

Financial Results

ICBC has posted a net loss of \$860 million for the first nine months of its current fiscal year (April 1 to December 31, 2018) as the pressures caused by the rising cost of claims continues to escalate.

Net claims incurred are \$602M higher than the previous year mainly due to a higher emergence of large loss bodily injury claims which run into hundreds of thousands of dollars each, as well as a continued increase in the average cost per claim and lower closure rates, particularly on represented claims. The higher emergence of large bodily injury claims also resulted in the net loss for the Optional insurance line of business.

Current year claims are \$279M higher than prior year primarily due to the increased cost per claim of bodily injury claims and material damage claims.

The upcoming reforms to the auto insurance system in B.C., being implemented on April 1, have had a positive impact on our financial results, as reflected in the deferred premium acquisition costs adjustment.

ICBC's investment income – which is relied on to help mitigate the pressure on insurance rates – has been unfavourably impacted by lower than expected capital gain and income distributions from pooled equity funds and asset impairments.

ICBC's continues to manage the company efficiently as indicated by the low expense ratio, which continues to be significantly lower than industry benchmark.

ICBC's Minimum Capital Test ratio – an industry measure used to determine whether a company has sufficient capital levels – is significantly lower than last year as a result of the continuing deterioration of our capital levels due to the overall net loss.



Statement of Operations

For the Nine Months Ended December 31, 2018 and 2017 ¹

(\$ Millions)	Basic		Optional		Corporate	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Premiums written	\$ 2,682	\$ 2,500	\$ 1,981	\$ 1,744	\$ 4,663	\$ 4,244
Premiums earned	2,574	2,383	1,821	1,640	4,395	4,023
Service fees and other income	57	52	36	33	93	85
Total earned revenues	2,631	2,435	1,857	1,673	4,488	4,108
Current year claims	2,835	2,561	1,256	1,251	4,091	3,812
Prior years' claims adjustments	421	251	344	191	765	442
Net claims incurred	3,256	2,812	1,600	1,442	4,856	4,254
Claims services, road safety and loss management services	209	195	100	101	309	296
Total claims and related costs	3,465	3,007	1,700	1,543	5,165	4,550
Administrative and Insurance expenses	92	90	116	103	208	193
Premium taxes and commissions	168	157	353	315	521	472
Deferred premium acquisition costs adjustment	(200)	159	(32)	(30)	(232)	129
Total claims and expenses	3,525	3,413	2,137	1,931	5,662	5,344
Underwriting loss	(894)	(978)	(280)	(258)	(1,174)	(1,236)
Investment income	286	267	121	129	407	396
Loss - insurance operations	(608)	(711)	(159)	(129)	(767)	(840)
Provincial licences and fines	472	470	-	-	472	470
Less:						
Licences and fines transferable to the Province	472	470	-	-	472	470
Non-insurance operating expenses	70	71	-	-	70	71
Commissions	23	24	-	-	23	24
Total non-insurance expenses	565	565	-	-	565	565
Loss - non-insurance operations	(93)	(95)	-	-	(93)	(95)
Net loss before income transfer	(701)	(806)	(159)	(129)	(860)	(935)
Income transfer	-	99	-	(99)	-	-
Net loss after income transfer	\$ (701)	\$ (707)	\$ (159)	\$ (228)	\$ (860)	\$ (935)
Insurance Industry Ratios						
%	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Loss ratio	134.6	126.2	93.4	94.1	117.5	113.0
Expense ratio	13.9	14.6	25.1	25.4	18.6	19.0
Combined ratio	140.8	147.4	117.4	117.7	131.1	135.3

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



Statement of Financial Position

As at December 31, 2018 and March 31, 2018 ¹

(\$ Millions)	December 31 2018	March 31 2018
Assets		
Cash and cash equivalents	\$ 119	81
Asset held for sale	201	-
Financial investments	15,268	14,647
Premium and other receivables	1,781	1,652
Investment properties	865	1,134
Property, equipment and intangible assets	398	407
Accrued pension benefits	44	44
Deferred premium acquisition costs and prepaids	175	21
	<u>\$ 18,851</u>	<u>\$ 17,986</u>
Liabilities and Equity		
Liabilities		
Current liabilities	\$ 366	\$ 372
Bond repurchase agreements and investment-related liabilities	1,807	1,606
Premium deficiency	-	117
Unearned premiums and premiums and fees received in advance	2,947	2,698
Pension and post-retirement benefits	333	310
Provision for unpaid claims	13,517	11,896
	<u>18,970</u>	<u>16,999</u>
Equity		
Retained earnings	273	1,133
Other components of equity	(407)	(161)
Equity attributable to parent corporation	(134)	972
Non-controlling interest	15	15
	<u>(119)</u>	<u>987</u>
	<u>\$ 18,851</u>	<u>\$ 17,986</u>
Minimum Capital Test ("MCT")	-17%	31%

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

Combined ratio

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

Deferred premium acquisition costs ("DPAC ") Adjustment

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

Expense ratio

The ratio of operating expenses (excluding claims costs and claims-related costs), premium taxes and commissions to premiums earned. It excludes the DPAC adjustment, and Rate Affordability Action Plan implementation costs as it is a one-off project. A lower expense ratio is better.

Loss ratio

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

Minimum Capital Test ("MCT")

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

Rate Affordability Action Plan

ICBC is implementing the Rate Affordability Action Plan project to improve its financial performance and to increase the affordability of insurance rates for British Columbians. The focus of the plan includes product reform, rate design, road safety initiatives and cost effectiveness, which includes improving vendor management for material damage suppliers.