planned 2013 implementation of a new Claims system which will reduce manual processes, eliminate most paper files, and enable process efficiencies that will benefit our customers.

ICBC conducted a province-wide public engagement to gather input on potential changes to how we set premiums for Basic vehicle insurance coverage. ICBC will take this feedback into consideration when the timing and next steps of any potential changes have been determined.

performance measures, targets and results:

We measure customer service performance based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, claims service and driver licensing.

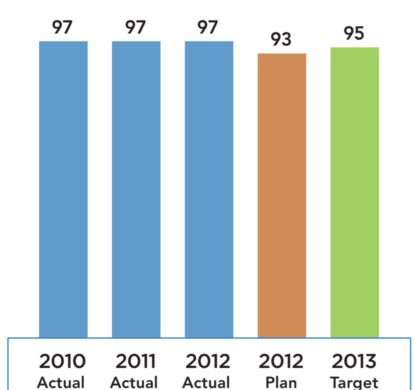
The design of our measures and targets reflects the inherent differences of these key transactions. An independent research firm conducts ongoing customer surveys throughout the year to monitor transactional satisfaction.

insurance services satisfaction

Independent insurance brokers process more than three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with their recent ICBC insurance transaction, and is based on surveys of approximately 5,000 customers over the course of the year.

This measure is typically higher than 90% and indicates the positive relationship ICBC and its brokers enjoy with customers. The 2012 plan was set to reflect our aim to maintain a high level of customer satisfaction with a slightly lower result than prior years at 93% due to anticipated business changes. The 2012 result was 97%, which exceeded the plan and is consistent with the results from prior years. For 2013, the target has been set to reflect our aim of maintaining a high level of customer satisfaction at 95%.

insurance services satisfaction (%) (higher is better)



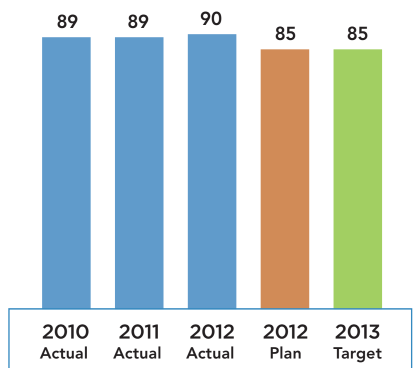
source: surveys conducted by independent firm

claims services satisfaction

In 2012, approximately 900,000 claims were processed through ICBC's Dial-a-Claim, claim centres and specialty departments such as, but not limited to, commercial claims and rehabilitation services. The claims services satisfaction measure represents the percentage of customers satisfied with their recent ICBC claims transaction and is drawn from a sample of more than 20,000 customers surveyed throughout the year.

The 2012 plan was set at 85%, slightly lower than prior years due to anticipated business changes. Claims services satisfaction was 90% in 2012, which exceeded the plan and was higher than the prior years' results. For 2013, we expect that customer satisfaction will be impacted as we implement a new claims management system and associated changes to business processes. As a result, the target of 85% has been set to reflect these expected changes.

claims services satisfaction (%)
(higher is better)



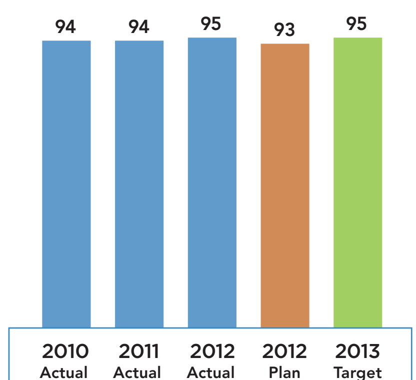
source: surveys conducted by independent firm

driver licensing satisfaction

ICBC conducts approximately 1.5 million transactions related to the issuance of driver licences and driver exams each year. The driver licensing satisfaction measure represents the percentage of customers satisfied with a recent driver licensing transaction with ICBC, such as issuing or renewing a licence, taking a knowledge test, or undergoing a road test. This measure is drawn from a sample of over 5,000 customers surveyed throughout the year.

The 2012 plan of 93% was set consistent with historic norms. The 2012 results for driver licensing satisfaction, at 95%, exceeded the plan and was higher than prior years' results, which are typically over 90%. For 2013, the target has been set at 95%, which is consistent with historical trends.

driver licensing satisfaction (%)
(higher is better)



source: surveys conducted by independent firm

improve employee experience

multi-year strategy and measures: 2012 – 2014 Service Plan*

strategy	measures
engaged, inspired and confident leaders and employees	• employee engagement index

* *Objectives, strategies and measures for 2013 and future years are reflected in ICBC's 2013 – 2015 Service Plan.*

Aligned, enabled and motivated employees are critical to the achievement of our corporate strategy, and improving the employee experience continues to be a core priority.

We track employee engagement through an annual employee survey. Participation in the 2012 survey, and the resulting index score, was lower than in previous years. ICBC is undergoing significant change as we continue to modernize the company. It's important that we remain committed to our long-term strategy of increasing employee involvement in business priorities, improving how we manage change, investing in employee development, improving recognition, and listening more.

The new collective agreement, expiring in 2014, and ratified by ICBC and its unionized employees includes a wage increase consistent with other recent BC public sector agreements. It also includes provisions for the implementation of a new job hierarchy in Claims, a key foundational element for the new Claims system that is to begin implementation in 2013. With the agreement in place, we can focus all of our efforts on providing excellent customer service, managing costs and keeping rates as low as possible.

For the second consecutive year, ICBC was named to the "BC's Top Employers" list, which recognizes BC companies that lead their industries in offering exceptional places to work, based on a range of criteria such as health benefits, financial and family benefits, training and skills development, community involvement, and employee communications. This recognition is an outside validation that we are headed in the right direction in our efforts to make ICBC an even better place to work.

Our Employee Wellness team in 2012 launched several initiatives supporting and encouraging employees to take ownership for healthier lifestyles. More than 500 employees participated in the "Don't Sit, Get Fit Challenge," a month-long inter-office team wellness competition focused on exercise, healthy eating and stress reduction. Wellness information and promotions are communicated regularly through ICBC's employee intranet under the Healthy by Choice banner. The company has also supported environmental initiatives — such as the Commuter Challenge and Bike to Work Week — which promote healthier alternatives for the daily commute.

Online learning is growing rapidly as a convenient and cost-effective option for employee development, in addition to traditional in-class training. In 2012 the menu of free online Skillsoft courses was updated and refreshed based on employee feedback. This increasingly popular online learning platform offers employees access to 100 free eLearning courses, on a variety of subjects ranging from computer training to customer service and interpersonal skills, all accessible from work or home.

The increasing use of online communication and training tools such as web meetings, high-resolution video and virtual classrooms presents a logistical challenge in the demand for ever-greater network capacity. In 2012 ICBC implemented new hardware, known as Wide-Area Application Services, which enables more efficient use of our existing bandwidth. The result is greatly enhanced capacity without having to acquire more bandwidth. This network optimization facilitates improved collaboration and communication across ICBC while helping to manage network operating costs.

ICBC's commitment to diversity and inclusion was strengthened with the launch of a dedicated intranet site. Packed with statistics, information resources, links and stories, the site is intended to help foster a culture of diversity and inclusion, both in the workplace and in our interactions with our increasingly diverse customer base.

ICBC employees have long been known for their active involvement in the communities where we live and work. Among other 2012 initiatives, more than 70 employees and family members from across the province participated in the annual Ride to Conquer Cancer®, raising more than $220,000 for the BC Cancer Foundation. ICBC and its employees are also major supporters of the annual United Way campaign. Through the Giving Back to Communities program, ICBC recognizes and supports employees who volunteer or raise funds for charities in their community.

performance measures, targets and results:

employee engagement

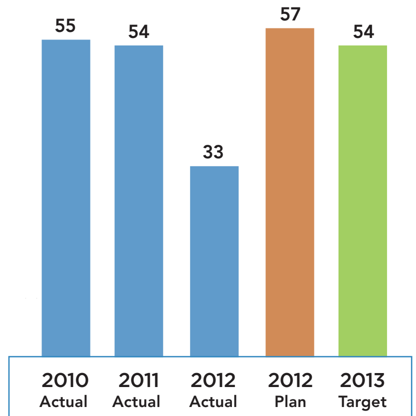
This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the company to co-workers, potential employees, and customers; the level of desire they have to be a member of the company; and the degree of extra effort and dedication they are willing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

ICBC's corporate strategy involves the successful renewal of several major business systems and processes, and expanded organizational capabilities, to support improved customer experience. Improving our systems and making these changes requires the implementation of new organization design, along with new working environments, roles and skills for employees. All of this is supported by a workplace that inspires our people, holds them accountable, and provides them with the necessary tools, training and development to deliver to their potential.

All full-time employees were invited to take part in the 2012 Employee Opinion Survey in November. The participation rate declined from 76% in 2011 to 65%, and the 2012 engagement score, at 33%, was well short of our plan of 57%. Although disappointing, these results were not unexpected given the timing — immediately after a long collective bargaining process, and during a company-wide restructuring where ultimately we reduced our organization by over 250 positions. Although we are in a period of significant change as we continue the modernization of our systems, structures and processes, we remain committed to significantly improving our engagement score over the next few years.

For 2013, the engagement target has been set at 54%. We will continue to experience major change, particularly with the planned implementation of new claims management business processes and a new claims system. An outcome of the new organization design will be clearer accountability and increased decision-making speed for employees, along with a more defined career path. To strengthen workforce capability, there is significant orientation planned to provide our employees with the skills and learning necessary for a successful transition to the new work environment. We will also continue to share updates to our corporate strategy and plans with employees, and continue to involve managers and employees in the development of business priorities. This will be accomplished by listening and communicating effectively, and providing managers with better tools, training and resources to support their role as leaders in the company.

employee engagement index (%)
(higher is better)



source: surveys conducted by independent firm

maintain financial stability

multi-year strategy and measures: 2012 – 2014 Service Plan*

strategy	measures
streamlined, efficient, and cost-effective systems and processes	• minimum capital test • combined ratio • loss ratio • expense ratio • investment return

* *Objectives, strategies and measures for 2013 and future years are reflected in ICBC's 2013 – 2015 Service Plan.*

ICBC is committed to providing our customers with the best insurance coverage at the lowest possible price. Over the last several years, policyholders have benefited from our strong financial performance. Basic rates were unchanged in 2008, 2009 and 2011, and reduced by 2.4% in 2010. However, due to increasing bodily injury costs and lower investment returns, ICBC filed and was approved for an increase of 11.2% to Basic insurance effective February 1, 2012 by BCUC.

Optional rates have decreased on average by approximately 3% in the last five years and were reduced effective February 1, 2012 by an average of 6% which moderated the impact of the Basic rate increase for the majority of customers. Overall, for approximately 80% of ICBC's personal insurance customers, the average rate increase amounted to only 2.1%, or $27. Over the past decade, our combined rates have increased, for all customers who buy optional coverage from us, by 0.4% per year which is well below the rate of inflation.

Claims costs comprise the majority of the costs incurred by ICBC, with approximately 86 cents of every premium dollar collected going to pay claims and claims related costs. The most significant cost pressure continues to be the rising cost of bodily injury (BI) claims. BI costs are a major challenge for the entire auto insurance industry, particularly due to the increase in average cost of claims (severity) over the past several years. In BC and other North American jurisdictions, the once declining frequency trend has been flattening and is no longer offsetting the increases in severity.

ICBC is taking action to reduce the growth in BI claims costs by developing and implementing BI initiatives (such as centralizing the review and control of taxable costs and disbursements and improving file resolution processes) and through continued road safety programs.

In the past, our investment income has been strong and helped to offset increases in claims costs. However, our investment return has been impacted by interest rates that are at historically low levels, and by volatility in worldwide economic and capital markets. Our investments earned $443 million in 2012, a modest increase over the previous year's results. We continue to manage our investment portfolio carefully. However in the future, with interest rates expected to remain low, we cannot rely upon investment income to the same extent we did in the past.

Overall, our operating expenses remain low compared to others in the industry. While operating costs represent a small percentage of our total costs, it is nevertheless an area that can be managed. We have aggressively reduced costs by implementing the recommendations of the 2012 Government Review which resulted in: lowering staffing levels to 2008 levels by reducing senior management positions, decreasing discretionary spending and tightening our procurement practices, reducing non-essential project work, initiating zero-based budgets, and centralizing support functions and shared services. These measures, along with a heightened focus on cost efficiencies throughout the company, resulted in significant savings of $50 million compared to 2011 plan.

To address claims cost increases, we've taken a number of steps such as making claims processes more streamlined, looking after claimants' needs earlier in the process, and taking a more disciplined approach to litigated files. While we look for ways to better manage these costs, we aim to continue to renew our aging technology, systems and processes in order to improve efficiencies and provide greater value to our customers.

ICBC works with police and community partners on a variety of programs and initiatives to reduce crashes and auto crime. Our annual distracted driving public awareness campaign during summer 2012 enforced the message that texting or talking on a hand-held mobile device while driving greatly increases the risk of a crash. In this year's campaign we offered free downloadable ringtones designed to remind drivers to leave their mobile devices alone and stay focused on the road. In total, ICBC invested approximately $56 million in road safety and loss management initiatives in 2012. Independent studies have consistently shown that these initiatives result in reduced crashes, injuries and fatalities.

performance measures, targets and results:

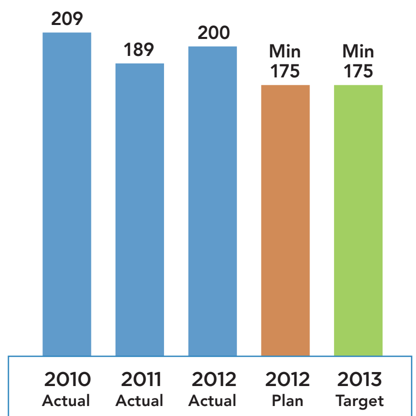
minimum capital test

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

Pursuant to a legislative change effective April 2010, ICBC transfers to the Government of BC on an annual basis Optional capital in excess of the Optional MCT, less a deduction for the remaining Transformation Program (TP) reserve as approved by the Treasury Board. The Optional MCT calculation is reviewed by our actuaries in accordance with federal regulatory guidance, and validated by an independent actuary. For 2012, there was direction from the Government to transfer the excess Optional capital of $373 million to the Basic business in order to rebuild Basic capital.

The minimum management corporate MCT target is set at 175%. Our 2012 MCT was 200% (see note 20 to the accompanying Consolidated Financial Statements) is higher than the minimum target of 175% because it includes capital which is reserved to fund the TP. 2012 MCT excluding a reserve for TP is still higher than the minimum target of 175%. Net income increases the amount of total equity held by us, thereby increasing available capital, and payments to the Province reduce total equity. 2012 MCT is higher than 2011 due to a net income growth, an increase in other components of equity resulting from higher unrealized gains on available for sale securities and there was not an excess Optional capital transfer to the Province of BC in 2012.

minimum capital test (%)
(higher is better)



source: ICBC financial systems

combined ratio

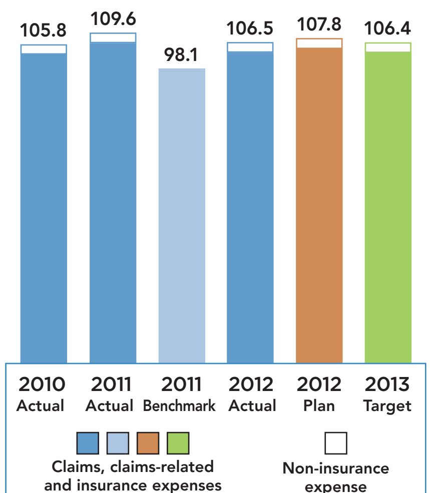
The combined ratio is a key measure within the insurance industry for overall profitability and is the ratio of all costs to premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e., premiums are sufficient to cover costs) while a ratio above 100% indicates an underwriting loss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

Our combined ratio is higher than typical for the P&C industry and reflects the unique nature of our business model. Our premiums are not set to generate large underwriting profits, but together with investment income are set to recover all costs and achieve and maintain capital targets. We deliver non-insurance services on behalf of government and in 2012, non-insurance costs represented approximately three percentage points of the combined ratio.

The 2012 plan of 107.8% was set based on current expectations regarding claims cost trends and operating costs. The 2012 results are better than plan mainly due to higher premiums earned, favourable prior years' claims adjustments and operating cost savings. This is partially offset by higher injury claims costs and restructuring costs. The 2012 combined ratio, including non-insurance services, is better than 2011 primarily due to higher premiums earned, favourable prior years' claims adjustments and favourable deferred premium acquisition cost (DPAC) adjustment. The P&C 2011 industry benchmark was 98.1%.[1]

The combined ratio target for 2013 reflects current expectations regarding claims cost trends and operating costs. Operating costs reflect the implementation of recommendations from the Government Review while at the same time, account for our investment in business renewal and replacement of aging technology.

combined ratio (%)
(lower is better)



source: ICBC financial systems

[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2012. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund (SAF)). 2012 data not currently available.*

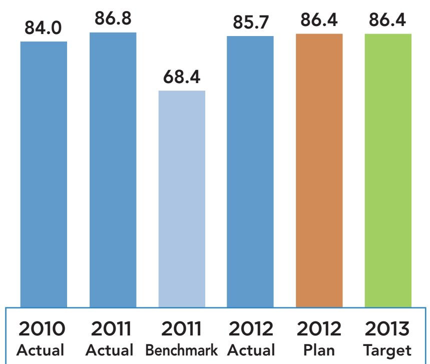
loss ratio

A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability. This measure is the ratio of the total of claims and claims-related costs (claims services, road safety and loss management costs) but excludes administrative and acquisition costs, to insurance premium dollars earned. From a customer perspective, the higher loss ratio means more of each premium dollar collected is used for claims costs.

Consistent with the combined ratio, our loss ratio is typically higher than the P&C industry, because our premiums are only set to recover costs and to achieve and maintain capital targets and do not build in as large a profit margin as the P&C industry. We use our investment income to offset rates for our customers, thereby allowing rates to be lower than they would be if we had to generate an underwriting profit as private insurers do. As reflected in the expense ratio, we have lower relative operating costs and can pay more of each premium dollar towards claims and related costs. This results in a higher loss ratio. In addition, we are mandated to provide Basic insurance to all drivers in BC, including the category of high-risk drivers whose claims costs are proportionately higher. This results in a higher loss ratio for us relative to those insurers who may limit their exposure to such business.

The 2012 plan of 86.4% was consistent with 2011 results reflecting current expectations regarding claims costs trends and claims-related costs. In 2012, ICBC's loss ratio was 85.7%, lower than the plan ratio primarily due to higher premiums earned and favourable prior years' claims adjustments which are partially offset by higher injury claims costs. The 2011 P&C industry benchmark was 68.4%.[2] The 2013 target is higher than 2012 reflecting current expectations of continuing higher bodily injury claims costs trends and claims-related costs.

loss ratio (%)
(lower is better)



source: ICBC financial systems

[2] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2012. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2012 data not currently available.

expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization and is the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are directly related to selling insurance such as general administration, commissions paid to brokers, taxes paid to government on premiums, product design (underwriting), and non-insurance costs such as those associated with driver licensing and vehicle registration.

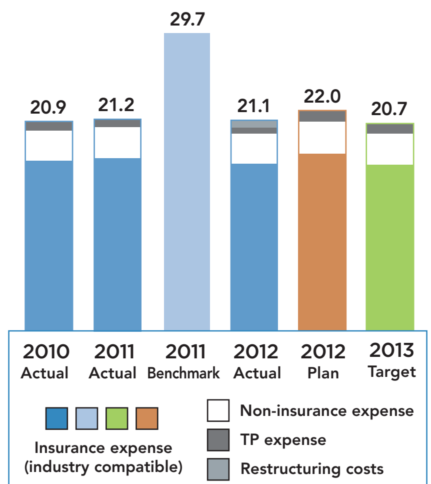
Our expense ratio consists of three key components: the insurance expense ratio, the Transformation Program (TP) expense ratio, and the non-insurance expense ratio. We incur costs for non-insurance expenses such as driver licensing, vehicle registration and licensing, and government fines collection that other insurance companies do not incur. Segregating expenses in this manner allows us to better manage the costs of operating our insurance and non-insurance businesses, and to separately reflect the impact on this ratio of our investment in the business through the Transformation Program. In 2012, there is $25 million in non-recurring, restructuring costs related to staff reductions and the impact of this provision is 0.7% of the expense ratio.

The 2012 plan of 22.0% reflected higher operating costs due to reinvestment in our business through renewing our aging technology and the depreciation associated with capital expenditures from prior years. Despite having to absorb the restructuring costs, the 2012 expense ratio of 21.1% is lower than plan due to our determined efforts to address operating cost control, to reduce staffing levels, and to manage discretionary spending. The expense ratio for 2012 is consistent with 2011 mainly due to lower operating cost spending and higher premiums earned offset by restructuring costs.

Our expense ratio which, unlike the insurance industry, includes non-insurance costs, is still considerably lower than the 2011 P&C industry benchmark of 29.7%[2]. For insurers who predominantly write auto insurance, the ratio is approximately 28.2%[3]. Our expense ratio is lower than industry due to our ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition and general administration costs.

The 2013 target for our expense ratio reflects ICBC's implementation of the recommendations of the Government Review to control and reduce operating costs, although there will be higher depreciation associated with prior years' capital expenditures. We strive to manage and control the increase in operating costs within the rates of inflation.

expense ratio (%)
(lower is better)



source: ICBC financial systems

[2] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2012. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2012 data not currently available.*

[3] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2012. Total Canadian Auto Writers Industry (excluding ICBC and SAF). 2012 data not currently available.*

investment return

ICBC manages an investment portfolio with a carrying value of $12.3 billion at the end of 2012. The portfolio is conservatively invested with the majority of assets held in investment grade bonds. These assets are held primarily to provide for future claims payments, unearned premiums, and retained earnings. The income earned on these investments also helps to reduce the amount of premiums paid by policyholders.

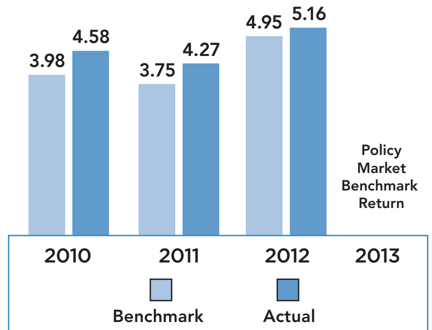
Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy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

Investment returns over the last four years have benefited from the rebound in equity markets, as equity assets have outperformed ICBC's fixed income investments.

ICBC's investment returns continue to compare favourably to market returns. The 2013 – 2015 investment portfolio performance targets are set at the policy market benchmark return, net of investment management expenses. For performance measurement purposes, ICBC does not forecast the policy market benchmark return as it is the result of market forces beyond the company's control.

For 2012, ICBC's four year annualized return was 5.16% and the comparable policy market benchmark was 4.95%[4]. In comparison, for 2011, ICBC's four year annualized return was 4.27%, or a 0.52% higher return compared to the market benchmark.

investment return (%)
(four year annualized)
(higher is better)



source: return calculated by independent firm[4]

[4] *Sources: DEX Debt Market Indices; S&P TSX Composite Capped Index; Morgan Stanley Capital International (MSCI) EAFE Index; S&P 500; Customized REAL/pac IPD Canadian Property Index; (REAL/pac IPD = Real Property Association of Canada Investment Property Databank)*

summary of objectives and performance

The table below provides an overview of ICBC's historical performance as well as the 2013 to 2015 target performance. The results reported below are based on the objectives, strategies and measures outlined in the 2012 – 2014 Service Plan tabled in February 2012. The forecast of financial results for the next three years are as set out in ICBC's 2013 – 2015 Service Plan.

Objective	Strategy	Measures	Actual 2010	Actual 2011	Plan 2012	Actual 2012	Target 2013	Target 2014	Target 2015
improve customer perception	Understand our customers and exceed their expectations	insurance services satisfaction	97%	97%	93%	97%	95%	95%	95%
		claims services satisfaction	89%	89%	85%	90%	85%	85%	85%
		driver licensing satisfaction	94%	94%	93%	95%	95%	95%	95%
improve employee experience	Engaged, inspired, and confident leaders and employees	employee engagement index	55%	54%	57%	33%	54%	n/a	n/a
maintain financial stability	Streamlined, efficient, and cost-effective systems and processes	minimum capital test[1]	209%	189%	Min 175%	200%	Min 175%	Min 175%	Min 175%
		combined ratio							
		• claims costs, claims-related expenses, and insurance expenses	102.8%	106.5%	104.6%	103.4%	103.3%	104.8%	105.1%
		• non-insurance expenses	3.0%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%
		total	105.8%	109.6%	107.8%	106.5%	106.4%	107.9%	108.2%
		loss ratio	84.0%	86.8%	86.4%	85.7%	86.4%	87.6%	88.3%
		expense ratio							
		• insurance expense ratio (excludes DPAC)	17.0%	17.3%	17.7%	16.7%	16.6%	16.3%	16.1%
		• transformation program expense ratio	0.9%	0.8%	1.1%	0.6%	1.0%	1.2%	1.1%
		• non-insurance expense ratio	3.0%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%
			20.9%	21.2%	22.0%	20.4%	20.7%	20.6%	20.3%
		non-recurring expenses							
		• restructuring costs expense ratio	n/a	n/a	n/a	0.7%	n/a	n/a	n/a
		total expense ratio	20.9%	21.2%	22.0%	21.1%	20.7%	20.6%	20.3%
		investment return							
		• ICBC portfolio	4.58%	4.27%	Policy Market Benchmark Return	5.16%	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return
		• policy benchmark	3.98%	3.75%		4.95%			
		excess	0.60%	0.52%		0.21%			

[1] *Pursuant to legislative change effective April 2010, ICBC transferred its excess Optional capital to the Government of BC in 2010 and 2011.*

business risks and risk management

Consistent with good governance and insurance sector practices, we manage risk from an organization-wide perspective. Our Corporate Risk Management Framework is approved by our Board of Directors and defines our approach towards effective assessment and management of significant corporate risks. The framework considers both external and internal environments, and risks and challenges associated with each. The objective is to identify risks, raise awareness of those risks throughout the company, and initiate further action to mitigate significant risks.

For 2012, we have organized our strategic risks using our framework of corporate objectives:

improve customer perception

- **Customer Experience:** The risk that ICBC does not improve customers' experience if we do not maintain the lowest possible auto insurance rates and deliver excellent service in areas that matter most to them. Customers have expectations around fair pricing, choice in how they interact with us, convenience in services that save them time and the way they are treated including service.

  By 2012, over 4,000 ICBC employees participated in the Customer Experience Learning program that provided learning to improve customers' experiences. We also continued our focus on external communications through an integrated marketing and advertising campaign that answered customers' questions and addressed key business issues via radio tags, online/social and multicultural campaigns aimed at demystifying our perception to key multi-cultural groups in British Columbia. In response to our shareholder's request, in 2012 we completed the extensive public consultation and engagement process for Basic insurance pricing which gave our customers the opportunity to provide input on possible improvements to the way we set premiums. We are working on providing customers with more channel choice including a secure online channel where customers can have easy access to relevant information and will be able to complete common transactions at their own convenience. As well, we are creating a single source of customer information that will enable our employees to better understand and serve our customer needs.

- **Stakeholder Management:** There is a risk that key stakeholders may not be aligned to work with us to achieve our strategy and business model. The stakeholder engagement functions were realigned in 2012 to support the corporate stakeholder engagement strategy and provide a consistent, centralized approach to develop and enhance our relationships with stakeholders. Strong collaborative relationships with our brokers, claims partners, road safety and driver licensing stakeholders are vital to ICBC's ability to achieve our business objectives and therefore engagement plans are reviewed and tracked to identify risks and issues that could impact our customers' experience. The Strategic Broker Accord (renewed in 2012 up until 2020) and Broker Customer Experience Award allows ICBC to recognize brokers' performance and contributions to customer experience. We continue to be committed to having a strong relationship with the Minister responsible for ICBC and staff in government ministries and agencies, to maintain collaborative relationships, and ensure ICBC has alignment to government priorities.

improve employee experience

- **Workforce Planning:** There is a risk that we may not be able to deliver our core business or change initiatives due to alignment, capability, capacity and readiness of our leaders and employees. As we are undergoing business renewal efforts over the next 2 to 5 years, we are also actively managing workforce capacity and readiness of our leaders and employees to support delivery of our core business and change initiatives. Our business renewal efforts will improve our business processes so that it is easier for our employees to continue to meet customers' needs. In 2012, we continued to communicate the future state business model and provided further detailed information to our staff regarding workforce transition. A Collective Bargaining Agreement covering the period July 1, 2010 to June 30, 2014 was reached with the Union in December 2012, providing a workforce ready to serve ICBC's customers and deliver on the implementation of the Transformation Program. As part of cost reduction and control initiatives, we restructured executive and management responsibilities, reducing certain staff functions and increasing span of control for some managers.

We continued to develop initiatives within the long-term plan to shape our workforce and culture to align with the company's new business model. We have adopted a five-point employee engagement strategy to improve employee experience while at the same time preparing employees for the impact and change arising from the Transformation Program.

maintain financial stability

- **Bodily Injury Claims Costs:** There is a risk that insurance rates increase at a rate that is unacceptable to customers due to bodily injury claims costs rising at a rate greater than the long-term trend. In recent years, bodily injury frequency is no longer reducing to offset higher claims costs. The frequency of bodily injury claims has been flattening while costs are continuing to increase. This, combined with the continuing shift in the mix of bodily injury claims to a higher proportion of represented claims resulted in a rate increase which took effect in 2012. ICBC has a multi-pronged strategy to deal with the complexities and challenges associated with bodily injury cost increases. This encompasses improvements to claims handling tactics and strategies to reduce bodily injury severities and litigation costs. Our customer initiatives are focused on transitioning from being procedure based to more customer needs based in order to improve customers' experiences and trust in the claims process. In 2013, we will modernize our claims systems and tools, and improve processes and procedures for employees, so that we can better meet our customers' expectations of a hassle-free claims experience.

  In 2012, we continued to focus on proactive strategies to reduce crashes. These include public awareness campaigns on high-risk driving and road safety initiatives to reduce the proportion of crashes that result in injury. We are strengthening our data analytics to prevent and detect insurance fraud that can contribute to increased costs for all of our customers. Our priority is to ensure that we keep auto insurance rates as low as possible for our customers by managing the growth in bodily injury costs and reducing our operating costs to the extent they do not contribute to any Basic rate increase.

- **Financial Markets:** Like all insurers, we hold investment assets to provide for unpaid claims costs, unearned premiums, and retained earnings. Earnings from these investments contribute to net income. There is a risk that the market value of investments and/or investment income is negatively impacted by adverse changes in market credit or liquidity conditions, equity prices, interest rates or, currency. To address this risk ICBC holds the majority of its investments in high quality bonds. Consequently, ICBC's investment income in 2012 continued to be negatively impacted by the ongoing low level of interest rates.

  ICBC's investment policy which is established by the Investment Committee and approved by the Board of Directors, provides the framework for balancing the levels of risks and returns in ICBC's investment portfolio by addressing our risk tolerance and investment goals, and specifying a long-term investment asset mix and fixed income duration consistent with our objectives. ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations and a short-term bond mandate, closely matched to duration in its liabilities, to reduce overall interest rate risk.

  In addition to the above, our risk management process identified additional potential corporate level risks that are actively monitored and mitigated. These risks and their mitigation strategies are discussed below.

other significant corporate risks

- **Business Renewal:** There is a risk that we do not deliver on the core capabilities of our business strategy underway due to the size, complexity and inter-dependency of business renewal activities (the Transformation Program and other large corporate projects and initiatives) with other corporate risks, in particular technology and competing priorities. The Transformation Program has a comprehensive governance model with strong ownership from the business to foster corporate commitment and a strict approval process that provides oversight on scope, timelines, and budget. ICBC's internal and external oversight bodies (i.e. Board of Directors, Executive Committee, a third-party independent risk advisor to the Board) ensure decisions align to corporate strategy to support the business transformation underway and other corporate projects (including government mandated projects such as the BC Services Card). Our robust interdependency management process ensures changes to ICBC's systems and businesses are carefully coordinated to consider the impact on customers and stakeholders, as well as to provide adequate and timely training to employees on new systems so that customer service is not impacted.

- **Technology Risk:** There is a risk that information technology solutions and services required to support the changing business environment cannot be delivered in a timely and cost-effective manner, due to insufficient skilled resources, ineffective delivery processes, or unforeseen technology limitations. We have mitigated this risk through the use of proven methods, tools, experienced technology partners and have been successful in delivering technology solutions within the expected timeframe (i.e. principle of acquiring configurable, commercial off-the-shelf technology rather than custom building solutions). We have established strategies to manage the workforce transition into the new environment which includes training, knowledge transfer, recruitment and resource planning. We have strengthened technology alignment governance to ensure that decisions made today regarding ICBC's technology and solutions will meet current business needs but also position ICBC for the future.

- **Access to Systems and Privacy Risk:** There is a risk that system-dependent operations could be intentionally or accidentally compromised due to unauthorized access to and/or inappropriate use of ICBC's systems/data. As part of the enterprise-wide Information Technology Security Program, we use a combination of directive, preventative, deterrent and detective controls involving people, process and technology to manage access to systems and data by employees as well as certain business partners (e.g. brokers) and other third parties (e.g. government ministries). Security requirements, including the ability to control access, are considered in the acquisition and implementation of any new software packages. The new claims system, to be implemented in 2013, has been designed to strengthen segregation of information available to staff to reduce the breadth and depth of access to customer information.

  An annual review of ICBC's Code of Ethics and Information Security and Privacy tutorial is mandatory for all employees and contractors to understand ICBC's expectation in terms of protecting customer and corporate data.

- **Business Interruption:** There is a risk that the operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from workforce, physical and/or technical events. This risk is managed through three related programs: Emergency Response Program (employee safety, building evacuations), Business Continuity planning (continued essential customer services during interruption) and Information Technology Disaster Recovery planning (our offsite data centre). Our offsite data centre provides a secure and stable environment for our Information Systems and corporate data. Critical systems and applications are replicated at a second site so that they are ready in the unlikely event of disaster at the primary site. We conduct annual tests on components of the plans and make improvements as needed to ensure a successful recovery program.

- **Catastrophic Loss:** There is a risk that our capital strength could be eroded in the event of a major disaster. In the event of losses resulting from catastrophes such as an earthquake, we have financial protection through a reinsurance program that is reviewed and renewed annually by the Board of Directors. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits in any given year. In addition, the reinsurance program protects ICBC against abnormally large claims losses by limiting the amount for which it is liable in any single event and in any given year.

- **Competition:** There is a risk that we lose capital strength or profitable market share due to changes in the competitive landscape. Insurance is a complex business affected by external trends, risks, and other factors that can present both significant opportunities and risks for the company. Changing conditions in the Optional insurance market and past profitability in the Canadian P&C insurance industry create a potential for increased competition. The competitive environment continues to evolve as insurers are encouraged to strengthen their capital positions in light of recent economic events. We made changes to our technology in 2012 to give us the technical ability to respond to market changes more quickly, including price changes, in a more risk-based manner so we can deliver the lowest possible auto insurance rates. In addition, we are working with technology providers to develop a new modern and flexible Insurance Sales & Administration System that will provide product and distribution capability in order to respond more quickly to market changes so we can deliver excellent service in areas that matter most to our customers.

management's discussion and analysis

summary financial performance and forecast

The table below provides an overview of ICBC's 2012 financial performance relative to its 2012 – 2014 Service Plan and a forecast of financial results for the next three years as set out in ICBC's 2013 – 2015 Service Plan. These results and forecasts form the basis upon which key performance targets are set.

($ millions)	2011 Actual	Prior Year Variance	2012 Actual	Plan Variance	2012 Plan	2013 Forecast	2014 Forecast	2015 Forecast
Premiums earned	3,673	138	3,811	45	3,766	3,969	4,093	4,170
Service fees	51	3	54	3	51	53	52	52
Total earned revenues	**3,724**	141	**3,865**	48	**3,817**	**4,022**	**4,145**	**4,222**
Provision for claims occurring in the current year	2,880	(142)	3,022	(101)	2,921	3,099	3,254	3,364
Change in estimates for losses occurring in prior years	(14)	55	(69)	76	7	(3)	(3)	(4)
Net claims incurred	**2,866**	(87)	**2,953**	(25)	**2,928**	**3,096**	**3,251**	**3,360**
Claims service and loss management[1]	320	7	313	14	327	324	322	312
Insurance operations expenses[1]	177	14	163	31	194	167	170	173
Transformation Program[1]	32	7	25	17	42	41	50	44
Premium taxes and commissions[1, 2]	517	54	463	(14)	449	456	483	480
Total expenses	**3,912**	(5)	**3,917**	23	**3,940**	**4,084**	**4,276**	**4,369**
Underwriting loss	**(188)**	136	**(52)**	71	**(123)**	**(62)**	**(131)**	**(147)**
Investment income	441	2	443	53	390	457	494	495
Restructuring costs[1]	–	(25)	25	(25)	–	–	–	–
Increase in pension and post-retirement benefits[3]	–	–	–	–	–	19	19	19
Income – insurance operations	**253**	113	**366**	99	**267**	**376**	**344**	**329**
Non-insurance operations expenses[1]	87	(2)	89	5	94	91	93	94
Non-insurance commissions[1]	26	(2)	28	(1)	27	28	29	30
Net income	**140**	109	**249**	103	**146**	**257**	**222**	**205**
Excess Optional capital transfer to the Province of British Columbia	101		–		181	226	176	137
Long-term debt	Nil		Nil		Nil	Nil	Nil	Nil
Capital Expenditures								
Transformation Program	35		56		71	53	37	23
Non-Transformation Program	51		18		30	20	31	36
Total Capital Expenditures	86		74		101	73	68	59

[1] *See Note 16 to audited financial statements for detail of Operating Costs by Nature.*
[2] *Premium taxes and commissions include deferred premium acquisition cost adjustments.*
[3] *Increase primarily due to IAS 19 amendment and lower discount rate partially offset by changes in assumptions.*

Our 2012 net income of $249 million was $109 million higher than the 2011 net income of $140 million. This increase is primarily due to higher premiums earned, favourable deferred premium acquisition costs, positive prior years' claims adjustments and operating cost savings which more than offset higher current year claims and restructuring costs. The variances have been summarized in the table on the previous page.

premiums

Total premiums earned increased to $3,811 million from $3,673 million in 2011. In 2012, as compared to 2011, the number of policies sold increased by nearly 49,000 or 1.4% and sales of Optional insurance coverages also increased. In addition to these increased sales of policies and coverages were the higher average rate of premiums resulting from the Basic rate increase of 11.2% offset by the average Optional rate decrease of 6% effective February 1, 2012.

service fees

Service fees are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over a period of six or 12 months. In 2012, service fees increased by $3 million from 2011 mainly due to higher premiums written.

claims costs

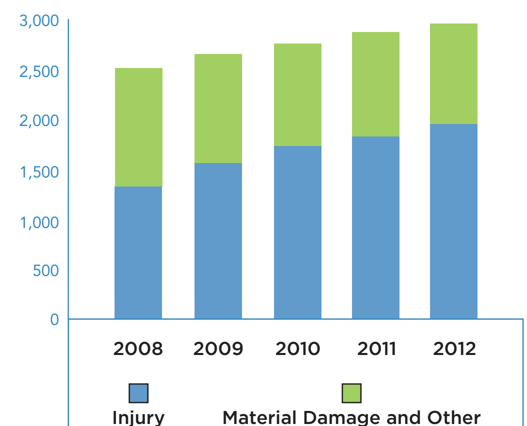
Claims incurred costs account for approximately three-quarters of our total expenditures. They are comprised of the expected costs to settle claims for all crashes that have occurred during the calendar year, regardless of when the crash is reported to us and the change in estimates for losses occurring in prior years.

Claims incurred costs are comprised of payments made to settle claims, case adjusters' reserves, actuarial estimate of the additional costs that will be paid out on known claims and actuarial estimates of costs of 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. Frequency is influenced by factors that include driving behaviour, driving experience, weather, and the effectiveness of road safety and loss management programs. The average cost of claims is influenced by factors that include settlement awards, legal fees, medical inflation, vehicle parts/repair inflation, and independent adjusting costs.

Overall 2012 net claims incurred costs of $2,953 million were higher by $87 million compared to 2011. This is driven by current year claims costs increasing by $142 million compared to 2011, partially offset by a more favourable adjustment of $55 million to the estimation of prior years' claim costs.

net claims incurred costs
($ millions)



source: ICBC financial systems

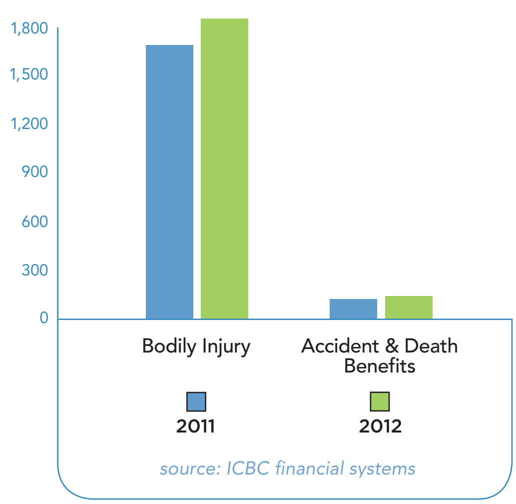
The overall average cost of current year claims that occurred in 2012 increased by approximately 2% over 2011 resulting from a 7% increase in the average cost of injury claims partially offset by a 2% decrease in the average cost of material damage claims. For 2012, the once declining frequency trend is now flattening resulting in a 1% increase from 2011 in injury claims and no change for material damage claims.

injury claims

Current year injury claims account for over 65% of claims incurred costs in 2012, and include bodily injury claims, and accident and death benefits. 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 increased by 9% in 2012 compared to 2011. This reflects the growth in the average cost of injury claims and the growth in policies. The once declining frequency trend has now flattened and actually increased by 1% over 2011 and no longer offers an offset to the overall growth in costs.

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

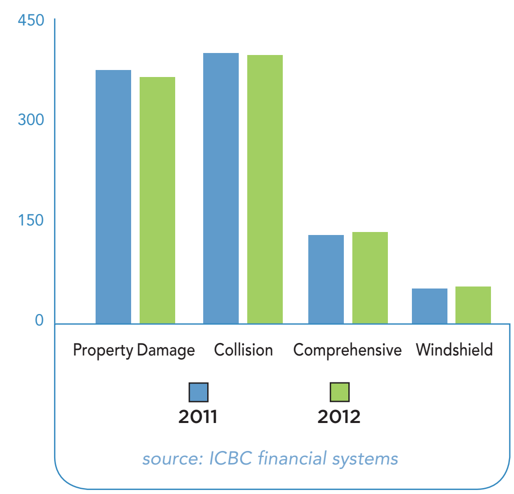


Bodily injury claims costs accounted for 93% of all injury claims costs and increased by $165 million to $1,857 million in 2012 compared to 2011. We are taking action to reduce the growth in BI claims costs as discussed on pages 19 and 28 of this report.

material damage (non-injury) claims

The main categories of material damage claims are property damage, collision, comprehensive, and windshield claims. Overall, the total cost of current year material damage claims decreased less than 1% in 2012 compared to 2011 due to a decrease of 2% in the average cost of material damage claims partially offset by the growth in policies.

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



change in estimates for losses occurring in prior years

Adjustments to the prior years' claims reserves are due to the re-estimation of future payments for claims incurred in prior years that are in progress and 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.

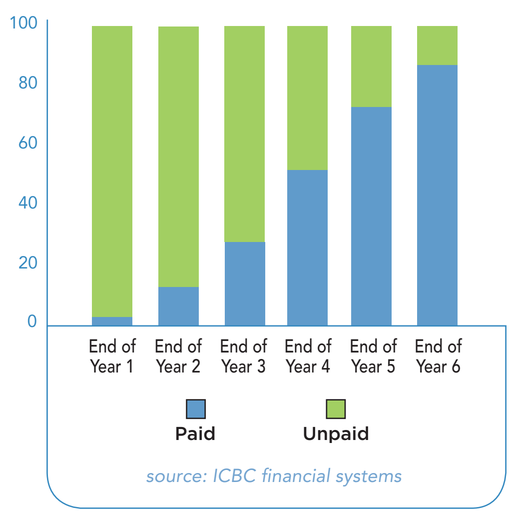
In 2012, the change in estimates for losses occurring in prior years, net of discounting adjustment, was reduced and is $55 million more favourable than 2011.

provision for unpaid claims

The provision for unpaid claims is the largest liability on our Consolidated Statement of Financial Position and is money set aside in anticipation 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 year based on revised actuarial estimates which includes a provision for adverse deviation (see Note 2d to the Consolidated Financial Statements).

The estimate of unpaid claims at the end of 2012 was $7,002 million; however, estimates for these future claims 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 account for approximately 90% of total unpaid claims costs. As illustrated in the following chart, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater portion of the costs being an estimate of claims costs payable in future years.

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



We commission the services of an external appointed 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 reviews the adequacy of the unpaid claims reserves.

We earn investment income on funds set aside for unpaid claims out of 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, we report our 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. 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.

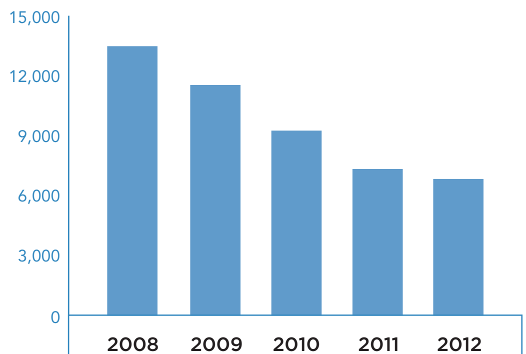
road safety and loss management

ICBC invests in road safety initiatives and loss management programs that help reduce claims costs, giving customers the best coverage at the lowest possible price. We work with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by preventing and minimizing the impact of crashes and crime.

In 2012, we invested $47 million in road safety and $9 million in loss management programs, which include auto crime and fraud prevention, investigation and detection. We target our road safety investments on the major risks that impact customers and costs in our business, including impaired driving, speeding, distractions, crashes at intersections and the use of occupant restraints. We partner with the provincial government and the RCMP to operate the Intersection Safety Camera program, with 140 dedicated digital cameras in 26 communities to deter drivers from running red lights. The site selection model was recognized as an international best practice and the program was a finalist for a Premier's Award for Innovation and Excellence. We also continued our successful partnership with road authorities to reduce crashes at high-risk road locations by sharing the cost of 343 road safety engineering projects.

Our auto crime investment continued to effectively decrease auto theft. Support for programs like Bait Car, Stolen Auto Recovery, Auto Crime Enforcement month, investments in community programs such as NasKarz, and built-in security and steering wheel locks for high-theft vehicles contributed to a 7% claims reduction in auto theft across BC in 2012 from 2011. Since 2003, when auto crime peaked in BC, our combined efforts, including changes in vehicle design such as anti-theft devices, have contributed to a 73% claims reduction in auto theft across the province, as shown in the chart below. The reduction in auto crime partially offsets claims cost pressures related to inflationary increases.

total theft of vehicles
(number of claims reported)



source: ICBC financial systems

We actively pursued our Zero Tolerance for Fraud policy, which protects customers from adverse impacts on premiums when fraud occurs. A Special Investigation Unit manages programs that prevent, detect and investigate fraud in all aspects of our business.

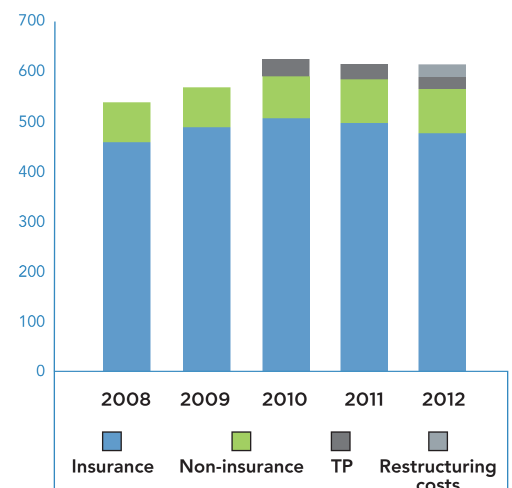
operating costs

Operating costs are compensation and other costs required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes. A breakdown of these costs is included in note 16 of the accompanying Consolidated Financial Statements.

We continued to focus on cost containment strategies in managing our operating costs. General operating costs, excluding the Transformation Program and restructuring costs, of $565 million were 3% lower than 2011 due to our efforts in managing operating costs as we implemented the recommendations of the 2012 Government Review. 2012 was the third year for the Transformation Program, incurring $25 million of expenses. In addition, we had one-time, non-recurring restructuring costs of $25 million related to staff reductions which were more than offset by concurrent savings.

Included in total operating costs are non-insurance costs of $89 million, which consist of costs for administering driver licensing, vehicle registration and licensing, and government fines collection. Non-insurance costs are funded from Basic insurance premiums and increased by 2% over 2011.

operating costs
($ millions)



source: ICBC financial systems

acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of our insurance products, as well as administering driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4% of premiums) collected and paid to the provincial government. Premium acquisition costs relate specifically to the commisions for the sale of our insurance products and premium taxes.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are expensed on a similar basis. At year end, the unexpended portion of these costs are deferred and reflected as DPAC in the amount of $135 million in note 17 of the accompanying Consolidated Financial Statements. DPAC is written down when future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums. Conversely, where there has been a previous write-down of DPAC, a positive adjustment is made when unearned premiums are expected to exceed future claims and related expenses. This was the case in 2012.

Acquisition costs were $52 million lower than 2011. This resulted from the Basic rate increase of 11.2% which increased unearned premiums and improved the profitability of the Basic business and enabled the deferral of premium acquisition costs. Offsetting this were higher commissions of $13 million due to an increase in broker fees and higher premiums taxes due to higher premiums earned.

investments

We have an investment portfolio with a carrying value of $12.3 billion which represents 89% of the company's total assets at the end of 2012.

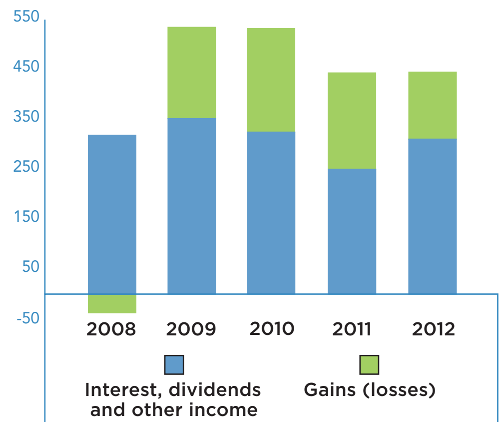
Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims, unearned premiums, and retained earnings. We maintain a conservative investment portfolio which has high quality fixed income securities.

At December 31, 2012, 72% 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% of the portfolio was invested in equity and real estate investments.

investment income

In 2012, our investment income was $443 million — an increase of $2 million from 2011. The increase primarily reflects a lower equity impairment provision and a gain on the sale of a real estate investment, partially offset by a decrease in gains realized on sales of equities and lower interest income from a decline on the bond yield earned.

investment income
($ millions)



source: ICBC financial systems

Overall, these results equate to an accounting investment return of 3.8% in 2012 compared to 4.0% in 2011, based on the average investment balance during the year on a cost basis. The lower accounting return is reflective of a consistent level of investment income in 2012 and 2011 whereas the average size of the investment portfolio has increased year over year.

equity

Our equity includes retained earnings of $2,893 million and other components of equity (OCE) of $354 million as at December 31, 2012. Retained earnings help to absorb significant unexpected increases in claims costs and volatility in the financial markets. We have a strong capital base enabling us to withstand adverse claims experience, unfavourable financial market situations which have been volatile in recent years, protect our policyholders and be able to continue to provide our customers with the best coverage at the lowest possible price.

Bonds and equities are measured at fair value on the Consolidated Statement of Financial Position, with changes in fair value (unrealized gains and losses) included in OCE, which increased from $272 million at January 1, 2012 to $354 million at December 31, 2012. This increase primarily reflects an increase in the fair values of our equity portfolio due to the improved performance of the equity markets offset by the gains realized on the sale of equity and bond investments.

Similar to the private insurance industry, the adequacy of equity or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators.

The common industry method used to measure financial stability is the Minimum Capital Test (MCT) ratio, a risk-based capital adequacy framework which assesses assets, policy liabilities, and other potential liabilities to determine appropriate capital levels. The Office of the Superintendent of Financial Institutions (OSFI) requires its regulated P&C insurers to meet MCT targets.

Although not regulated by OSFI, we have established management targets for MCT in excess of ICBC's regulatory targets to take into consideration relevant factors such as business risks and requirements, and the volatility inherent in the insurance business such as changes to claims costs and in the investment markets. We have set an internal management target level for Corporate MCT of a minimum of 175% for 2012. At December 31, 2012, our total corporate MCT level of 200% exceeded the management target. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 20 and 22 of the accompanying Consolidated Financial Statements.

capital expenditures

In 2012, we incurred $74 million in capital expenditures relating to technology enhancements and facilities upgrades. Of these enhancements, $56 million were related to the Transformation Program (TP). This program includes the renewal of our claims and insurance core systems which will help to improve and streamline our business processes, and provide our employees with the tools they need to be successful and to be able to better meet customer expectations.

basic and optional operations

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

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. We operate and manage the company on an integrated basis as well as report our financial and performance results in the annual report on an integrated basis. Detailed financial information on our Basic and Optional lines of business is included in note 22 of the accompanying Consolidated Financial Statements. The following paragraph provides a high-level summary of impacts for both the Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business generated a net loss of $120 million which was $68 million better than 2011. The Basic net loss decreased from prior year due to higher premium revenue resulting from the Basic rate increase of 11.2% effective February 1, 2012, operating cost savings partially offset by higher injury claims costs and restructuring costs. The Optional insurance business generated net income of $369 million in 2012. Optional net income increased $41 million from prior year mainly due to lower operating and TP costs, higher earned premium revenue, and favourable prior years' claims adjustments offset by higher injury claims costs, restructuring costs, and higher commission expense due to higher premiums.

operating subsidiaries

The Corporation holds all but one of its investment properties in fully owned nominee holding companies. All financial information is included in our financial statements. The corporation does not have any other active operating subsidiary companies.

comparison of 2012 results to the plan

Our net income for 2012 was $249 million, which was $103 million higher than plan. Earned revenues increased by $48 million from 2012 plan mainly due to higher than expected vehicle growth and higher average premiums. Investment income was $53 million higher than the plan resulting from gains realized on sale of bonds, higher dividends and interest income partially offset by lower than planned gains on the sale of equities.

Overall, net claims incurred costs were $25 million higher than plan. This was due to current year bodily injury claims costs being higher than plan due to both claim frequency and higher average costs. The previous declining frequency trend is flattening and no longer offsetting the growth in the average cost of bodily injury claims. In addition, a higher unfavourable discounting adjustment resulted in additional costs due to lower discount rate. The increase in current year bodily injury claims costs and the unfavourable discounting adjustment were partially offset by lower expected costs to settle outstanding prior years' claims.

Operating costs of $565 million, inclusive of claims service, road safety and loss management, and insurance and non-insurance operations expenses, were $50 million below plan due to the continued proactive management of operating costs including the management of staff vacancies, the reduction of staffing levels, and the management of discretionary spending. The Transformation Program is a multi-year initiative and the program overall is on track, on budget and will be completed by 2017. Transformation Program expenses of $25 million for 2012 were $17 million lower than plan due to some changes in timing of spending with no impact to major milestones. There were also savings achieved as a result of increased efficiencies in the program, and reductions in advisory services. Premium taxes and commissions (including non-insurance commissions) of $491 million were $15 million higher than the plan due to a lower than plan favourable DPAC adjustment as a result of rising claims costs which allowed for less costs to be deferred (see page 36 for further discussion of DPAC). There was no excess Optional capital transfer to the Province of BC as there was a direction from Government to transfer the excess Optional capital to the Basic business. The transfer strengthens the Basic insurance capital which is now solidly above the minimum regulatory requirement.

financial forecasts

Our financial forecasts take into consideration the business risks and risk mitigation strategies currently in place. The net income forecast for 2013 – 2015 reflects expected growth in premiums, a return to longer term claims cost trends, and investment income based on current investment market conditions. Capital expenditures are primarily comprised of Transformation Program costs and the ongoing renewal of information technology and facilities. The forecast also takes into account the estimates of excess Optional capital transfer to the Government of BC. More detailed information on ICBC's forecasts is provided in ICBC's 2013 – 2015 Service Plan.

management's responsibility for financial statements

Scope of Responsibility

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

Internal Controls

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

Board of Directors and Audit Committee

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

Independent Auditor and Actuary

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

Eckler Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of 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 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 actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Eckler Ltd. meets at least two times a 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.

Mark Blucher
Interim President and Chief Executive Officer

April 15, 2013

Geri Prior
Chief Financial Officer

April 15, 2013

actuary's report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2012 and their changes in its consolidated statement of comprehensive income for the year 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 makes appropriate provision for all policy obligations, and the consolidated financial statements fairly present the results of the valuation.

William T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
April 15, 2013

independent auditor's report

Minister of Transportation and Infrastructure
Members of the Board of Directors for the Insurance Corporation of British Columbia
Province 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 December 31, 2012 and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year ended December 31, 2012, 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 December 31, 2012 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
April 15, 2013

Consolidated Statement of Financial Position

As at December 31

($ THOUSANDS)	2012	2011
Assets		
Cash and cash equivalents	$ 32,463	$ 23,844
Accrued interest	36,765	39,800
Financial investments (note 5)	11,671,237	10,969,366
Premiums and other receivables (note 8)	1,119,864	1,092,604
Reinsurance assets (note 8)	7,486	691
Investment properties (note 5)	601,712	483,028
Property and equipment (note 10)	130,284	134,260
Intangible assets (note 11)	106,508	55,076
Deferred premium acquisition costs and prepaids (note 17)	143,413	129,464
	$ 13,849,732	$ 12,928,133
Liabilities and Equity		
Liabilities		
Cheques outstanding	$ 43,243	$ 55,512
Accounts payable and accrued charges	264,671	228,807
Excess Optional capital payable to Province of BC (note 18)	–	101,386
Bond repurchase agreements and investment-related liabilities (note 7)	1,062,826	986,530
Premiums and fees received in advance	60,615	60,406
Unearned premiums (note 13)	1,861,317	1,762,626
Pension and post-retirement benefits (note 15)	307,804	313,673
Provision for unpaid claims (note 12)	7,001,939	6,492,719
	10,602,415	10,001,659
Equity		
Retained earnings	2,893,299	2,654,079
Other components of equity	354,018	272,395
	3,247,317	2,926,474
	$ 13,849,732	$ 12,928,133

Contingent liabilities and commitments (Note 21)

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

Approved by the Board

Paul Taylor
Chair of the Board of Directors

William Davidson
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31

($ THOUSANDS)	2012	2011
Premiums written		
Premium revenue – vehicle	$ 3,894,135	$ 3,676,747
Premiums ceded to reinsurers – vehicle	(8,880)	(9,005)
Net premium revenue – vehicle	3,885,255	3,667,742
Premium revenue – driver	24,822	25,094
	3,910,077	3,692,836
Revenues		
Premiums earned		
Premiums revenue – vehicle	3,795,245	3,658,261
Premiums ceded to reinsurers – vehicle	(8,880)	(9,005)
Net premium revenue – vehicle	3,786,365	3,649,256
Premium revenue – driver	25,021	23,954
	3,811,386	3,673,210
Service fees	53,797	50,352
Total earned revenues	3,865,183	3,723,562
Claims and operating costs		
Provision for claims occurring in the current year (note 12)	3,022,699	2,880,130
Change in estimates for losses occurring in prior years (note 12)	(69,234)	(14,392)
Net claims incurred (note 12)	2,953,465	2,865,738
Claims services (note 16)	257,136	262,247
Road safety and loss management services (note 16)	56,014	58,578
	3,266,615	3,186,563
Operating costs – insurance (note 16)	187,864	208,285
Premium taxes and commissions – insurance (note 16 & 17)	463,041	517,361
	3,917,520	3,912,209
Underwriting loss	(52,337)	(188,647)
Investment income (note 9)	443,126	441,480
Restructuring costs (note 16 & 19)	24,968	–
Income – insurance operations	365,821	252,833
Non-insurance operations		
Provincial licences and fines revenue (note 18)	550,776	550,383
Licences and fines transferable to the Province of BC (note 18)	550,776	550,383
Operating costs – non-insurance (note 16)	89,254	86,400
Commissions – non-insurance (note 16 & 17)	28,011	26,292
	668,041	663,075
Loss – non-insurance operations	(117,265)	(112,692)
Net income	$ 248,556	$ 140,141
Other comprehensive income		
Net change in available for sale financial assets	$ 81,623	$ (243,328)
Pension and post-retirement benefits actuarial loss (note 15)	(9,336)	(68,040)
	72,287	(311,368)
Total comprehensive income	$ 320,843	$ (171,227)

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

Consolidated Statement of Changes in Equity

For the year ended December 31

($ THOUSANDS)	2012 Retained Earnings	2012 Other Components of Equity	2012 Total Equity
Balance, beginning of year	$ 2,654,079	$ 272,395	$ 2,926,474
Comprehensive income			
Net income	248,556	–	248,556
Other comprehensive income			
Net gains reclassified to investment income	–	(124,089)	(124,089)
Net gains arising on available for sale financial assets in the year	–	205,712	205,712
Pension and post-retirement benefits actuarial loss (note 15)	(9,336)	–	(9,336)
Total other comprehensive income	(9,336)	81,623	72,287
Total comprehensive income	239,220	81,623	320,843
Balance, end of year	$ 2,893,299	$ 354,018	$ 3,247,317

($ THOUSANDS)	2011 Retained Earnings	2011 Other Components of Equity	2011 Total Equity
Balance, beginning of year	$ 2,683,364	$ 515,723	$ 3,199,087
Comprehensive income			
Net income	140,141	–	140,141
Other comprehensive income			
Net gains reclassified to investment income	–	(148,055)	(148,055)
Net losses arising on available for sale financial assets in the year	–	(95,273)	(95,273)
Pension and post-retirement benefits actuarial loss (note 15)	(68,040)	–	(68,040)
Total other comprehensive income	(68,040)	(243,328)	(311,368)
Total comprehensive income	72,101	(243,328)	(171,227)
Excess Optional capital transfer to Province of BC (note 18)	(101,386)	–	(101,386)
Balance, end of year	$ 2,654,079	$ 272,395	$ 2,926,474

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

Consolidated Statement of Cash Flows

For the year ended December 31

($ THOUSANDS)	2012	2011
Cash flow from operating activities		
Cash received for:		
Vehicle premiums and others	$ 3,883,393	$ 3,690,687
Licence fees	522,057	514,409
Taxes on vehicle sales and rebates	183,205	186,879
	4,588,655	4,391,975
Collection for receivables, subrogation, and driver penalty point premiums	171,014	170,089
Reinsurance recoveries	1,423	731
Salvage sales	63,079	64,106
Interest	256,960	295,031
Dividends and other investment income	65,799	61,636
Other	11	29
	5,146,941	4,983,597
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,604,592)	(2,698,137)
Federal Government and the Province of BC for licence fees, fines, and taxes collected	(693,462)	(674,765)
Reinsurers for reinsurance premiums	(8,819)	(9,114)
Suppliers of goods and services	(206,326)	(223,192)
Employees for salaries and benefits	(454,666)	(466,198)
Agents for commissions	(332,259)	(325,026)
Province of BC for premium taxes	(164,674)	(165,114)
	(4,464,798)	(4,561,546)
Cash flow from operating activities	682,143	422,051
Cash flow used in investing activities		
Purchase of financial investments and investment properties	(8,777,497)	(8,354,025)
Proceeds from sales of financial investments and investment properties	8,226,293	8,283,536
Net securities sold under repurchase agreements	59,346	15,363
Purchase of property, equipment and intangibles	(69,415)	(86,833)
Proceeds from sales of property, equipment and intangibles	1,404	871
Cash flow used in investing activities	(559,869)	(141,088)
Cash flow used in financing activities		
Excess Optional capital transferred to Province of BC (note 18)	(101,386)	(275,712)
Cash flow used in financing activities	(101,386)	(275,712)
Increase in cash and cash equivalents during the year	20,888	5,251
Cash and cash equivalents, beginning of year	(31,668)	(36,919)
Cash and cash equivalents, end of year	$ (10,780)	$ (31,668)
Represented by:		
Cash (note 6)	$ 32,463	$ 23,844
Cheques outstanding	(43,243)	(55,512)
Cash and cash equivalents, net	$ (10,780)	$ (31,668)

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2012

1. Corporate Information

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

Universal compulsory automobile insurance (Basic) 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 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside the Province of BC. The Corporation also offers insurance in a competitive environment (Optional), 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 BC. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary automobile insurer.

These consolidated financial statements have been authorized for issue by the Board of Directors on April 15, 2013.

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 financial assets at fair value. These policies have been consistently applied to all years presented, unless otherwise stated.

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 wholly-owned subsidiary companies. The Corporation's reporting currency and functional currency of 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 and reflects the Corporation's results from underwriting activities and investment activities. The Corporation also provides a number of non-insurance services on behalf of the Province of BC. 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 income for greater transparency.

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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

b) Basis of consolidation

The Corporation consolidates the financial statements of all subsidiary companies over which it has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. All but one of the Corporation's investment properties are held individually in fully owned nominee holding companies. The Corporation does not have any other active operating subsidiary companies. All inter-company transactions and balances are eliminated.

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 rate.

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. The driver premiums are earned over twelve 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 derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves from Basic and Optional coverage on a net corporate basis in the consolidated statement of financial position.

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 the recovery 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).

As with any insurance company, the 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 behavior 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, excluding the PFAD 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 cover expected future cash flows. 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 Years. 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 income to indicate the results of its retention of premium written.

The amount of reinsurance recoverable from reinsurers is recorded as an asset 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) Investments

The Corporation designates its financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables (loans) 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) are accounted for as FVTPL. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term.

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.

Available for sale

Non-derivative financial assets that are not classified as loans or FVTPL are accounted for as AFS. The Corporation has designated 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 foreign exchange changes, 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.

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 designated its mortgage portfolio and premiums and other receivables as loans.

Loans are recorded at fair value on initial recognition and subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the assets.

Mortgages not traded in an active market are subsequently carried at amortized cost using the effective interest rate method. Impairment losses on mortgages are recognized in investment income.

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

g) 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 year-end date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-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 an impairment is recorded.

h) Fair value of financial assets

In accordance with IFRS 7 *Financial Instruments: Disclosures*, 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.

Where an active market does not exist, and quoted bid prices are unavailable, fair values are determined using valuation techniques that refer to observable market data. 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 cost. The estimated fair value for bonds and equities is based on quoted bid prices or on other observable market information, where available. The estimated fair value for mortgages is based upon the net present value of the payment stream using mortgage rates currently available.

These valuations are reviewed each reporting date by management.

i) 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 year or on a combination of discounted cash flows using current market capitalization rates and the direct capitalization method. The estimated fair value as calculated using the direct capitalization method is determined by dividing the net operating income by the capitalization rate.

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, the portions are accounted for separately. If the portions cannot be sold or leased 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.

Investment properties comprise 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% annually over the investment properties' useful life.

j) Investment-related liabilities

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

k) 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 cost. The difference between the sale price and the agreed repurchase price on a repurchase contract 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.

l) 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 cost.

m) Restructuring costs

Restructuring costs 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.

n) Pension and post-retirement benefits

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

- The Corporation's portion of the current service costs;
- Interest costs;
- Expected return on plan assets;
- 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 period.

The interest costs are calculated using the discount rate at the beginning of the period and applied to the defined benefit obligations.

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

Past service costs arise from plan amendments. Past service costs for vested plan benefits are recognized immediately in net income. Past service costs for non-vested plan benefits are recognized in net income on a straight-line basis over the remaining period of service until such benefits vest.

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 period are recognized in net income.

A plan's surplus is equal to the excess, if any, of the plan's assets over its obligation. 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 any past service costs not yet recognized;
- Less the fair value of the plan assets out of which the obligations are to be settled directly; and
- Less the impact of any surplus derecognized.

The Corporation recognizes all actuarial gains and losses in OCI in the year in which they arise, through the consolidated statement of comprehensive income.

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.

o) 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 is depreciated when it is 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	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 income.

p) 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 major 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% – 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.

q) 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 and where material, an impairment loss will be recognized as follows:

i. For AFS financial assets, the related unrealized loss charged to OCI is reclassified to investment income.

ii. For loans and receivables, 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 monetary AFS financial asset 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 non-monetary AFS financial assets such as equity securities 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. 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 income 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.

r) 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 income on the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Where substantially all of the risks and rewards have been transferred to the Corporation 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.

s) Current and non-current

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

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 and based on historical experience and other facts, including 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:

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

These 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 year-to-year changes in a given accident year's incurred loss amount. Based on an examination of the loss development factors, the Corporation's actuaries select their 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 accident years. The use of a baseline helps maintain consistency in the loss and count development factors from one reserve review to another. Adjustments to the baseline selection are made when circumstances warrant a departure. 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.

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 the 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 a present value as of the reporting date. The discount rate is based on the Corporation's current portfolio yields for fixed income investments and investment properties and a long-term yield assumption for equity 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 12).

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 also considered objective evidence of impairment (note 9).

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 expected plan investment performance, compensation levels and healthcare costs.

The key assumptions used in calculating the cost of pension and post-retirement benefits are the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, inflation rate, Medical Service Plan 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 15.

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

The expected long-term rate of return on plan assets is determined by calculating the weighted average return of the plan's portfolio based on the expected return and the policy portfolio weighting for each respective asset class.

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 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.

The Medical Services Plan trend rate is based on expected increases reflected in the provincial budget.

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 15).

4. New Accounting Pronouncements

a) Standards and interpretations effective in 2012

The Corporation has adopted the standards and interpretations that are relevant to the operations of the Corporation and effective on December 31, 2012.

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:

- IAS 1 (Amendment) *Presentation of financial statements*. Effective for annual periods beginning on or after July 1, 2012, the amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to net income in the future. Items that will not be recycled are presented separately from items that may be recycled in the future. The statement of comprehensive income is renamed to 'statement of net income and other comprehensive income', however, other titles are permitted. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.
- IFRS 7 (Amendment) *Financial instruments: Disclosures*. Effective January 1, 2013, the amended disclosures focus on quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting, where the legal right of offset is only enforceable on the occurrence of some future event, or similar arrangements irrespective of whether they offset. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a master netting arrangement with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.

  In addition, effective January 1, 2015, the amendment requires additional transitional disclosures when prior periods are not restated depending upon the earlier application of IFRS 9 prior to January 1, 2015. These disclosures focus on the impact that the adoption of IFRS 9 has on the classification of financial assets and liabilities. The adoption of this amendment is not expected to have a material impact to the Corporation's consolidated financial statements.
- IFRS 9 *Financial instruments*. The mandatory effective date is January 1, 2015. All changes in fair value of financial assets that are measured at fair value are recognized in net income, except for equity investments for which the OCI option has been elected, or where financial assets are part of a hedge relationship. The standard only permits the recognition of fair value gains and losses in OCI for equity investments that are not held for trading. For financial liabilities designated under the fair value option, other than loan commitments and financial guarantee contracts, the amount of change in fair value related to changes in the credit risk of these liabilities is typically presented in OCI. The remaining amount of the total gain or loss is included in net income. Early adoption is permitted.
- IFRS 10 *Consolidated financial statements*. Effective January 1, 2013, IFRS 10 replaces the consolidation guidance in IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation — Special Purpose Entities' by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has power over the investee, exposures or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.
- IFRS 12 *Disclosure of interests in other entities*. Effective January 1, 2013, IFRS 12 sets disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.
- IFRS 13 *Fair value measurement*. Effective January 1, 2013, IFRS 13 defines fair value and sets out, in a single IFRS, a framework for measuring fair value along with the disclosures necessary to understand what supports the fair value measurements. IFRS 13 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. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.

- IAS 19 (Amendment) *Employee benefits*. Effective January 1, 2013, the amended standard requires 'actuarial gains and losses' to be renamed 'remeasurements' and to be recognized immediately into OCI. Actuarial gains and losses will no longer be deferred using the corridor approach and remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. Past service costs will be recognized in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity significantly reduces the number of employees. Curtailment gains and losses are accounted for as past service costs. Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. Other changes include additional disclosures about defined benefit plans, modifying accounting for termination benefits and clarifying various miscellaneous issues. The Corporation will apply this standard to its consolidated financial statements beginning on January 1, 2013. The Corporation expects an increase in pension expense offset by remeasurement changes in OCI.
- IAS 32 (Amendment) *Financial instruments: Presentation*. Effective January 1, 2014, the amendment does not change the current offsetting model in the standard. The current model requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously. The amendment clarifies that the right of set-off must be available today and is not contingent on a future event. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Further, gross settlement mechanisms (such as a clearing house) with features that both eliminate credit and liquidity risk and process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore meet the IAS 32 criterion in these instances. The adoption of this standard 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)	Classification	2012 Carrying Value	2011 Carrying Value
Financial investments			
Money market securities	AFS	$ 152,552	$ 409,624
Bonds			
Federal	AFS	3,977,931	3,769,474
Provincial	AFS	848,074	905,601
Municipal	AFS	19,158	–
Corporate	AFS	2,669,397	2,407,158
Total bonds		7,514,560	7,082,233
Mortgages	Loans	1,105,235	1,028,026
Equities			
Canadian	AFS	1,621,930	1,347,378
United States	AFS	627,534	575,260
Europe, Australia, Far East	AFS	649,426	526,845
Total equities		2,898,890	2,449,483
Total financial investments		$ 11,671,237	$ 10,969,366
Non-current portion		$ 10,795,605	$ 9,651,435

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 $1.14 billion (2011 – $1.07 billion). The fair value of mortgages is determined by applying a discount rate ranging from 2.1% to 4.6% (2011 – 1.9% to 4.8%) to the payment stream.

b) Investment properties

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

($ THOUSANDS)	2012	2011
Cost		
Balance, beginning of year	$ 526,222	$ 457,926
Additions	144,316	67,266
Capital Improvements	3,619	1,830
Disposals	(20,034)	(800)
Balance, end of year	654,123	526,222
Accumulated depreciation		
Balance, beginning of year	43,194	31,668
Disposals	(4,073)	(475)
Depreciation	13,290	12,001
Balance, end of year	52,411	43,194
Carrying value, end of year	$ 601,712	$ 483,028

The fair value of investment properties is $773.3 million (2011 – $606.7 million). Where the estimated fair value is determined by internal valuations, the discount rate applied to the net cash flows of these investment properties ranged from 6.0% to 7.9% over a term of 10 years.

At December 31, 2012 and December 31, 2011, no impairment was recognized in respect of any of the Corporation's investment properties.

6. 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 2011 and 2012, there were no transfers between Level 1 and Level 2.

($ 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)
December 31, 2012				
Cash	$ 32,463	$ –	$ 32,463	$ –
Money market securities	152,552	–	152,552	–
Bonds	7,514,560	–	7,512,907	1,653
Equities	2,898,890	1,610,654	1,287,629	607
Total financial assets	$10,598,465	$ 1,610,654	$ 8,985,551	$ 2,260
December 31, 2011				
Cash	$ 23,844	$ –	$ 23,844	$ –
Money market securities	409,624	–	409,624	–
Bonds	7,082,233	–	7,080,580	1,653
Equities	2,449,483	1,711,967	736,709	807
Total financial assets	$ 9,965,184	$ 1,711,967	$ 8,250,757	$ 2,460

The following table shows the movement of financial assets where fair value has been determined based upon significant unobservable inputs (Level 3).

($ THOUSANDS)	Fair Value Measurements using Level 3 Inputs	
	Bonds	Equities
Balance, beginning of year	$ 1,653	$ 807
Total losses in net income	–	(200)
Balance, end of year	$ 1,653	$ 607

b) Other financial assets

Other financial assets include accrued interest, premiums and other receivables, and reinsurance assets. The fair values of other financial assets approximate their carrying values, due to their short-term nature. The non-current portion of these other financial assets is $26.4 million (2011 – $15.1 million).

c) Financial liabilities

Financial liabilities include cheques outstanding, accounts payable and accrued charges, and bond repurchase agreements, investment-related liabilities, and amounts payable to the Province of BC. All financial liabilities are carried at cost or amortized cost. Except for investment-related liabilities, the fair values of all other financial liabilities approximate their carrying values, due to their short-term nature. The carrying values of investment-related liabilities are a reasonable estimate of fair value.

7. Bond Repurchase Agreements and Investment-related Liabilities

($ THOUSANDS)	2012	2011
	Carrying Value	Carrying Value
Bond repurchase agreements	$ 959,049	$ 894,916
Investment-related liabilities	103,777	91,614
Total bond repurchase agreements and investment-related liabilities	$ 1,062,826	$ 986,530
Non-current portion	$ 72,051	$ 80,603

Investment-related liabilities are comprised of mortgages payable with repayment terms ranging from one to ten years and interest rates ranging from 5.0% to 6.6%.

Estimated principal repayments for the mortgages payable are as follows:

($ THOUSANDS)	2012	2011
Up to 1 year	$ 31,726	$ 11,010
Greater than 1 year, up to 5 years	54,443	62,357
Greater than 5 years	17,608	18,247
	$ 103,777	$ 91,614

8. Management of Insurance and Financial Risk

As a provider of automobile 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, this risk is 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 benefit 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

There are a number of factors that influence the frequency and severity of claims; some of which the Corporation has some control over. 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. A number of strategies are used to control 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.

Factors outside of the Corporation's control include weather, demographics, settlement awards, 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 actuaries employ standard actuarial methods. The Corporation's 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 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 nature of the bodily injury, 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 1% increase in the discount rate will have a favourable impact on the provision for unpaid claims, net income, and equity of $160.4 million (2011 – $150.2 million) and a 1% decrease in the discount rate will have an unfavourable impact on the provision for unpaid claims, net income, and equity of $169.4 million (2011 – $158.8 million). A 1% change in the frequency or severity of claims, with all other variables held constant, would result in an estimated change to the provision for unpaid claims of $70.0 million (2011 – $64.9 million). The changes in selected loss and count development factors and actuarial assumptions in 2012 had an estimated 4.1% unfavourable impact (2011 – 0.9% unfavourable) on the 2012 provision for unpaid claims.

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 automobile 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 because 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 underwriting risk or competition risk for its Basic insurance product. However, the Basic insurance rate level is sensitive to market conditions and claims experience. The Corporation is subject to regulations over its Basic insurance and applies to BCUC for approval to change its Basic insurance rate level (note 22).

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

At December 31, 2012, the equity portfolio was 25.7% (2011 – 23.0%) invested in the financial sector, 17.8% (2011 – 20.0%) in the energy sector and 13.0% (2011 – 14.2%) in the materials sector; the bond portfolio was 64.5% (2011 – 66.0%) invested in the government sector and 18.0% (2011 – 15.0%) invested in the financial sector. See credit risk for a discussion of the government bonds.

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. At December 31, 2012, the impact of a 10% change in prices, with all other variables held constant would result in an estimated corresponding change to OCI of approximately $289.9 million (2011 – $244.9 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 unpaid claims liability as the Corporation's investment yields are used to derive the discount rate for the unpaid claims liability.

The Corporation has policies in place to limit and monitor its exposure to interest rate risk to allow for duration matching of claim liabilities to bond assets.

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 2012 and 2011, the Corporation did not use derivative financial instruments to hedge interest rate risk on its investment portfolio.

	2012		2011	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Federal	1.5	2.4	1.8	2.3
Provincial	2.4	2.8	2.9	2.3
Municipal	2.1	4.5	–	–
Corporate	3.1	2.2	3.6	2.1
Total bonds	2.2	2.4	2.5	2.2
Mortgages	4.7	3.0	5.3	2.5
Total bonds and mortgages	2.5	2.4	2.9	2.3

At December 31, 2012, a 100 basis point change in interest rates would result in a change of approximately $210.3 million (2011 – $183.9 million) in fair value of the Corporation's fixed income portfolio and a corresponding impact of approximately $210.3 million (2011 – $183.9 million) to other comprehensive income (OCI), which flows into other components of equity (OCE). Interest rate changes would also result in an inverse change to the provision for unpaid claims and the corresponding claims costs (note 8a).

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, fixed income securities, accounts receivable, reinsurance receivables and recoverables, and structured settlements (note 21).

Fixed income securities

The Corporation mitigates its exposure to credit risk by acquiring fixed income securities issued by high-quality institutions with investment grade credit ratings. Credit risk in mortgages is mitigated as it is secured by the underlying property. Mortgages are subject to an independent review annually. The risk is also addressed through a stringent underwriting process that incorporates an internal credit scoring mechanism.

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 Corporation considers Canadian government bonds to be risk-free. Therefore the maximum credit risk exposure for fixed income securities pertain to all other bond investments and to mortgage investments, totalling their carrying amount of $4.6 billion (2011 – $4.3 billion). There is minimal credit risk exposure to cash.

The counterparty risk associated with repurchase agreements for 2012 is not material.

The following table highlights money market securities and bonds by credit quality according to Standard and Poor's at December 31, 2012:

($ THOUSANDS)	2012	2011
Money market securities		
AAA	$ 152,552	$ 409,624
Bonds		
AAA	$ 4,654,257	$ 4,387,221
AA	853,537	920,398
A	1,539,421	1,275,868
BBB	467,345	498,746
	$ 7,514,560	$ 7,082,233

Premiums and other receivables

The Corporation has a diverse customer base as it provides Basic insurance to all drivers in British Columbia. While there is no significant concentration of credit risk, the Corporation's premiums and other receivables are comprised of customers with varying financial conditions. Subrogation and other recoveries from customers are fully provided for due to the uncertainty of collection.

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 December 31, 2012, the Corporation considered $68.8 million (2011 – $71.0 million) of its premiums and other receivables to be uncollectible and has provided for them. The allowance was determined by applying a percentage to the total of current and prior years' gross billings.

The following table outlines the aging of premiums and other receivables as at December 31, 2012:

($ THOUSANDS)

	Current	Past Due 1 – 30 days	Past Due 31 – 60 days	Over 60 days	Total
December 31, 2012					
Premiums and other receivables	$1,098,680	$ 6,165	$ 2,223	$ 81,576	$1,188,644
Provision	(1,322)	(1,346)	(1,270)	(64,842)	(68,780)
Total premiums and other receivables	$1,097,358	$ 4,819	$ 953	$ 16,734	$1,119,864
December 31, 2011					
Premiums and other receivables	$1,070,708	$ 9,275	$ 2,226	$ 81,419	$1,163,628
Provision	(1,755)	(1,333)	(1,361)	(66,575)	(71,024)
Total premiums and other receivables	$1,068,953	$ 7,942	$ 865	$ 14,844	$1,092,604

The Corporation's provision for premiums and other receivables is broken down as follows:

($ THOUSANDS)	2012	2011
Balance, beginning of year	$ (71,024)	$ (69,746)
Charges for the year	(20,022)	(19,765)
Recoveries	5,720	6,666
Amounts written off	16,546	11,821
Balance, end of year	$ (68,780)	$ (71,024)

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 $7.5 million (2011 – $0.7 million). The Corporation has policies which 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 at December 31, 2012.

($ THOUSANDS)	2012	2011
Reinsurance recoverable (note 12)	$ 6,699	$ 616
Reinsurance receivable	787	75
Reinsurance assets	$ 7,486	$ 691

Liquidity risk

A significant business risk of the insurance industry is the ability to match the cash inflows from premiums and the investment portfolio with the cash requirements of the policy liabilities and operating expenses (see note 12). The timing of most policy liability payments is not known, and may take considerable time to determine precisely, and may be paid in partial payments.

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

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

Liquidity risk is further controlled by holding government bonds and other highly liquid investments. Bond repurchase agreements are accounted for as financial liabilities and are considered to be short-term in nature.

The following table summarizes the maturity profile as at December 31, 2012 of the Corporation's financial assets by contractual maturity or expected cash flow dates:

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
December 31, 2012				
Bonds				
Federal	$ 37,943	$ 3,800,670	$ 139,318	$ 3,977,931
Provincial	35,534	812,540	–	848,074
Municipal	–	19,158	–	19,158
Corporate	508,298	2,161,099	–	2,669,397
Total bonds	581,775	6,793,467	139,318	7,514,560
Mortgages	141,305	749,588	214,342	1,105,235
	$ 723,080	$ 7,543,055	$ 353,660	$ 8,619,795
December 31, 2011				
Bonds				
Federal	$ 212,801	$ 3,056,650	$ 500,023	$ 3,769,474
Provincial	35,594	870,007	–	905,601
Corporate	380,963	2,026,195	–	2,407,158
Total bonds	629,358	5,952,852	500,023	7,082,233
Mortgages	278,949	602,305	146,772	1,028,026
	$ 908,307	$ 6,555,157	$ 646,795	$ 8,110,259

Currency risk

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

A 10% change in the US exchange rate at December 31, 2012 would change the fair value of these investments and a corresponding change to OCI of approximately $64.5 million (2011 – $59.6 million). As all other foreign currency investments individually comprise five per cent or less of the total investment portfolio in both 2012 and 2011, the impact of a change in the exchange rate of these currencies is not expected to have a material impact on the portfolio.

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

9. Investment Income

($ THOUSANDS)	Classification	2012	2011
Interest			
Money market	AFS	$ 2,973	$ 2,675
Bonds	AFS	171,582	200,936
Mortgages	Loans	52,590	55,182
		227,145	258,793
Gains on investments			
Equities	AFS	74,356	136,238
Bonds	AFS	49,733	11,817
Investment properties	Other	9,969	4,341
Unrealized fair value changes[1]	AFS	87	39,388
		134,145	191,784
Dividends and other income (expenses)			
Equities	AFS	75,894	72,565
Income from investment properties	Other	24,886	23,146
Investment management fees	Other	(7,069)	(7,119)
Impairment loss	AFS	(8,700)	(96,107)
Other	Other	(3,175)	(1,582)
		81,836	(9,097)
Total investment income		$ 443,126	$ 441,480

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

($ THOUSANDS)	2012	2011
Amounts recognized in investment income for investment properties		
Rental income	$ 67,175	$ 61,685
Direct operating expenses that generated rental income	(40,338)	(36,810)
Direct operating expenses that did not generate rental income	(1,951)	(1,729)
Income from investment properties	24,886	23,146
Gain on sale of investment properties	9,969	4,341
Total amount recognized in investment income	$ 34,855	$ 27,487

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2012 and December 31, 2011, there were no securities loaned or received as collateral.

At December 31, 2012, the other components of equity comprised of $382.9 million (2011 – $343.5 million) in unrealized gains and $28.9 million (2011 – $71.1 million) in unrealized losses arising on available for sale assets.

10. Property and Equipment

($ THOUSANDS)	Land	Buildings	Furniture & Equipment	Leasehold Improvements	Total
December 31, 2012					
Cost					
Balance, beginning of year	$ 33,512	$ 161,186	$ 160,906	$ 15,339	$ 370,943
Additions	82	938	14,038	367	15,425
Disposals	(1,909)	–	(61,856)	(8,479)	(72,244)
Balance, end of year	31,685	162,124	113,088	7,227	314,124
Accumulated depreciation					
Balance, beginning of year	–	126,760	100,080	9,843	236,683
Disposals	–	–	(61,839)	(8,479)	(70,318)
Depreciation charge for the year	–	3,295	13,105	1,075	17,475
Balance, end of year	–	130,055	51,346	2,439	183,840
Net book value, end of year	$ 31,685	$ 32,069	$ 61,742	$ 4,788	$ 130,284
December 31, 2011					
Cost					
Balance, beginning of year	$ 33,526	$ 158,251	$ 118,964	$ 12,556	$ 323,297
Additions	36	2,995	42,790	3,013	48,834
Disposals	(50)	(60)	(848)	(230)	(1,188)
Balance, end of year	33,512	161,186	160,906	15,339	370,943
Accumulated depreciation					
Balance, beginning of year	–	123,551	89,521	9,300	222,372
Disposals	–	(5)	(477)	(143)	(625)
Depreciation charge for the year	–	3,214	11,036	686	14,936
Balance, end of year	–	126,760	100,080	9,843	236,683
Net book value, end of year	$ 33,512	$ 34,426	$ 60,826	$ 5,496	$ 134,260

The balances in property and equipment include $6.9 million (2011 – $24.7 million) in assets under development.

The balances in property and equipment include $1.7 million (2011 – $6.9 million) capitalized for the Transformation Program (note 20).

11. Intangible Assets

($ THOUSANDS)	2012	2011
Cost		
Balance, beginning of year	$ 95,899	$ 59,001
Additions	58,121	37,033
Disposals	(5,686)	(135)
Balance, end of year	148,334	95,899
Accumulated amortization		
Balance, beginning of year	40,823	37,680
Disposals	(5,686)	(82)
Amortization charge for the year	6,689	3,225
Balance, end of year	41,826	40,823
Net book value, end of year	$ 106,508	$ 55,076

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 balances in intangible assets include $74.2 million (2011 – $37.5 million) in assets under development.

The additions in intangible assets include $54.5 million (2011 – $28.2 million) capitalized for the Transformation Program (note 20).

There were no indefinite life intangible assets as at December 31, 2012 and December 31, 2011.

12. Provision for Unpaid Claims

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

($ THOUSANDS)	2012			2011		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Notified claims	$ 6,215,296	$ (616)	$ 6,214,680	$ 5,916,239	$ (5,807)	$ 5,910,432
Incurred but not reported	277,423	–	277,423	266,768	–	266,768
Balance, beginning of year	6,492,719	(616)	6,492,103	6,183,007	(5,807)	6,177,200
Change in liabilities (assets):						
Provision for claims occurring in the current year	3,022,699	–	3,022,699	2,880,130	–	2,880,130
Change in estimates for losses occurring in prior years:						
Prior years' claims adjustments	(109,757)	(6,237)	(115,994)	(71,934)	5,158	(66,776)
Prior years' changes in discounting provision	46,606	154	46,760	52,351	33	52,384
	(63,151)	(6,083)	(69,234)	(19,583)	5,191	(14,392)
Net claims incurred per consolidated statement of comprehensive income	2,959,548	(6,083)	2,953,465	2,860,547	5,191	2,865,738
Cash (paid) recovered for claims settled in the year for:						
Claims incurred in current year	(1,009,541)	–	(1,009,541)	(1,002,832)	–	(1,002,832)
Recoveries received on current year claims	74,820	–	74,820	73,378	–	73,378
	(934,721)	–	(934,721)	(929,454)	–	(929,454)
Claims incurred in prior years	(1,583,141)	–	(1,583,141)	(1,678,799)	–	(1,678,799)
Recoveries received on prior years' claims	67,534	–	67,534	57,418	–	57,418
	(1,515,607)	–	(1,515,607)	(1,621,381)	–	(1,621,381)
Total net payments	(2,450,328)	–	(2,450,328)	(2,550,835)	–	(2,550,835)
Balance, end of year	$ 7,001,939	$ (6,699)	$ 6,995,240	$ 6,492,719	$ (616)	$ 6,492,103
Notified claims	$ 6,715,095	$ (6,699)	$ 6,708,396	$ 6,215,296	$ (616)	$ 6,214,680
Incurred but not reported	286,844	–	286,844	277,423	–	277,423
Balance, end of year	$ 7,001,939	$ (6,699)	$ 6,995,240	$ 6,492,719	$ (616)	$ 6,492,103

The Corporation discounts its provision for unpaid claims using a discount rate of 3.4% (2011 – 4.0%). The Corporation determines the discount rate based upon the expected return on its investment portfolio and uses assumptions for interest rates relating to reinvestment of maturing investments. The Corporation has changed how expected asset default risk is accounted for in the provision for unpaid claims. At December 31, 2011, the provision for expected asset default risk was included in the interest rate PFAD. At December 31, 2012, the provision for expected asset default risk is directly reflected in the calculation of the discount rate. The Corporation has made this change to align with the recommendations of the Canadian Institute of Actuaries. The impact of this change to the 2011 net provision for unpaid claims is not material.

For the purpose of calculating the impact on the change in discount rate from December 31, 2011 to December 31, 2012, the 2011 discount rate was adjusted from 4.0% to 3.6% to reflect this change in methodology. As a result of the decrease in the discount rate (3.6% at December 31, 2011; 3.4% at December 31, 2012), there was an unfavourable adjustment to both current and prior years' provision of $18.1 million (2011 – $74.6 million unfavourable).

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

($ THOUSANDS)	Undiscounted	Effect of Present Value	PFADs	Discounted
December 31, 2012				
Provision for unpaid claims, net	$ 6,820,554	$ (549,513)	$ 724,199	$ 6,995,240
Reinsurance recoverable	6,837	(902)	764	6,699
Provision for unpaid claims, gross	$ 6,827,391	$ (550,415)	$ 724,963	$ 7,001,939
December 31, 2011				
Provision for unpaid claims, net	$ 6,380,300	$ (594,464)	$ 706,267	$ 6,492,103
Reinsurance recoverable	600	(56)	72	616
Provision for unpaid claims, gross	$ 6,380,900	$ (594,520)	$ 706,339	$ 6,492,719

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 following table illustrates how the Corporation's estimate of total undiscounted claims costs for each accident 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. At the IFRS transition date, the Corporation elected to take the IFRS 1 exemption. This allowed the Corporation to provide at least five years of claims development data, building to the required ten years.

($ THOUSANDS)	Insurance Claims — Gross of Reinsurance									
Accident Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of undiscounted ultimate claims costs:										
- At end of accident year	$2,204,694	$2,457,495	$2,578,431	$2,709,658	$2,676,918	$2,657,831	$2,743,503	$2,866,833	$3,030,778	
- One year later	2,324,869	2,503,285	2,598,087	2,647,830	2,682,830	2,640,001	2,732,070	2,863,942		
- Two years later	2,351,339	2,465,521	2,517,961	2,651,655	2,692,277	2,626,760	2,730,183			
- Three years later	2,350,581	2,439,326	2,513,261	2,632,885	2,654,416	2,587,367				
- Four years later	2,318,077	2,419,725	2,508,005	2,633,582	2,621,457					
- Five years later	2,302,765	2,420,056	2,498,790	2,623,784						
- Six years later	2,303,033	2,430,329	2,496,837							
- Seven years later	2,298,727	2,421,466								
- Eight years later	2,293,687									
Current estimate of cumulative claims	2,293,687	2,421,466	2,496,837	2,623,784	2,621,457	2,587,367	2,730,183	2,863,942	3,030,778	23,669,501
Cumulative payments to date	(2,246,595)	(2,355,092)	(2,388,863)	(2,429,180)	(2,227,450)	(1,869,794)	(1,536,065)	(1,275,033)	(934,721)	(17,262,793)
Undiscounted unpaid liability	$ 47,092	$ 66,374	$ 107,974	$ 194,604	$ 394,007	$ 717,573	$1,194,118	$1,588,909	$2,096,057	$6,406,708
Undiscounted unpaid liability in respect of 2003 and prior years										164,079
Undiscounted unallocated loss adjustment expense reserve										256,604
Total undiscounted unpaid claims liability										**$6,827,391**
Discounting adjustment										174,548
Total discounted unpaid claims liability (gross)										**$7,001,939**

The table above reflects the total discounted unpaid claims liability of $7.00 billion (2011 – $6.49 billion) before the amount for reinsurance recoverable. The total discounted unpaid claims liability after the amount for reinsurance recoverable of $0.01 billion (2011 – nil) would be $7.00 billion (2011 – $6.49 billion).

The expected maturity of the unpaid claims provision 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
December 31, 2012	$ 1,914,903	$ 1,571,506	$ 1,272,923	$ 869,150	$ 469,402	$ 729,507	$ 6,827,391
December 31, 2011	$ 1,821,940	$ 1,439,037	$ 1,166,525	$ 789,597	$ 434,634	$ 729,167	$ 6,380,900

The non-current portion of the undiscounted unpaid claims provision is $4.9 billion (2011 – $4.6 billion).

The weighted average term to settlement of the discounted unpaid claims provision at December 31, 2012 is 2.4 years (2011 – 2.4 years).

13. Unearned Premiums

All unearned premiums are earned within twelve months. The movements in unearned premiums and the impact on premiums earned for the year are as follows:

($ THOUSANDS)	2012	2011
Balance, beginning of year	$ 1,762,626	$ 1,743,000
Premiums written during the year	3,910,077	3,692,836
Premiums earned in the year	(3,811,386)	(3,673,210)
Balance, end of year	$ 1,861,317	$ 1,762,626

14. Reinsurance

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

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2012 as follows:

a) For catastrophic occurrences, portions of losses up to $225.0 million in excess of $25.0 million; and

b) For individual casualty loss occurrences, portions of losses up to $45.0 million in excess of $5.0 million.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2011 as follows:

c) For catastrophic occurrences, portions of losses up to $225.0 million in excess of $25.0 million; and

d) For individual casualty loss occurrences, portions of losses up to $45.0 million in excess of $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.

15. Pension and Post-Retirement Benefits

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

The Corporation also contributes to two other defined benefit pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of the Canadian Office & Professional Employees Union (COPE) Local 378 are members of the COPE 378 / ICBC Pension Plan (the COPE Plan). Trustees of the COPE Plan are appointed by each of the Corporation and COPE Local 378. The board of trustees of the COPE Plan is the legal plan administrator. The Corporation and plan members share responsibility for COPE Plan costs equally (note 21c).

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 Corporation recognizes its 50% share of the COPE Plan costs in its financial statements as follows:

- 50% recognition of pension expense (current service cost, interest cost, expected return on plan assets and past service cost);
- 50% recognition of the defined benefit obligation and plan assets; and
- 50% recognition of actuarial gains and losses.

The Corporation derecognized its 50% share of the surplus assets held by the COPE Plan on its consolidated statement of financial position because it cannot realize a future economic benefit in respect of those assets.

An additional liability may be recognized in respect of future surplus created by minimum funding requirements. For this purpose, these minimum funding requirements include going concern current service costs and minimum payments toward going concern unfunded liabilities. Payments toward solvency funding are not included because the British Columbia *Pension Benefits Standards Act* permits the Corporation to secure these payments with a letter of credit in lieu of cash solvency payments. As a result the Corporation has determined that no additional liability is required to be recognized on the consolidated statement of financial position.

The Corporation pays Medical Services Plan, 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 staff.

Total contributions for employee future benefits for 2012, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefits were $58.8 million (2011 – $57.1 million). A December 31, 2011 actuarial funding valuation for the COPE Plan was completed in 2012. This valuation resulted in an increase in the Corporation's actual 2012 contributions.

Estimated employer contributions for the year ending December 31, 2013 are $72.5 million. The estimate is based on the plans' most recent actuarial funding valuations. Actual contributions in 2013 will reflect the funding requirements of the Management and Confidential Plan actuarial funding valuation as at December 31, 2012, which will be completed in 2013.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes at December 31 of each year. The Management and Confidential Plan had an actuarial valuation as of December 31, 2009 which was extrapolated to December 31, 2012. The next expected valuation date is at December 31, 2012. The COPE Plan had an actuarial valuation as of December 31, 2011 which was extrapolated to December 31, 2012. The next expected valuation date is at December 31, 2014. The post-retirement benefits had an actuarial valuation as of December 31, 2009 which was extrapolated to December 31, 2012. The next expected valuation date is at December 31, 2012.

The net total liability for pension plans and post-retirement benefits at December 31, 2012 is $307.8 million (2011 – $313.7 million), which is reflected in the consolidated statement of financial position. Information regarding the pension and post-retirement benefits plans is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2012	2011	2012	2011
Plan assets				
Fair value, beginning of year	$ 887,803	$ 801,286	$ –	$ –
Expected return on plan assets	67,223	63,275	–	–
Actuarial gain (loss) on assets	15,351	(11,622)	–	–
Employer contributions	44,684	43,654	4,855	4,080
Employee contributions	15,169	15,131	–	–
Benefits paid	(32,088)	(22,529)	(4,855)	(4,080)
Plan expenses	(1,812)	(1,392)	–	–
Fair value, end of year	$ 996,330	$ 887,803	$ –	$ –
Defined benefit obligation[1]				
Balance, beginning of year	$ 968,793	$ 839,589	$ 224,503	$ 196,862
Current service cost	43,115	38,398	8,692	7,460
Interest cost	52,032	48,537	12,000	11,352
Actuarial (gain) loss on obligation	(12,866)	64,798	25,454	12,909
Benefits paid	(32,088)	(22,529)	(4,855)	(4,080)
Curtailment Impact	(925)	–	–	–
Balance, end of year	$ 1,018,061	$ 968,793	$ 265,794	$ 224,503
Funded status – plan deficit	$ (21,731)	$ (80,990)	$ (265,794)	$ (224,503)
Impact of surplus derecognition	(20,279)	(8,180)	–	–
Net liability recognized in the consolidated statement of financial position	$ (42,010)	$ (89,170)	$ (265,794)	$ (224,503)
[1] estimated defined benefit obligation – end of year with:				
1% increase in healthcare trend rate	n/a	n/a	$ 299,318	$ 251,148
1% decrease in healthcare trend rate	n/a	n/a	$ 236,936	$ 201,444
1% increase in discount rate	$ 851,536	$ 814,990	$ 227,172	$ 193,779
1% decrease in discount rate	$ 1,203,589	$ 1,133,844	$ 306,970	$ 257,063

The plan assets and defined benefit obligation shown in the table above have been adjusted to reflect the Corporation's 50% recognition of the COPE Plan. Therefore, only 50% of the balances, accruals, asset returns, gains and losses, and cash flows in respect of the COPE Plan have been disclosed above.

During the year, the Corporation underwent a corporate wide restructuring and reduced the number of employees to improve efficiencies and meet business objectives. This resulted in a curtailment due to the reduction in the number of active employees in the Management and Confidential Plan. The curtailment impact disclosed above is a $0.9 million reduction in the obligation, and is recognized immediately through pension expense.

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2012	2011
Cash and accrued interest	1%	1%
Equities		
Canadian	30%	28%
Foreign	27%	25%
Fixed income		
Government	30%	29%
Corporate	11%	10%
Mortgages	1%	7%
	100%	100%

Pension plan assets generated a return of 9.2% for the year ended December 31, 2012 (2011 – 6.3%).

At December 31, 2012 and December 31, 2011, 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 years.

The breakdown of the defined benefit obligation between funded and unfunded plans is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2012	2011	2012	2011
Wholly or partially funded plans	$ 1,003,006	$ 953,586	$ –	$ –
Unfunded plans	15,055	15,207	265,794	224,503
Defined benefit obligation	$ 1,018,061	$ 968,793	$ 265,794	$ 224,503

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

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2012	2011	2012	2011
Current service cost	$ 36,286[1]	$ 31,618[1]	$ 8,692	$ 7,460
Interest cost	52,032	48,537	12,000	11,352
Expected return on plan assets	(65,411)	(61,883)	–	–
Curtailment impact	(925)	–	–	–
Net expense	$ 21,982	$ 18,272	$ 20,692	$ 18,812
Estimated net expense with:				
1% increase in healthcare trend rate	n/a	n/a	$ 23,666	$ 21,386
1% decrease in healthcare trend rate	n/a	n/a	$ 18,176	$ 16,571

[1] *net of management and confidential employees' contributions of $6,829 (2011 – $6,780)*

In addition to the expenses noted above, the Corporation contributed $0.9 million in 2012 (2011 – $1.0 million) to the BC Public Service Pension Plan.

The Corporation's net charge to OCI and the accumulated charge to retained earnings is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2012	2011	2012	2011
Actuarial (gain) loss on assets	$ (15,351)	$ 11,622	$ –	$ –
Actuarial (gain) loss on obligation	(12,866)	64,798	25,454	12,909
Actuarial loss (gain) on surplus derecognition	12,099	(21,289)	–	–
Net charge to retained earnings	$ (16,118)	$ 55,131	$ 25,454	$ 12,909
Accumulated charge to retained earnings, beginning of year	122,878	67,747	37,239	24,330
Accumulated charge to retained earnings, end of year	$ 106,760	$ 122,878	$ 62,693	$ 37,239

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

	Pension Plans		Post-Retirement Benefits	
	2012	2011	2012	2011
Discount rate	4.5%	5.2%	4.5%	5.2%
Rate of compensation increase	2.9%	3.8%	n/a	n/a
Inflation rate	2.0%	2.5%	n/a	n/a

The weighted average expected long-term rate of return used in the calculation of the 2012 pension expense was 7.2% (2011 – 7.6%).

At December 31, 2012, the Medical Services Plan trend rate is assumed to be six per cent per annum for the first seven years, decreasing to three per cent per annum thereafter. At December 31, 2011, the Medical Services Plan trend rate was assumed to be six per cent per annum for the first eight years, decreasing to three per cent per annum thereafter.

At December 31, 2012, the extended healthcare trend rate is assumed to be eight per cent per annum for the first year, decreasing linearly over seven years to five per cent per annum thereafter. At December 31, 2011, the extended healthcare trend rate was assumed to be eight per cent per annum for the first year, decreasing linearly over eight years to five per cent per annum thereafter.

The development of the Corporation's pension and post-retirement benefits plans may also be summarized as follows:

($ THOUSANDS)	Pension Plans			
	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	$ 996,330	$ 887,803	$ 801,286	$ 693,593
Defined benefit obligation	1,018,061	968,793	839,589	663,701
Funded status – plan (deficit) surplus	$ (21,731)	$ (80,990)	$ (38,303)	$ 29,892
Experience adjustments	2012	2011	2010	
Plan assets	$ 15,351	$ (11,622)	$ 20,272	
Plan obligation	$ 18,500	$ –	$ 5,316	

($ THOUSANDS)	Post-Retirement Benefits			
	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	$ –	$ –	$ –	$ –
Defined benefit obligation	265,794	224,503	196,862	159,331
Funded status – plan (deficit) surplus	$ (265,794)	$ (224,503)	$ (196,862)	$ (159,331)
Experience adjustments	2012	2011	2010	
Plan assets	n/a	n/a	n/a	
Plan obligation	$ –	$ –	$ 4,589	

Actuarial gains and losses on the obligation are broken into two components. Assumption changes, and experience gains and losses, which are obligation changes due to actual demographic or economic experience being different from assumed.

16. Operating Costs by Nature

($ THOUSANDS)	2012	2011
Operating Costs – by nature		
Premium taxes and commission expense	$ 502,403	$ 483,729
Deferred premium acquisition cost adjustments	(11,351)	59,924
Employee benefit expense:		
Compensation and other employee benefits	381,691	390,869
Pension and post-retirement benefits (note 15)	43,620	38,031
Professional and other services	42,024	56,769
Road improvements and other traffic safety programs	32,148	34,051
Building operating expenses	31,546	32,040
Office supplies and postage	16,761	19,031
Computer costs	23,065	23,054
Depreciation and amortization	24,164	18,161
Restructuring costs (note 19)	24,968	–
Other (income) expenses	(4,751)	3,504
	$ 1,106,288	$ 1,159,163
Operating Costs – consolidated statement of comprehensive income		
Premium taxes and commissions – insurance	$ 463,041	$ 517,361
Claims services	257,136	262,247
Operating costs – insurance	187,864	208,285
Operating costs – non-insurance	89,254	86,400
Road safety and loss management services	56,014	58,578
Commissions – non-insurance	28,011	26,292
Restructuring costs (note 19)	24,968	–
	$ 1,106,288	$ 1,159,163

17. Deferred Premium Acquisition Costs and Prepaids

($ THOUSANDS)	2012	2011
Deferred premium acquisition costs, beginning of year	$ 120,003	$ 170,800
Acquisition costs related to future periods	223,385	219,709
Amortization of prior year acquisition costs	(120,003)	(170,800)
Actuarial valuation adjustment	(88,355)	(99,706)
Deferred premium acquisition costs, end of year	$ 135,030	$ 120,003
Optional	$ 140,580	$ 142,238
Basic	(5,550)	(22,235)
	$ 135,030	$ 120,003
Deferred premium acquisition costs	$ 135,030	$ 120,003
Prepaid expenses	8,383	9,461
Deferred premium acquisition costs and prepaid expenses	$ 143,413	$ 129,464

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
December 31, 2012			
Amount payable	$ 332,117	$ 173,962	$ 506,079
Amortization of prior year deferred premium acquisition costs	77,643	42,360	120,003
Deferred premium acquisition costs	(85,525)	(49,505)	(135,030)
Premium taxes, commission expense and deferred premium acquisition costs	$ 324,235	$ 166,817	$ 491,052
Represented as:			
Insurance	$ 296,224	$ 166,817	$ 463,041
Non-insurance	28,011	–	28,011
	$ 324,235	$ 166,817	$ 491,052
December 31, 2011			
Amount payable	$ 328,523	$ 164,333	$ 492,856
Amortization of prior year deferred premium acquisition costs	108,596	62,204	170,800
Deferred premium acquisition costs	(77,643)	(42,360)	(120,003)
Premium taxes, commission expense and deferred premium acquisition costs	$ 359,476	$ 184,177	$ 543,653
Represented as:			
Insurance	$ 333,184	$ 184,177	$ 517,361
Non-insurance	26,292	–	26,292
	$ 359,476	$ 184,177	$ 543,653

18. Related Party Transactions

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

All transactions with the Province of BC ministries, agencies and Crown corporations occurred in the normal course of providing insurance, registration and licensing for motor vehicles and are at arm's length, which is representative of fair value unless otherwise disclosed in these notes.

The Corporation acts as an agent for the Ministry of Finance regarding the collection of social service taxes and tax on designated property on privately sold used vehicles and motor vehicle related debts, and the collection of the provincial portion of harmonized sales tax on imported vehicles. The Corporation is the sole provider of Basic automobile insurance (note 1) in the province and, therefore, insures, at market rates, vehicles owned or leased by the Province of BC 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 BC all vehicle-related fees for acquiring and distributing licence plates and decals including permits and other fees and fines. The costs associated with the licensing and compliance activities conducted on behalf of the Province of BC are borne by the Corporation and are included in the consolidated statement of comprehensive income as operating costs – non-insurance.

The government directed the Corporation to transfer all of the excess Optional capital at December 31, 2012 to Basic insurance (note 20). At December 31, 2011, the excess Optional capital to be transferred to the Province of BC was $101.4 million.

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

($ THOUSANDS)	2012	2011
Key management compensation		
Compensation and other employee benefits including restructuring costs	$ 11,113	$ 8,319
Pension and post-retirement benefits	877	939
	$ 11,990	$ 9,258

At December 31, 2012, $4.7 million (2011 – $1.7 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 15. During the year ended December 31, 2012, the Corporation incurred $2.2 million (2011 – $2.2 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. At December 31, 2012, $6.1 million (2011 – $6.0 million) was payable to these plans for employer contributions.

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

19. Restructuring costs

During the year, the Corporation underwent a corporate wide restructuring and reduced the number of employees to improve efficiencies and meet business objectives. The Corporation has put in place a restructuring plan which has been communicated as at December 31, 2012. The Corporation has recorded a provision for severance costs of $25.0 million associated with the termination of employees and the majority of these costs will be paid in 2013 and the remainder by 2015. The corresponding expense is presented on the consolidated statement of comprehensive income.

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 protect its ability to meet the obligations owed to policyholders and others.

The Corporation is guided by the capital management framework of the Office of the Superintendent of Financial Institutions Canada (OSFI), adopting OSFI's minimum capital test (MCT) as a means to measure and monitor the Corporation's capital levels. The MCT utilizes a risk-based formula to assess the solvency of an insurance company by defining the capital available that is required to meet the minimum standards. The Corporation has set for itself an internal corporate management target MCT ratio of a minimum of 175%. The Corporation was in compliance with this internal management target throughout 2012. At December 31, 2012, the Corporation's MCT was 200.4% (2011 – 189.2%), which includes the TP reserve as discussed below.

The corporate management target for MCT is comprised of two components being the Basic and Optional insurance business MCT targets. For the Basic insurance business, the British Columbia Government's Special Direction IC2 requires the Corporation, through BCUC oversight, to maintain capital available equal to at least 100% of MCT. BCUC has approved a Basic management target MCT ratio at a higher level, sufficient to prevent capital falling below the 100% minimum threshold in most years (note 22).

For the Optional insurance business, the *Insurance Corporation Act* requires the Corporation to maintain a management target, comprised of the supervisory target as set out in the MCT guideline, and the margin, calculated by the Corporation's actuary and validated by the independent actuary appointed by the Board of the Corporation that reflects the Corporation's risk profile and its ability to respond to adverse events that arise from those risks, the MCT guideline, and the Guideline on Stress Testing issued by OSFI.

Excess Optional capital at year-end, less any other deductions as approved by the Treasury Board, is to be transferred to the Province of BC by July 1 of the following year. For 2012, the Corporation did not transfer any of its excess Optional capital to the Province of BC as the government directed the Corporation to transfer all of its excess Optional capital to Basic insurance (note 22).

The Corporation is currently implementing 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. The Transformation Program includes multiple projects to collectively help the Corporation achieve its strategy and future objectives. The funding required for this project is obtained from Optional capital. The Transformation Program reserve represents a component of retained earnings internally set aside for this program.

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

($ THOUSANDS)	2012	2011
Transformation Program Reserve		
Balance, beginning of year	$ 333,580	$ 365,225
Costs including depreciation expensed during the year	(24,441)	(31,645)
Balance, end of year	$ 309,139	$ 333,580

During 2012, there were $56.2 million (2011 – $35.1 million) of Transformation Program costs capitalized in property, equipment and intangible assets (notes 10 and 11).

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, four 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 at December 31, 2012 is approximately $1.13 billion (2011 – $1.10 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 at December 31, 2012 as all approved life insurance companies are rated investment-grade and outstanding balances are backed by the not-for-profit organization. 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)	Lease Payments	Net Present Value
Up to 1 year	$ 12,456	$ 11,989
Greater than 1 year, up to 5 years	24,878	23,040
Greater than 5 years	4,438	3,665
	$ 41,772	$ 38,694

The operating lease payments recognized as an expense during the year were $17.5 million (2011 – $16.5 million).

c) COPE 378/ICBC pension plan

The COPE Plan underwent an actuarial funding valuation as at December 31, 2011. The valuation results reflect that there is a significant solvency deficiency for the COPE Plan which results in a contribution increase. The Trustees of the COPE Plan are unable to reach agreement on how this increased contribution should be allocated between Plan members and the Corporation. Historically, the COPE Plan was funded equally by Plan members and the Corporation; and the Corporation has taken the position that the COPE Plan documents provide for equal cost sharing. On June 13, 2012, the Corporation filed a petition to the Supreme Court of British Columbia (the Court) to seek a declaration that the Trustees of the COPE Plan have a duty to take all steps necessary to cause Plan members and the Corporation to equally share the costs of the COPE Plan in all circumstances.

The Court hearing took place early in March, 2013 and a judgment was issued on March 27, 2013. The Court has dismissed the petition. As a result of this judgment, the Corporation would be required to fund significantly more than half the required contribution which could impact pension assets, obligation and expense. The Corporation has appealed this judgment and therefore, the impact of this judgment has not been reflected in these consolidated financial statements.

d) Other

The Corporation entered into three new agreements to provide mortgage funding in 2013 totalling $6.0 million. In 2011, the Corporation entered into two commitments. One is for annual telecommunication services until 2021, with a total contract value of $50.6 million and the other is for the acquisition of $7.5 million of computer software by 2013.

22. Regulation over Basic Insurance

As discussed in note 1, the Corporation is subject to regulation by 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.

In addition, BCUC sets rates for Basic insurance that allow it to achieve the regulated capital targets and is responsible for directing ICBC to achieve regulated targets for total Corporation and Optional insurance. Effective November 2012, where the estimates or outlook for the quarterly and/or year-end Basic minimum capital test (MCT) level fall below 100%, the BCUC has directed the Corporation to file a plan, within 60 days, for the restoration of MCT to or above the 100% minimum.

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

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

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

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

Allocation of Basic and Optional amounts

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

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

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2012	2011	2012	2011	2012	2011
Net premiums written	$ 2,292,622	$ 2,053,470	$ 1,617,455	$ 1,639,366	$ 3,910,077	$ 3,692,836
Revenues						
Net premiums earned	$ 2,178,607	$ 2,054,598	$ 1,632,779	$ 1,618,612	$ 3,811,386	$ 3,673,210
Service fees	30,718	27,089	23,079	23,263	53,797	50,352
Total earned revenues	2,209,325	2,081,687	1,655,858	1,641,875	3,865,183	3,723,562
Claims and operating costs						
Provision for claims occurring in the current year (note 12)	2,072,493	1,941,504	950,206	938,626	3,022,699	2,880,130
Change in estimates for losses occurring in prior years (note 12)	(23,724)	(10,364)	(45,510)	(4,028)	(69,234)	(14,392)
Claim services, road safety and loss management services	206,451	211,177	106,699	109,648	313,150	320,825
	2,255,220	2,142,317	1,011,395	1,044,246	3,266,615	3,186,563
Operating costs – insurance (note 16)	83,625	89,504	104,239	118,781	187,864	208,285
Premium taxes and commissions – insurance (note 17)	139,454	203,782	323,587	313,579	463,041	517,361
	2,478,299	2,435,603	1,439,221	1,476,606	3,917,520	3,912,209
Underwriting (loss) income	(268,974)	(353,916)	216,637	165,269	(52,337)	(188,647)
Investment income (note 9)	280,946	278,428	162,180	163,052	443,126	441,480
Restructuring costs (note 19)	15,237	–	9,731	–	24,968	–
(Loss) income – insurance operations	(3,265)	(75,488)	369,086	328,321	365,821	252,833
Loss – non-insurance operations	(117,265)	(112,692)	–	–	(117,265)	(112,692)
Net (loss) income for the year	$ (120,530)	$ (188,180)	$ 369,086	$ 328,321	$ 248,556	$ 140,141
Equity						
Retained earnings, beginning of year	$ 948,901	$ 1,180,218	$ 1,705,178	$ 1,503,146	$ 2,654,079	$ 2,683,364
Net (loss) income for the year	(120,530)	(188,180)	369,086	328,321	248,556	140,141
Excess Optional capital transfer to Basic business (note 20)	372,588	–	(372,588)	–	–	–
Excess Optional capital transfer to Province of BC (note 18)	–	–	–	(101,386)	–	(101,386)
Pension and post-retirement benefits actuarial loss	(5,994)	(43,137)	(3,342)	(24,903)	(9,336)	(68,040)
Retained earnings, end of year	1,194,965	948,901	1,698,334	1,705,178	2,893,299	2,654,079
Other components of equity	232,530	180,780	121,488	91,615	354,018	272,395
Total equity	$ 1,427,495	$ 1,129,681	$ 1,819,822	$ 1,796,793	$ 3,247,317	$ 2,926,474

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2012	2011	2012	2011	2012	2011
Liabilities						
Unearned premiums	$ 1,086,006	$ 971,990	$ 775,312	$ 790,636	$ 1,861,318	$ 1,762,626
Provision for unpaid claims (note 12)	$ 5,291,068	$ 4,823,481	$ 1,710,871	$ 1,669,238	$ 7,001,939	$ 6,492,719

23. Role of the Actuary and Auditor

The responsibility of the Board appointed external actuary is to report whether the annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs has been carried out in accordance with accepted actuarial practice and regulatory requirements. This involves reviewing the annual valuation work of the Corporation's actuary to ascertain i) whether it is within the range of acceptable actuarial practice, ii) the adequacy of procedures, systems, and the work of others relied upon, and iii) the appropriateness of assumptions made and methods employed. The external actuary, in verifying the underlying data used in the valuation, also makes use of the work of the independent auditor. The external actuary's report outlines the scope of his work and opinion.

The independent auditor has been appointed by the Board of Directors. The auditor's responsibility is to conduct an independent and objective audit of the consolidated financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out the audit, the auditor considers the work of both the external actuary and the Corporation's actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditor's report outlines the scope of the audit and related opinion.

corporate governance

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

ICBC's relationship to government

ICBC is a Crown Corporation continued under the *Insurance Corporation Act*, and it is subject to the *Budget Transparency and Accountability Act* (BTAA) and the *Freedom of Information and Protection of Privacy Act*. Under these provincial laws, we are accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, we are required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and non-insurance services on behalf of government, ICBC must adhere to a number of acts, including:

- the *Insurance Corporation Act;*
- the *Insurance (Vehicle) Act;*
- the *Motor Vehicle Act;*
- the *Motor Vehicle (All Terrain) Act;*

ICBC was created under the *Insurance Corporation Act*. This legislation was amended in 2003 to establish the BCUC as the independent regulator for Basic insurance rates. As ICBC is the sole provider of Basic insurance in BC, this regulatory environment is important, providing customers with an independent and transparent review of our Basic insurance operations and an opportunity to be involved in the review. The non-insurance services we provide on behalf of the provincial government are set out in a Service Agreement between ICBC and the Province and are funded by Basic insurance premiums.

Individual Crown entities are also governed by the Government's Letter of Expectations established between each Crown corporation and the minister responsible. The Government's Letter of Expectations is an agreement on the respective roles and responsibilities of the provincial government and the corporation. It outlines high-level performance and reporting expectations, public policy issues and strategic priorities, as well as providing direction specific to ICBC in several key areas.

As demonstrated through the results reported in ICBC's 2012 Annual Report, ICBC has complied with the performance expectations outlined in our 2012 Government's Letter of Expectations. This includes the specific items outlined on the following page.

Government's Letter of Expectations	ICBC Alignment
climate change	
• Contribute to the BC Provincial Government's climate action objectives and comply with the requirement to be carbon neutral in accordance with the *Greenhouse Gas Reduction Targets Act*.	• ICBC established the 2007 baseline of the company's environmental footprint and implemented government's SMARTTOOL to track and report on the company's greenhouse gas emissions. • ICBC has met the requirement to be carbon neutral by 2010. • ICBC continues to implement initiatives to reduce our carbon footprint, e.g., continuing energy retrofits, further switch to 100% recycled office paper, building the new Driver Licensing Centre to LEED Gold standards, and a 10 month internal "Curb the Carbon" campaign to encourage employees to help reduce greenhouse gas emissions. • ICBC has sponsored campaigns that help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions, and improve road safety.
capital management frameworks	
• Comply with revised capital management frameworks for Basic and Optional insurance established by the Shareholder. • ICBC will continue to review controllable costs in order to achieve the cost reduction targets agreed to by the Treasury Board.	• ICBC is complying with the revised capital management frameworks for Basic and Optional insurance. • ICBC has aggressively addressed costs by implementing and exceeding the recommendations of the 2012 Government Review to significantly reduce operating costs.
transformation program	
• Continue to invest in ICBC's systems, processes, and products as part of a Transformation Program to meet increasing customer expectations, better ensure the reliability of systems and improve options, and implement more streamlined processes for employees that will improve customer service. • Conduct province-wide public engagement to gather input on a range of options for future Basic risk-sharing rate changes, the results of which will be shared with government and the public.	• ICBC is undertaking its multi-year Transformation Program, which includes multiple projects that will collectively help ICBC improve services and options for customers and will provide employees with the tools they need to be successful and to better meet customers' expectations. • ICBC conducted a province-wide public engagement to gather input on potential changes to how the corporation sets premiums for Basic vehicle insurance coverage.
road safety laws	
• Support implementation of government's new CareCard and legislation and regulations including new impaired driving and motorcycle safety laws and continue to support government's policy objectives with respect to off-road vehicles and any new priority transformational activities.	• ICBC works with government and stakeholders to implement road safety initiatives and supports these initiatives through public education and awareness strategies.
administration of government initiatives	
• Work with the Shareholder to prepare an annual plan for all ICBC projects that support government initiatives for approval by Treasury Board.	• ICBC is working with the provincial government to establish an annual planning process for ICBC projects that are implemented in support of government initiatives.

The 2013 Government's Letter of Expectations is posted on our website at icbc.com. It continues ICBC's mandate to provide Basic and Optional auto insurance in an integrated manner with rates that are not based on age, gender or marital status, and to provide vehicle registration and licensing, driver licensing, violation ticket administration and government fine collection services on behalf of the provincial government. It continues many of the expectations from the 2012 Government's Letter of Expectations and, for 2013, includes direction to support the implementation of Government's new BC Services Card and continue to support Government's priority policy objectives and any new priority transformational initiatives. It also directs the corporation to implement the ICBC action plan in response to the 2012 Government Review and provide regular quarterly progress updates to government.

icbc board governance

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board and management approve our vision, mission, and values that guide us. The Board sets overall corporate strategy, our goal and the objectives and strategies upon which accountability and performance are evaluated. Performance is reviewed and reported regularly.

As a Crown corporation, ICBC's Board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of members with a broad range of expertise and experience. The individual members each play an important role and also contribute as members of committees of the Board. The chart on page 95 shows ICBC's Board of Directors and its committees, members and mandates.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. ICBC's Board complies with the provincial government "Board Resourcing and Development Office Guidelines" and has adopted the guiding principles of the "Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines". These principles provide an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

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

Additional information is available on our website at icbc.com/about-ICBC/company_info/corporate_governance.

ICBC board of directors and executive committee

Brian Jarvis, Catherine Aczel Boivie, Kellee Irwin, Steve Crombie, Ronald Olynyk, Kathy Parslow, Rick Thorpe, Len Posyniak, Maureen Howe

Stacy Shields, Andy Platten, Sheila Eddin, Jatinder Rai, Mark Blucher, Byron Horner, Geri Prior, Paul Taylor, William Davidson

Mark Blucher, Interim President and Chief Executive Officer

Steve Crombie, Vice-President, Communications & Marketing

Sheila Eddin, Vice-President, Transformation

Kellee Irwin, Vice-President, Insurance & Driver Licensing (Acting)

Brian Jarvis, Vice-President, Claims (Acting)

Kathy Parslow, Vice-President, Corporate Services

Andy Platten, Chief Information Officer

Len Posyniak, Vice-President, Human Resources

Geri Prior, Chief Financial Officer

Board Members

Paul Taylor, Chair
Catherine Aczel Boivie
William Davidson
Byron Horner
Maureen Howe
Ronald Olynyk
Jatinder Rai
Stacy Shields
Rick Thorpe

Board governance structure

board of directors

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

chair: Paul Taylor

members: Catherine Aczel Boivie, William Davidson, Byron Horner, Maureen Howe, Ronald Olynyk, Jatinder Rai, Stacy Shields, Rick Thorpe

executive committee

mandate: The primary role of the Executive Committee is to lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors (Board) of ICBC.

interim president and CEO: Mark Blucher

members:

Steve Crombie, Vice-President, Communications & Marketing

Sheila Eddin, Vice-President, Transformation

Kellee Irwin, Vice-President, Insurance & Driver Licensing (Acting)

Brian Jarvis, Vice-President, Claims (Acting)

Kathy Parslow, Vice-President, Corporate Services

Andy Platten, Chief Information Officer

Len Posyniak, Vice-President, Human Resources

Geri Prior, Chief Financial Officer

In 2012, Jon Schubert resigned as President and Chief Executive Officer after serving for four years. ICBC and its Board of Directors thank Jon for the leadership and guidance he has provided for our corporation.

governance committee

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

chair: Jatinder Rai

members: Catherine Aczel Boivie, Byron Horner

audit committee

purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.

chair: William Davidson

members: Byron Horner, Ronald Olynyk, Rick Thorpe

investment committee

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

chair: Maureen Howe

members: William Davidson, Ronald Olynyk

human resources and compensation committee

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

chair: Byron Horner

members: Maureen Howe, Jatinder Rai, Stacy Shields

transformation program committee

purpose: To assist the Board in overseeing the management of ICBC's business renewal efforts.

chair: Catherine Aczel Boivie

members: Ronald Olynyk, Rick Thorpe

government review committee

purpose: To implement the recommendations from the Government Review and to ensure implementation of the commitments made by the Board and to monitor outcomes.

chair: Rick Thorpe

members: Catherine Aczel Boivie, Byron Horner, Maureen Howe, Jatinder Rai, Paul Taylor

Insurance Corporation of British Columbia

head office

151 W Esplanade
North Vancouver, BC
V7M 3H9

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

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

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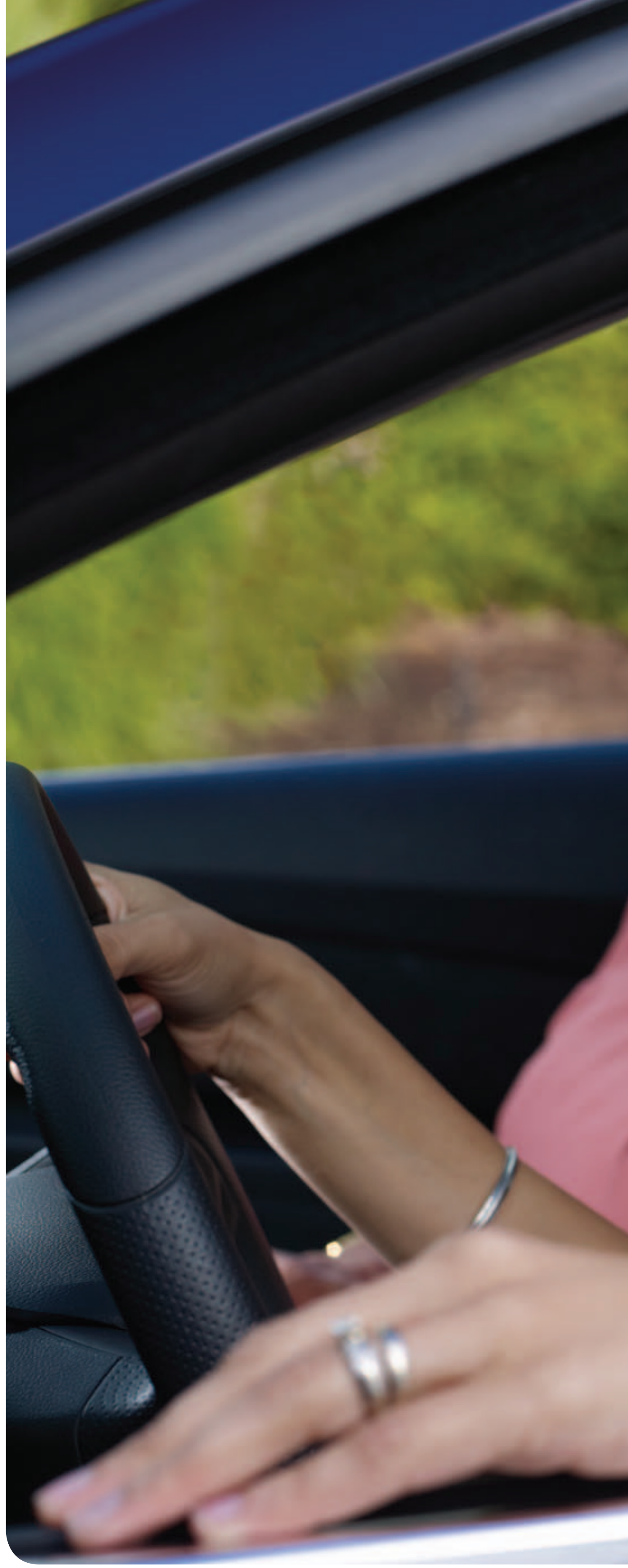

BRITISH COLUMBIA

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