

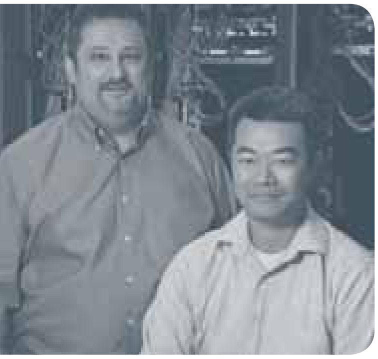




2013 Annual Report

ICBC

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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Claims Transformation

"Working on the Claims Transformation portfolio with employees from Claims and other business areas has been a great opportunity and a positive learning experience."

Drew White, material damage estimator

Drew is among many ICBC employees who, as subject matter experts in their particular fields, have contributed their knowledge and experience to help successfully launch ICBC's new claims system.

letter of transmittal and accountability statement

Minister Responsible for the Insurance Corporation of British Columbia
Members of the Board of Directors for the Insurance Corporation of British Columbia
Province of British Columbia

The 2013 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, 2013 in relation to the Revised Service Plan 2013–2015. The measures presented are consistent with ICBC's mandate and corporate strategy, and focus on aspects critical to the organization's performance.

As the Interim 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, 2013, 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 Revised Service Plan 2013–2015 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, 2013.

Sincerely,

Jatinder Rai
Interim Chair of the Board of Directors

key financial and operating comparatives

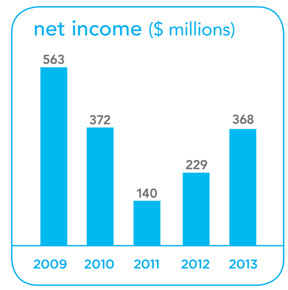
five year comparison[1] for the years ended December 31	2013	2012[2]	2011	2010	2009
For the year ($000):					
Premiums earned	3,927,694	3,811,386	3,673,210	3,667,324	3,650,025
Service fees	56,640	53,797	50,352	54,628	58,807
Provision for claims occurring in the current year	3,167,560	3,022,699	2,880,130	2,754,077	2,648,193
Change in estimates for losses occurring in prior years[3]	(54,390)	(69,234)	(14,392)	(2,039)	2,355
Claims services, road safety and insurance operating costs	488,577	492,536	497,465	505,923	488,735
Transformation Program (TP) expenses	28,578	24,441	31,645	34,775	–
Insurance premium taxes and commissions	487,742	474,392	457,437	446,015	432,017
Deferred premium acquisition cost (DPAC) adjustments[3]	52,946	(11,351)	59,924	31,180	2,807
Non-insurance expenses	118,827	120,693	112,692	110,139	104,258
Investment income	670,931	443,126	441,480	530,319	532,477
Restructuring[3]	(2,686)	24,968	–	–	–
Net income	368,111	229,165	140,141	372,201	562,944
At year end ($000):					
Cash and investments[4]	13,528,149	12,305,412	11,476,238	11,577,928	11,129,061
Total assets	15,149,965	13,855,282	12,928,133	12,957,995	12,643,599
Total liabilities	11,507,189	10,607,965	10,001,659	9,758,908	9,026,784
Equity:					
– Retained earnings	3,145,597	3,014,486	2,654,079	2,683,364	3,214,655
– Other components of equity	497,179	232,831	272,395	515,723	402,160
Total equity	3,642,776	3,247,317	2,926,474	3,199,087	3,616,815
Autoplan policies earned[5]	3,429,000	3,372,000	3,321,000	3,281,000	3,225,000
Average premium ($)[6]	1,130	1,100	1,079	1,092	1,100
Claims reported during the year[7]	917,000	915,000	900,000	895,000	946,000
Loss ratio (%)[8]:					
– Current year (%)	88.8	87.8	87.2	84.1	81.3
– Prior years' claims adjustments (%)[3]	(1.4)	(1.8)	(0.4)	(0.1)	0.1
Loss ratio (%)	87.4	86.0	86.8	84.0	81.4
Expense ratio (%):					
– Insurance expense ratio (%)[9]	16.7	16.9	17.3	17.0	16.4
– Transformation Program expense ratio (%)	0.7	0.6	0.8	0.9	–
– Non-insurance expense ratio (%)	3.0	3.2	3.1	3.0	2.9
Expense ratio (%) (excluding restructuring)	20.4	20.7	21.2	20.9	19.3
Restructuring expense ratio (%)	–	0.7	–	–	–
Expense ratio (%)	20.4	21.4	21.2	20.9	19.3

1 Financial information since 2010 is prepared based on International Financial Reporting Standards (IFRS). Financial information for 2009 is prepared in accordance with pre-IFRS changeover Canadian generally accepted accounting principles (GAAP).
2 2012 has been restated for comparative purposes to reflect the adoption of IAS 19 (Amendment) Employee Benefits and other adjustments. 2009 to 2011 have not been restated.
3 ( ) denotes a favourable adjustment, i.e., a reduction in expense.
4 Includes investment properties.
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, DPAC adjustment and other unusual items).

performance highlights

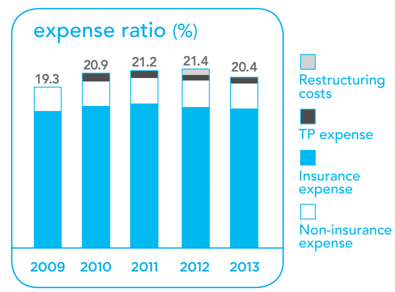
net income

In 2013, ICBC recorded net income of $368 million, an increase from 2012 due to higher premium revenue and investment income, despite the impacts of higher claims costs. Net income contributes to retained earnings which helps protect policyholders against significant unexpected losses and volatile rates.



expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization. The expense ratio was lower in 2013 due to the efforts to manage operating costs and discretionary spending. ICBC's ratio is consistently better than the industry benchmark.

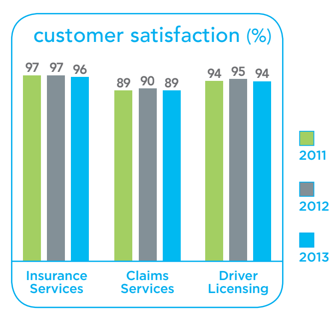


loss ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product. The 2013 loss ratio is higher than 2012 due to the higher average cost of bodily injury claims and a smaller release of prior years' claims reserves.

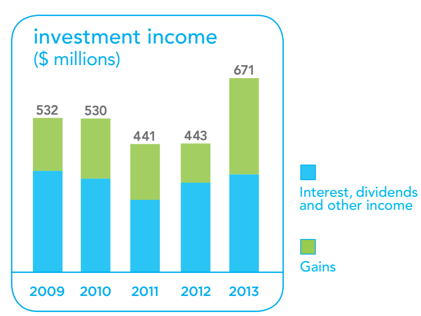
customer satisfaction

In 2013, ICBC continued with strong customer satisfaction levels for Insurance Services, Claims Services and Driver Licensing.



investment income

ICBC's investments generated an income of $671 million in 2013, primarily due to strong equity gains associated with a change in the management structure of ICBC's equity portfolios to reduce income volatility. Income from investments helps to reduce the amount of premiums that would otherwise have to be paid by customers.



message from the chair and the president

The fundamentals of our business were strong in 2013, despite rising bodily injury (BI) claims costs which continued to put pressure on vehicle insurance rates. The majority of our key financial measures, including net income, met or exceeded our targets for the year. We had a successful start to the largest technology systems upgrade in the company's history. And while the phased replacement of our aging legacy systems continued, our employees kept their focus on meeting customer needs, as evidenced by strong customer service survey scores for all lines of business.

A key priority for 2013 was managing increasing BI claims costs, a trend largely driven by increased legal representation rates and rising medical costs. Several cost management measures were implemented during the year, such as simplifying some claims processes for customers and improving how we manage costs and disbursements. These did help slow the increase in BI costs. However, this trend continues to be a significant challenge to our efforts to keep customers' rates low.

Rates increased effective November 1, 2013 on an interim basis which for most of our customers averaged less than a dollar a month. As a result of BI claims cost pressures — which primarily affect the Basic insurance side of our business — we applied to the BC Utilities Commission for an increase of 4.9% to Basic rates which is lower than the actual rate indication as a component of costs has been excluded for the 2013 policy year as required by regulation. At the same time we reduced Optional insurance rates by an average of 4%; moderating the impact on the majority of customers. Approximately 80% of our customers purchase their full personal vehicle insurance from ICBC, and therefore will see a combined average increase of about $11 a year.

We know our customers want us to limit the degree of rate volatility from one year to the next. To support this, ICBC worked with government to implement a new rate smoothing framework that helps moderate rate fluctuations.

Also a corporate priority for 2013 was maintaining our focus on efficiency and continuous improvement. All business units continued to hold the line on spending, resulting in total operating costs being below budget for the year. Many of the 24 recommendations from the BC government's 2012 review of ICBC's operations were about reducing costs. We implemented most of these recommendations during 2012, and the majority of the remaining commitments were accomplished in 2013.

The ongoing transformation of our systems and processes is designed to help ICBC provide better customer service and lower operating costs, which in turn will help mitigate future rate increases. In late 2013 an important milestone was reached with the successful launch of a new claims system, which will improve the quality, consistency and timeliness of our claims handling. Phased implementation continues and will be completed in 2014. Work will also continue — with the participation of our broker partners — on a new insurance system that will improve customer experience at the point of sale.

Working with key community and government partners, we remain committed to reducing injury and death on BC roads through education, enforcement and road improvements. A particular focus has been to raise awareness about the risks and consequences of high-risk driving behaviours such as distracted driving, a leading cause of fatal crashes in BC with an average of 91 deaths per year.

We wish to thank our customers, employees, brokers and business partners for their continuing support.

Jatinder Rai
Interim Chair of the Board of Directors

Mark Blucher
President and Chief Executive Officer

Susan Simone, claims administration manager (left) and Sherman Lee, instructor, team up to deliver classroom training to employees who will be working with the new claims system.

Susan and Sherman are among 13 training teams who delivered classroom instruction to approximately 900 employees in preparation for the fall 2013 phase 1 launch of the new claims system.

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 118 points of service, including driver licensing offices, 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. 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 is liable and 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 (not all available coverages are listed here):

Vehicle

- Collision
- Comprehensive
- Vehicle in Storage
- New Vehicle Replacement Plus
- Replacement Cost Coverage
- Collector and Multi-Collector
- Vintage Vehicles
- Off Highway Pleasure Use

Individual and Family

- Extended Third-Party Liability
- Excess Underinsured Motorist Protection
- Loss of Use
- Rental Vehicle
- RoadStar
- Roadside Plus

Industry

- Conversion
- Farm/Industrial Vehicle
- Additional Insured
- Non-Owned Vehicle Damage & Third-Party Liability
- Trailer Floater Licence & Insurance
- Repairer Licence & Insurance

** 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 Transportation and Infrastructure, the Ministry of Justice, 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.

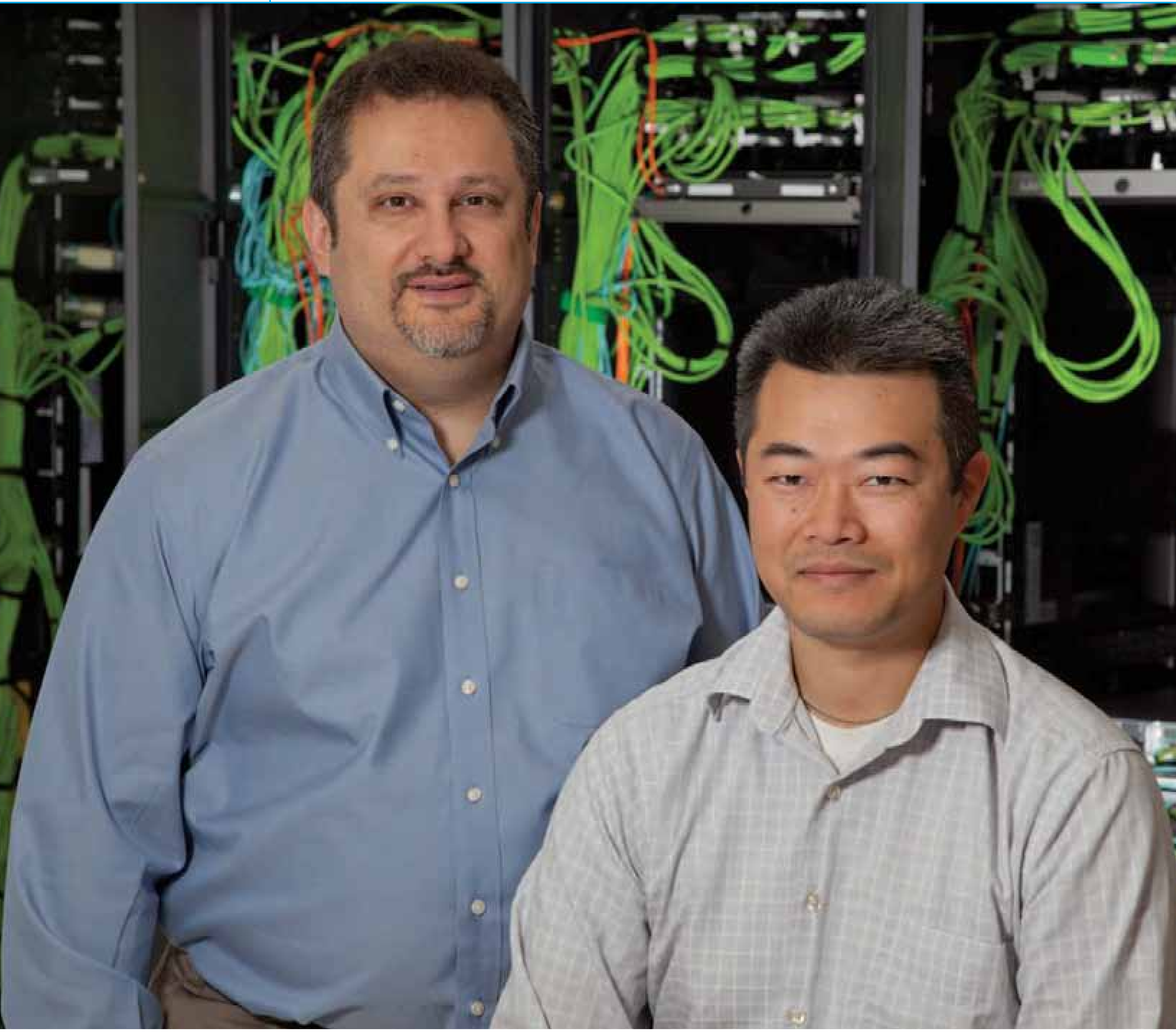
The driver licensing services we provide include driver testing and licensing, the administration of programs such as the Graduated Licensing Program, the regulation and oversight of the driver training industry in the province and administration of provincial violation tickets. We also support the Office 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.

ICBC also delivers other priority non-insurance products that are essential to government's mandate including the BC Services Card.

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

"This is what I wrote about in planning for our future needs. It's actually happening now and it's exciting to see it come to life."

Chuk Yeung, information services solutions leader



Integration Services project team members Tom Rados (left) and Chuk Yeung helped install an integration toolkit that improves the sharing of information among ICBC's various data systems.

report on performance

ICBC's corporate vision is to be BC's preferred auto insurer, providing protection and peace of mind. ICBC's corporate strategy for 2013 reflects its focus on working to keep insurance rates as low as possible for drivers, which is of critical importance to customers and the people of British Columbia. ICBC faces a challenging environment of increasing bodily injury claims costs, investment returns impacted by an uncertain world economic outlook and a low interest rate environment. Of critical importance will be the need to continue exercising fiscal constraint in our operating costs and implementing a multi-pronged strategy to address claims costs in both the short and long term.

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 earn their trust. We will do this by keeping auto insurance rates as low as possible and delivering excellent service consistently in areas important to them. To be successful, we aim to be a performance-driven corporation where our people are accountable, aligned, enabled and motivated to achieve this goal.

- **Improve Customer Experience Objective:**
  - Understand our customers and deliver on what is important to them.
  - Build effective relationships with stakeholders to support improved customer experience.

- **Improve Employee Experience Objective:**
  - Support our people through change.
  - Develop accountable, aligned, enabled and motivated leaders and employees.

- **Maintain Financial Stability Objective:**
  - Keep rates as low as possible while moderating rate fluctuations.
  - Manage increasing bodily injury claims costs.
  - Deliver an efficient and cost-focused corporation.
  - Align with our shareholder to support government priorities.

performance management systems

To assess progress against our goal and objectives, we rely on a number of financial and non-financial corporate performance measures. We use both International Financial Reporting Standards (IFRS) and non-IFRS measures to assess performance. Non-IFRS measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures used by other companies in our industry. 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 2013 performance results relative to the measures and targets outlined in ICBC's Revised Service Plan 2013–2015. Performance targets for 2014, as outlined in our Service Plan 2014–2016, are also provided.

improve customer experience

multi-year strategy and measures: Revised Service Plan 2013–2015*

strategy	measures
• Understand our customers and deliver on what is important to them. • Build effective relationships with stakeholders to support improved customer experience.	• insurance services satisfaction • driver licensing satisfaction • claims services satisfaction

** Objectives, strategies and measures for 2014 and future years are reflected in ICBC's Service Plan 2014–2016.*

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

We know that getting in a crash and dealing with the aftermath is stressful, particularly for those for whom English isn't their first language. That's why in 2010 we introduced LanguageLine, a free over-the-phone translation service in more than 170 languages, accessible through Dial-a-Claim and at all ICBC claim centres and selected driver licensing offices. In 2013 we enhanced the service further, introducing a dedicated Punjabi claims line. This toll-free number allows our Punjabi-speaking customers to immediately connect with a LanguageLine interpreter who can help them discuss their claim with ICBC. We expect to extend this service to our Mandarin- and Cantonese-speaking customers by 2015.

We improved driver licensing services to our customers in the Richmond area by opening a new full-service driver licensing office (DLO) at Lansdowne Centre. Replacing the aging and outdated Minoru Boulevard office and the limited-service Ironwood Mall location, the new office is larger, better-equipped, and centrally located with good transit access and plenty of parking. It offers longer hours six days a week, and is the only DLO in the area where all three types of driving knowledge tests (drivers, motorcycles and commercial) can be taken on a Saturday. With the lease on the 42-year-old Minoru facility expiring, the Lansdowne location was the most cost-effective option, and consolidating the two Richmond offices into one helps us continue to manage our costs while also improving the customer experience.

In February 2013 our driver licensing offices and appointed agents helped successfully launch the BC Services Card, a new secure government identification credential that is replacing the Medical Services Plan CareCard and will eventually provide access to other government services. Eligible customers have the option of combining the BC Services Card with their BC driver's licence so they have one less card to carry. ICBC is providing front counter identity proofing and is producing the new cards through our existing card production facility.

Since it was released in 2011, our knowledge test practice app — a free downloadable program which allows new drivers to practice for the driving knowledge test on their mobile device — has proven enormously popular. In response to user feedback, in 2013 we enhanced the app by increasing the database of randomly-provided questions by 40% and bringing the practice test's degree of difficulty more in line with the real test.

For our commercial customers, we launched a new service to help operators of taxi and trucking fleets identify ways to reduce risk for their operations and drivers. The Safety and Hazard Management Evaluation Service was introduced to a test group of 25 fleet operators in late 2013, and will be extended to more fleet customers in 2014 as a value added service. Operators using the service voluntarily undergo a detailed evaluation of their operating and safety practices by an ICBC fleet safety expert, who then provides a report and briefing on the findings, and — if asked — advises them on ways to improve their safety record and potentially lower their insurance costs.

We operate in a competitive marketplace for Optional auto insurance, and are continually seeking ways to improve our Optional lines to better meet customer needs. Last year we enhanced our suite of new vehicle replacement products — which provide extra protection for owners of new vehicles — by making more customers eligible to buy them. Now our New Vehicle Replacement Plus coverage is also available on two-year-old vehicles, used vehicles (up to model year 2) and vehicles up to 5,500 kg GVW (gross vehicle weight), which means owners of light trucks can also purchase this coverage. We helped brokers promote the enhanced product with point-of-sale posters, insurance renewal notice inserts and air freshener giveaways to remind customers of that "new car smell."

Our partnership with BC's independent insurance brokers is critical to our success. So it was especially gratifying when members of the Insurance Brokers Association of BC ranked ICBC number one among BC's Optional auto insurance providers in the association's biennial Insurer Performance Survey, published in the December 2013 edition of *BC Broker* magazine. The survey rated insurance companies on a wide range of performance criteria.

In this increasingly digital age, customers are rightly concerned about the security of their personal information. We've made it easier for customers to get comprehensive information about ICBC's policies and systems for protecting their information through one convenient location on our website, icbc.com. Along with details about our privacy policies and practices, the new website includes information on how customers can get answers to their privacy-related questions or concerns.

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.

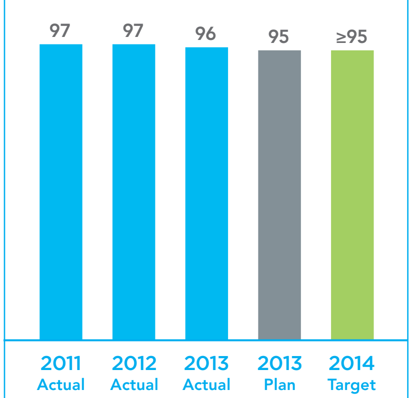
The design of our measures and targets reflects the inherent differences of these key transactions. An independent research firm conducts ongoing customer surveys throughout the year to monitor transactional satisfaction.

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 100,000 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 2013 plan of 95% was set to reflect our aim to maintain a high level of customer satisfaction. The 2013 result was 96%, which exceeded the plan. For 2014, the target has been set to reflect our aim of maintaining a level of customer satisfaction equal to 95% or higher.

insurance services satisfaction (%)
(higher is better)

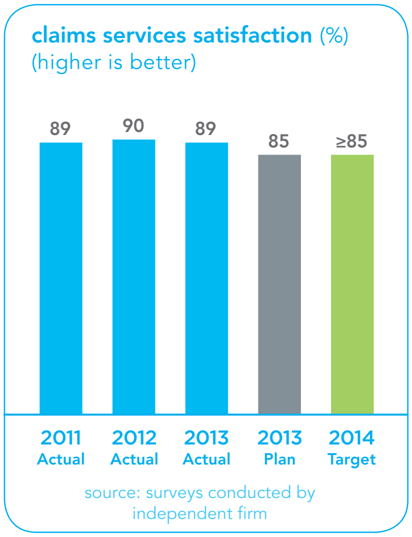


source: surveys conducted by independent firm

claims services satisfaction

In 2013, 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 12,000 customers surveyed throughout the year.

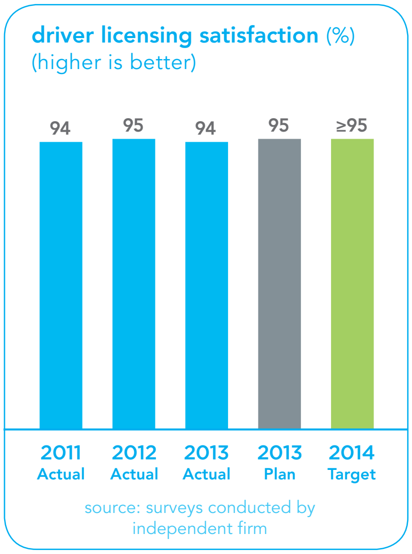
The 2013 plan was set at 85%, which is lower than prior years' results due to anticipated business changes, which had less impact than expected partly due to the delay and phased rollout of the new claims system. Claims services satisfaction was 89% in 2013, which exceeded the plan and was consistent with prior years' results. For 2014, we expect that customer satisfaction will be impacted as we continue with the implementation of the claims system and associated changes to business processes throughout the rest of the province. As a result, the target of 85% or higher has been set to reflect these expected changes.



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 3,000 customers surveyed throughout the year.

The 2013 plan of 95% was set consistent with historic norms. The 2013 results for driver licensing satisfaction, at 94%, is not a significant difference from the 2012 result of 95% and was consistent with prior years' results, which are typically over 90%. For 2014, the target has been set at 95% or higher, which is consistent with historical trends.



improve employee experience

multi-year strategy and measures: Revised Service Plan 2013–2015*

strategy	measures
• Support our people through change. • Develop accountable, aligned, enabled and motivated leaders and employees.	• employee engagement index

** Objectives, strategies and measures for 2014 and future years are reflected in ICBC's Service Plan 2014–2016.*

Aligned, enabled and motivated leaders and employees are critical to the achievement of our corporate strategy. Achieving this core priority requires a workplace that inspires our people, holds them accountable and provides them with the necessary tools, training and development to deliver to their potential.

We track employee engagement through an annual employee survey. Participation in the 2013 survey was higher than in the previous year's survey. However, the resulting index score, at 34%, was only slightly higher than the 2012 score and was short of our target. This was not unexpected given the challenging environment the company has been operating in over the last year, including the residual effects of a labour dispute in 2012, corporate restructuring and downsizing later that year, and ongoing process and systems change during 2013 as we modernize the company.

Claims employees, who make up more than half of ICBC's workforce, experienced significant change to prepare for the launch of our new claims system — the largest systems implementation in ICBC's history. In early 2013, many Claims employees transitioned into new roles as part of a revised job hierarchy, a new structure to better match employee skills and experience with the risk and complexity of claims files.

Following that realignment, we began training for the new claims system in a phased program of web-based and classroom training that by early 2014 will have involved 3,400 employees. Employees in ICBC's North Central region and Dial-a-Claim were first to begin handling claims in the new system, with the phase 1 launch in November. Startup issues were minimal and early returns positive. When fully implemented province-wide in 2014, the system will help us streamline work processes, provide better customer service, settle claims faster and mitigate future rate changes by lowering operating costs.

Employees throughout the company have been engaged in planning and implementing these systems changes. Subject matter experts have contributed their knowledge and experience to numerous transformation projects, while more than 160 Claims employees have been acting as "Super Users" to support their colleagues in rolling out the new claims system.

Our Employee Wellness team in 2013 continued to support and encourage employees to take ownership for healthier lifestyles. "Know Your Numbers" voluntary health screening clinics were held at ICBC offices across the province, enabling employees to check their health indicators on a confidential basis. Almost 300 employees participated in the "Path to Total Health" challenge, a six-month inter-office team wellness competition focused on daily exercise, healthy eating and stress reduction.

Employees also involved themselves in company-supported environmental initiatives such as the Commuter Challenge and Bike to Work Week. These annual events, as well as more localized initiatives, are promoted by ICBC's Green Team, a peer network of environmentally-committed employees in offices across the province. Employee suggestions and feedback around energy conservation and reducing paper consumption also play a role in the company's ongoing efforts to reduce our carbon footprint by 33% by 2020.

For the third 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.

performance measures, targets and results:

employee engagement

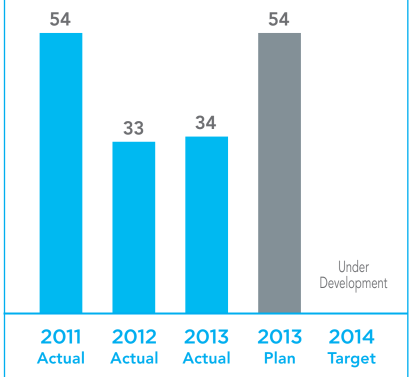
This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the company to co-workers, potential employees and customers; the level of desire they have to be a member of the company; and the degree of extra effort and dedication they are willing 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 ICBC employees were invited to take part in the 2013 Employee Opinion Survey in September/October. The participation rate increased from 65% in 2012 to 71%, which is closer to historic norms. The 2013 index score was 34%, slightly above the 2012 score of 33% but below our target of 54%. Despite best efforts, ICBC received the results it did given the challenging operating environment during 2013, including residual effects of the 2012 labour dispute, recent downsizing and restructuring and business changes related to ICBC's ongoing systems modernization.

The survey as currently structured allows us to gather employee opinion in a number of areas at a particular point in time. While we will continue to focus on employee experience as part of our corporate strategy, we are also exploring new methods and models to solicit and measure employee opinion in 2014 and beyond.

employee engagement index (%)
(higher is better)



source: surveys conducted by independent firm

maintain financial stability

multi-year strategy and measures: Revised Service Plan 2013–2015*

strategy	measures
• Keep rates as low as possible while moderating rate fluctuations. • Manage increasing bodily injury claims costs. • Deliver an efficient and cost-focused corporation. • Align with our shareholder to support government priorities.	• minimum capital test • combined ratio • loss ratio • expense ratio • investment return

** Objectives, strategies and measures for 2014 and future years are reflected in ICBC's Service Plan 2014–2016.*

ICBC has a responsibility to provide our customers with the best insurance coverage for the lowest possible cost. To do this, we must adapt to the changes that face all property and casualty insurance companies, including continuing to respond to increasing bodily injury (BI) claims costs as well as the effects of a low interest rate environment.

Claims costs of approximately $3 billion in 2013 make up most of the costs incurred by ICBC. Approximately 87 cents of every premium dollar collected goes to pay claims and claims-related costs. In 2013 we implemented a number of internal process changes to better manage claims costs. While these measures did help moderate the rise in BI claims costs, such costs remain the most significant source of pressure on our Basic insurance rates.

In August we filed our 2013 Revenue Requirement Application with the BCUC, requesting a Basic rate increase of 4.9%. This is lower than the actual rate indication as a component of costs has been excluded for the 2013 policy year as required by regulation under a new framework that uses capital to smooth in higher rates. The BCUC approved this rate change on an interim basis, effective November 1, 2013, and subsequently began a public review process to examine the factors underlying our rate application. The Commission will make a final determination in spring 2014. At the same time, we reduced Optional insurance rates by an average of 4%; moderating the impact on the 80% of our customers who purchase both Basic and Optional coverage from ICBC. For those customers, the combined rate changes mean an average increase of about $11 per year.

In conjunction with the rate application, we also filed a new Basic Capital Management Plan for BCUC approval, which will continue to protect the solvency of Basic insurance while incorporating a "rate smoothing" framework designed to moderate rate fluctuations from year to year.

Addressing BI claims costs was one of the corporate priorities for 2013. Along with implementing the new claims system, we maintained a sharp focus on cost efficiency and continuous improvement throughout the company. As a result, operating costs were better than plan for the year.

Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to offset the pressure of rising claims costs. However, in recent years our investment return has been impacted by low worldwide interest rates and volatile market conditions. For 2013, we achieved a significantly better investment return than the previous year, earning $671 million compared with $443 million in 2012. Part of this improved return was a result of the change in management structure of ICBC's Canadian and US equity portfolios designed to reduce income volatility. However, in the current low-interest investment climate, we cannot rely on investment income to offset claims cost increases to the extent we have done in the past.

Reducing crashes and auto crime is one way to reduce claims costs, and ICBC works with community partners on a variety of road safety initiatives. ICBC's continued partnerships with the Ministry of Justice and police on the province's Bait Car program helped drive down both vehicle theft and break-ins. Along with ongoing programs aimed at impaired driving, and our road improvement program targeting road hazards, addressing distracted driving has become a major focus. Distracted driving is a major cause of car crash fatalities in BC, with an average of 91 deaths per year due to driver distractions, such as using a personal electronic device behind the wheel. Our twice-yearly distracted driving campaigns combine multimedia advertising, stepped-up police enforcement and public awareness efforts by community volunteers.

These investments in safer roads benefit customers in two ways: reducing their risk of being hurt in a crash, and helping to keep insurance premiums down by reducing claims.

performance measures, targets and results:

minimum capital test

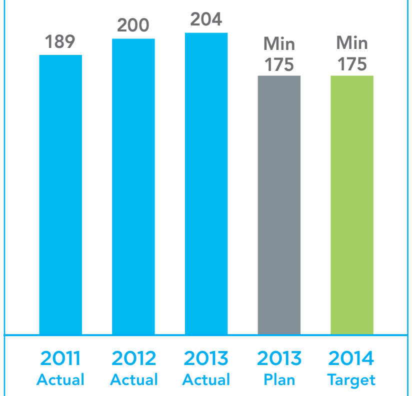
Minimum capital test (MCT) is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. MCT measures capital available, compared to capital required, and is used to assess whether a company has sufficient capital 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 Province of BC on an annual basis Optional capital in excess of the Optional MCT management target 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 2013, excess Optional capital of $237 million was transferred to the Province of BC. In addition, there was direction from the government to transfer the remaining excess Optional capital of $113 million to the Basic business.

Our 2013 MCT was 204% (see note 20 of the accompanying consolidated financial statements) and is higher than the minimum management target of 175% due to net income growth, higher unrealized gains on available for sale securities, a reserve to fund the TP, and the transfer of excess Optional capital to the Basic business as noted above. Excluding the TP reserve, the MCT ratio is still higher than the minimum management target. 2013 MCT is slightly higher than 2012 due to net income growth, an increase in unrealized gains on available for sale securities which were partially offset by the excess Optional capital transfer to the Province of BC.

ICBC has applied to the BCUC to raise the Basic capital management target level to account for the additional risk related to the proposed rate smoothing model. If approved, the new Basic capital target level will increase the Corporate minimum management target from 175% to approximately 190%.

minimum capital test (%)
(higher is better)



source: ICBC financial systems

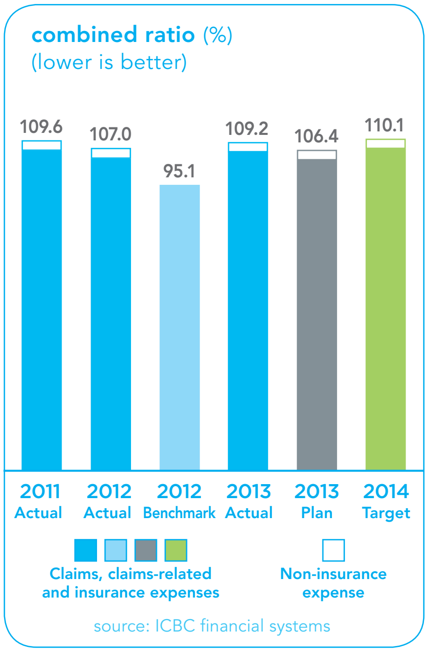
combined ratio

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 2013, non-insurance costs represented approximately three percentage points of the combined ratio.

The 2013 results are worse than plan mainly due to higher net claims costs and acquisition cost adjustments partially offset by operating cost savings. The 2013 results are worse than 2012 primarily due to higher net claims costs, acquisition cost adjustments and lower favourable prior years' claims adjustments partially offset by higher premiums earned. The P&C 2012 industry benchmark was 95.1%.[1]

The combined ratio target for 2014 reflects current expectations regarding claims cost trends and operating costs to premium dollars earned. Operating costs are anticipated to be relatively unchanged. The premiums earned assumes a Basic rate increase of 4.9% offset by an Optional rate decrease of 4%, effective November 1, 2013, pending BCUC approval of the Basic rate increase.



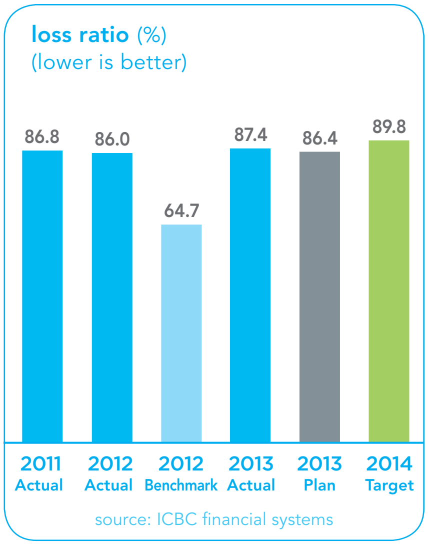
[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2013. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund). 2013 data not currently available.*

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 to help customers get well and to pay for vehicles and property to be fixed.

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 also results in a higher loss ratio for us relative to those insurers who may limit their exposure to such business.

The 2013 plan of 86.4% was consistent with 2012 results reflecting current expectations at the time the plan was set regarding claims costs trends and claims-related costs. In 2013, ICBC's loss ratio was 87.4%, higher than the plan ratio primarily due to higher injury claims costs partially offset by more favourable prior years' claims adjustments. The 2012 P&C industry benchmark was 64.7%.[2] The 2014 target is higher than 2013 reflecting current expectations of continuing higher bodily injury claims costs trends and claims-related costs.



[2] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2013. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2013 data not currently available.*

expense ratio

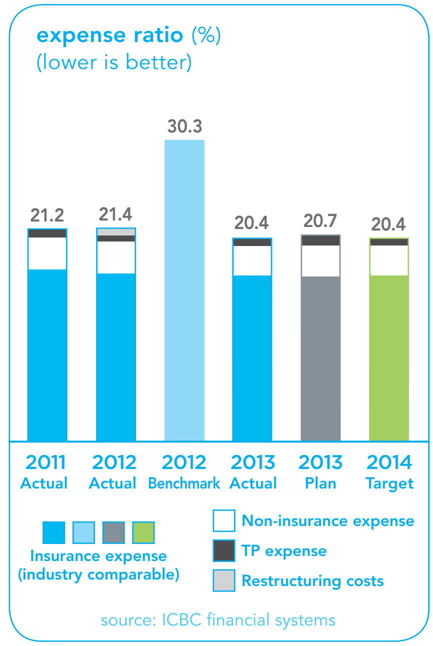
The expense ratio is a standard industry measure for assessing the operational efficiency of an organization and is the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are directly related to selling insurance such as general administration, commissions and fees 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.

The 2013 plan of 20.7% 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 while receiving benefits from the Transformation Program. The 2013 expense ratio of 20.4% is lower than plan due to our determined focus on managing discretionary spending, workload, resources and lower TP expenses. The expense ratio for 2013 is lower than 2012 mainly due to one-time, restructuring costs of $25 million in 2012 related to staff reductions (the impact of this provision was 0.7% of the expense ratio), and efforts to control operating cost spending and higher premiums earned.

Our expense ratio which, unlike the insurance industry, includes non-insurance costs, is still considerably lower than the 2012 P&C industry benchmark of 30.3%.[3] For insurers who predominantly write auto insurance, the ratio is 29.4%.[4] 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 2014 target for our expense ratio reflects the continued effort to control operating costs within the rates of inflation, although there will be higher depreciation associated with prior years' capital expenditures.



[3] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2013. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2013 data not currently available.

[4] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2013. Total Canadian Auto Writers Industry (excluding ICBC and SAF). 2013 data not currently available.

investment return

ICBC manages an investment portfolio with a carrying value of $13.5 billion at the end of 2013. 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 total equity. The income earned on these investments also helps to reduce the amount of premiums paid by policyholders.

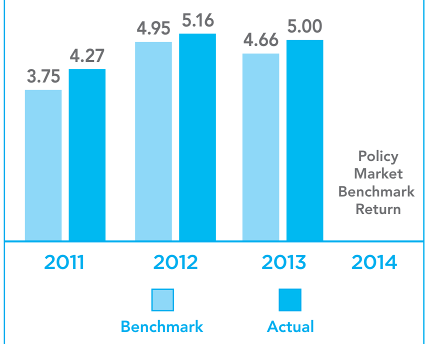
Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy 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 2014–2016 investment portfolio performance targets are set at the policy market benchmark four year annualized 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 2013, ICBC's four year annualized return was 5.00% and the comparable policy market benchmark was 4.66%[5], resulting in 0.34 percentage points higher than the market benchmark. In comparison, for 2012, ICBC's four year annualized return was 5.16%, or 0.21 percentage points higher than the market benchmark.

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



source: return calculated by independent firm[5]

[5] 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 2014 to 2016 target performance. The results reported below are based on the objectives, strategies and measures outlined in the Revised Service Plan 2013–2015, tabled in June 2013. The forecast of financial results for the next three years are as set out in ICBC's Service Plan 2014–2016.

Objective	Strategy	Measures	Actual 2011	Actual 2012	Plan 2013	Actual 2013	Target 2014	Target 2015	Target 2016
improve customer experience	Understand our customers and deliver on what is important to them	insurance services satisfaction	97%	97%	95%	96%	≥95%	≥95%	≥95%
	Build effective relationships with stakeholders to support improved customer experience	claims services satisfaction	89%	90%	85%	89%	≥85%	≥90%	≥91%
		driver licensing satisfaction	94%	95%	95%	94%	≥95%	≥95%	≥95%
improve employee experience	Support for people through change Develop accountable, aligned, enabled and motivated leaders and employees	employee engagement index	54%	33%	54%	34%	Under Development		
maintain financial stability	Keep rates as low as possible while moderating rate fluctuations	minimum capital test [1]	189%	200%	Min 175%	204%	175%	175%	175%
	Manage increasing bodily injury claims costs	combined ratio [2]							
		• claims costs, claims-related expenses and insurance expenses	106.5%	103.8%	103.3%	106.2%	107.1%	105.2%	104.7%
	Deliver an efficient and cost-focused corporation	• non-insurance expenses	3.1%	3.2%	3.1%	3.0%	3.0%	3.0%	2.9%
		total	109.6%	107.0%	106.4%	109.2%	110.1%	108.2%	107.6%
	Align with our shareholder to support government priorities	loss ratio [2]	86.8%	86.0%	86.4%	87.4%	89.8%	88.6%	88.1%
		expense ratio [2]							
		• insurance expense ratio (excludes DPAC)	17.3%	16.9%	16.6%	16.7%	16.4%	16.1%	15.8%
		• transformation program expense ratio	0.8%	0.6%	1.0%	0.7%	1.0%	0.7%	0.8%
		• non-insurance expense ratio	3.1%	3.2%	3.1%	3.0%	3.0%	3.0%	2.9%
			21.2%	20.7%	20.7%	20.4%	20.4%	19.8%	19.5%
		non-recurring expenses							
		• restructuring expense ratio	n/a	0.7%	n/a	n/a	n/a	n/a	n/a
		total expense ratio	21.2%	21.4%	20.7%	20.4%	20.4%	19.8%	19.5%
		investment return			Policy Market Benchmark Return		Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return
		• ICBC portfolio	4.27%	5.16%		5.00%			
		• policy benchmark	3.75%	4.95%		4.66%			
		excess	0.52%	0.21%		0.34%			

[1] Pursuant to legislative change effective April 2010, ICBC transferred $237 million in excess Optional capital (EOC) to the Province of BC in 2013 (2012–nil; 2011–$101 million). The remaining EOC of $113 million was transferred to the Basic business in 2013. Under direction from the government in 2012, the EOC of $373 million was transferred to the Basic business.

[2] 2012 has been restated for comparative purposes to reflect the adoption of IAS 19 (Amendment) Employee Benefits.

Customer Information File Project

"We've come a long way over the last few years and it's exciting to see all of the hard work that the teams have put in starting to come to fruition."

Amber Coady, director customer transformation

Customer Information File project team members (from left) Gary Khakh, Catherine Ng and Dwight Russell have been working to improve the consistency and reliability of ICBC's customer information database, ultimately leading to better customer service.

business risks and risk management

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization. Consistent with good governance and insurance sector practices, we seek to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within the risk appetite and tolerance established by ICBC's senior management and Board of Directors. This is managed throughout ICBC through adherence to the Board approved Corporate Risk Management Policy and Framework.

We apply the Framework to meet strategic performance objectives, enhance operational efficiency and sustain business operations. Managing risk is an ongoing process as new risks emerge; existing risks evolve; or the external environment changes, and risks may be reduced or eliminated through mitigation strategies or changes in ICBC's risk profile.

risk governance and oversight

The risk management responsibilities of the Board and its sub-committees are described in the terms of reference documents located on icbc.com. We maintain strong risk governance and oversight practices with a quarterly review of strategic risks by the Board and Executive Committee. These quarterly reviews provide for regular monitoring of the mitigation strategies in place to reduce these risks to levels agreed with the Board. In addition, strategic risks are assigned for oversight to one of the Board sub-committees, and at least once per year, the Executive risk owner(s) provides an in-depth update to the accountable Board sub-committee on the status of management's mitigation actions relative to the Board approved tolerance for the specific risk.

The following section describes the significant risks and uncertainties that could affect our future business results. Our associated risk mitigation activities have been incorporated into our strategy and detailed financial and operational plans. The significance of these risks is such that they alone or in combination could have material impacts on our customers, business operations, reputation, performance results and/or employees.

We have organized our risk discussion to align to the primary 2013 corporate objectives they relate to, although individual risks may impact more than one corporate objective.

improve customer experience

- **Customer Experience:** The risk that customer expectation is not met based on quality of service and level of satisfaction around interactions. 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.

  Throughout 2013, we continued our focus on external communications via newspaper, radio tags, online/social media (Facebook, Twitter) to answer customers' questions, address key business issues and provide targeted road safety campaigns to reduce injury and death on BC roads. As part of these efforts, ICBC launched a multi-language claims information campaign to help inform our customers about the claims process when an injury is involved, and to provide them with easy access to the information they need. The campaign, which launched in October 2012 and will run into 2014, focuses on providing the public with clear, factual information about access to medical benefits and the settlement process.

  In addition, ICBC introduced a dedicated Punjabi phone line for customers who speak Punjabi and need to discuss their claim. The dedicated Punjabi claims line is an enhancement of ICBC's existing claims translation service, which offers customers language assistance in more than 170 languages through an interpreter provided by LanguageLine Solutions. Further enhancements to this service will be made by 2015 for customers who speak Mandarin and Cantonese.

We are working on providing all of our customers with more choice in how they interact with us, including a secure online portal and mobility services where customers can have easy access to relevant information and 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 customers' needs.

- **Stakeholder Management:** There is a risk that key stakeholders may not be aligned to work with us to achieve our strategy and support our business model. 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. 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.

- **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 profitability in the Canadian P&C insurance industry create a potential for increased competition. We are working with technology providers to develop a new modern and flexible Insurance Sales & Administration System that will provide product and distribution capability to respond more quickly to market changes so we can deliver excellent service in areas that matter most to our customers.

- **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 our 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 and privacy requirements, including the ability to control access, are considered in the acquisition and implementation of any new software packages. The new claims system started implementation in 2013, and 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, our Board and suppliers to understand ICBC's expectation and policies in terms of protecting customer and corporate data.

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, this has been the case for bodily injury claims. This, combined with the continuing shift in the mix of bodily injury claims to a higher proportion of represented claims, resulted in a significant rate requirement and Basic rate application in 2013 to BCUC. 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 practices and strategies to reduce bodily injury severities and litigation costs. In 2013, and continuing into 2014, as part of ICBC's strategic objective to improve customers' experiences and trust in the claims handling process, we are implementing our new claims systems and tools, which will improve processes and procedures for employees, so that we can provide our customers with an improved claims experience.

  In 2013, we continued to focus on proactive strategies to reduce crashes that result in injury. These include public awareness campaigns on high-risk driving and road safety initiatives, as well as enhancement and expansion of the Intersection Safety Camera program along with supporting the province's road safety policy agenda on issues such as impaired driving and distracted driving.

  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 continuing to reduce our operating costs to minimize the impact on Basic insurance rates.

- **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 and help offset costs for policyholders. There is a risk that the market value of investments and/or investment income is negatively impacted by adverse changes in market credit, liquidity conditions, equity prices, interest rates or currency 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.

improve employee experience

- **Workforce Planning:** There is a risk that ICBC cannot deliver its core business, complete its change initiatives, or adapt to the needs of its customers and stakeholders because it cannot attract or retain leaders and employees with the experience, skills, competencies and capability to align with ICBC's strategic direction.

  As we continue with our business renewal efforts, we are also actively managing workforce capacity and the 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 meet customers' needs and to provide consistent service across the province.

  In 2013, as part of cost reduction and control initiatives, we continued implementation of our future state business model which envisions a flatter operating structure and a smaller organization overall. The Collective Agreement which remains in place covering the period July 1, 2010 to June 30, 2014, provides a workforce ready to serve ICBC's customers and deliver on the implementation of the Transformation Program. Our success depends on the capabilities and commitment of our team. Competition for highly skilled leaders and employees is recognized in the insurance industry and in specialized areas of the labour market. The loss of talent with key skills or any unresolved item within the Collective Agreement could have an adverse impact on our operations.

  By ensuring we are able to attract, develop and retain skilled leaders and employees in the company, we will enable the company strategy through having aligned and capable people.

other significant corporate risks

ICBC operates in a highly regulated environment and conducts its business in compliance with all relevant laws, regulations and insurance standards. Any regulatory changes or impending legislative requirements can have an impact on our business operations. There are specific internal oversight groups within ICBC who are responsible for ensuring compliance as well as conducting an environmental scan to identify emerging risk exposures as a result of any forthcoming changes that could affect ICBC business operations.

- **Business Renewal:** There is a risk that we do not deliver on the core capabilities of our business strategy due to the size, complexity and interdependency of business renewal activities which are being completed concurrently (the Transformation Program and other large corporate projects and initiatives). 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. Executive Committee, Board of Directors and a third-party independent risk advisor to the Board) ensure decisions align to the corporate strategy and the shareholder's priorities. 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 and experienced technology partners (i.e. principle of acquiring configurable, commercial off-the-shelf technology rather than custom building solutions). In addition, we have been successful in delivering technology solutions with minimal disruption to our customers as demonstrated by the initial implementation of our new claims handling software in Q4 2013 and other infrastructure projects before that. 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 and also position ICBC for the future.

- **Business Interruption and Catastrophic Loss:** In the event of losses resulting from catastrophes such as 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 for any single event and in any given year.

  Like any company, a catastrophic loss or unforeseeable crisis event can have a material impact on our business operations. The risk of business interruption is managed through three programs: Emergency Response, Business Continuity Planning and Information Technology Disaster Recovery planning. 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.

Insurance Transformation

"The new rating engine is our baby…and we expect it to grow and be an integral part of our insurance system going forward."

Ravinder Kahlon, manager insurance rating

Ravinder Kahlon was part of the team that implemented ICBC's new rating engine — a kind of 'super calculator' that rapidly processes the many variables used to set a customer's insurance premium. The rating engine is foundational to ICBC's new insurance point of sale system, now in development.

management's discussion and analysis

summary financial performance and forecast

This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of the company. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

The table below provides an overview of ICBC's 2013 financial performance relative to its Revised Service Plan 2013–2015 and a forecast of financial results for the next three years as set out in ICBC's Service Plan 2014–2016. These results and forecasts form the basis upon which key performance targets are set.

($ millions)	2012 Actual[1]	Prior Year Variance Better (Worse)	2013 Actual	Plan Variance Better (Worse)	2013 Plan[2]	2014 Forecast	2015 Forecast	2016 Forecast
Premiums earned[3]	3,811	117	3,928	(41)	3,969	4,104	4,276	4,426
Service fees	54	2	56	3	53	57	58	58
Total earned revenues	**3,865**	119	**3,984**	(38)	**4,022**	**4,161**	**4,334**	**4,484**
Provision for claims occurring in the current year	3,022	(145)	3,167	(68)	3,099	3,344	3,452	3,566
Change in estimates for losses occurring in prior years	(69)	(15)	(54)	51	(3)	9	10	9
Net claims incurred	**2,953**	(160)	**3,113**	(17)	**3,096**	**3,353**	**3,462**	**3,575**
Claims services and loss management[4]	323	2	321	13	334	331	327	323
Insurance operations expenses[4]	169	2	167	6	173	169	169	168
Transformation Program[4]	25	(4)	29	12	41	41	32	35
Premium taxes and commissions[4, 5]	463	(78)	541	(85)	456	499	510	533
Total expenses	**3,933**	(238)	**4,171**	(71)	**4,100**	**4,393**	**4,500**	**4,634**
Underwriting loss	**(68)**	(119)	**(187)**	(109)	**(78)**	**(232)**	**(166)**	**(150)**
Investment income	443	228	671	214	457	608	478	484
Restructuring[4]	25	28	(3)	3	–	–	–	–
Income – insurance operations	**350**	137	**487**	108	**379**	**376**	**312**	**334**
Non-insurance operations expenses[4]	93	1	92	2	94	97	99	100
Non-insurance commissions[4]	28	1	27	1	28	27	28	29
Net income	**229**	139	**368**	111	**257**	**252**	**185**	**205**
Excess Optional capital transfer to the Province of British Columbia	–		237		237	200	155	125
Long-term debt	Nil		Nil		Nil	Nil	Nil	Nil
Total liabilities	10,608		11,507		N/A	12,038	12,584	13,067
Capital expenditures								
Transformation Program	56		62		53	71	13	–
Non-Transformation Program	18		17		20	20	27	40
Total capital expenditures	74		79		73	91	40	40

[1] *2012 has been restated for comparative purposes to reflect the adoption of IAS 19 (Amendment) Employee Benefits and other adjustments.*
[2] *2013 Plan includes the adoption of IAS 19 (Amendment) Employee Benefits.*
[3] *Premiums earned are net of mid-term changes and cancellation refunds.*
[4] *See note 16 of the accompanying consolidated financial statements for details of Operating Costs by Nature.*
[5] *Premium taxes and commissions include deferred premium acquisition cost adjustments.*

Our 2013 net income of $368 million was $139 million higher than the 2012 net income of $229 million. This increase is primarily due to higher premiums earned and investment income. These were partially offset by higher claims costs, which in turn resulted in a higher deferred premium acquisition cost adjustment. The variances have been summarized in the table on the previous page.

premiums

Total premiums earned increased to $3,928 million in 2013 from $3,811 million in 2012. This is due to an increase in the number of policies sold by approximately 65,000 or 1.8%, and higher sales of Optional insurance coverages. In addition, the average premium increased due to the Basic insurance rate increase of 11.2% offset by the Optional insurance rate decrease of 6%, both effective February 1, 2012. Included in 2013 premiums earned is a provision to refund Optional customers who have overpaid on their Optional insurance premiums as a result of an incorrect vehicle description. This impacted on average less than 2% of Optional insurance customers annually. The refund covers overpayments for the last six years.

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 2013, service fees increased by $2 million from 2012 mainly due to higher premiums written.

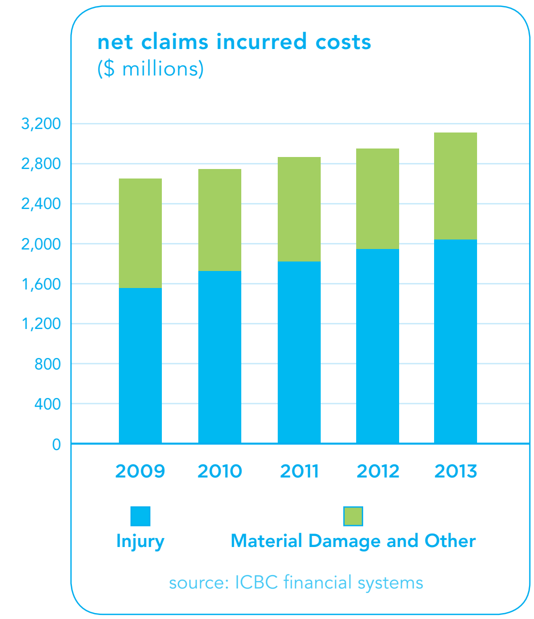
claims costs

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 2013 net claims incurred costs of $3,113 million were higher by $160 million compared to 2012. This was driven by current year claims costs increasing by $145 million, and a less favourable adjustment of $15 million to the estimation of prior years' claims costs compared to 2012.

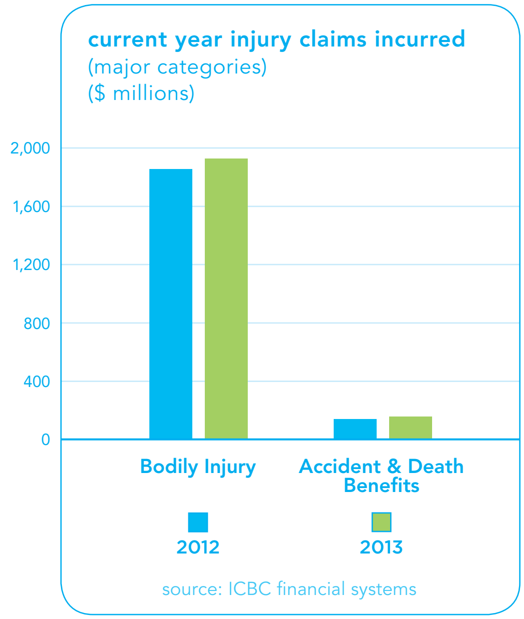


The overall average cost of current year claims that occurred in 2013 increased by approximately 4% over 2012 primarily resulting from an increase in the average cost of injury claims. In 2013, the frequency of injury claims is flat and the frequency of material damage claims has decreased by 2% compared to 2012.

injury claims

Current year injury claims account for over 65% of claims incurred costs in 2013, and include bodily injury (BI) 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.

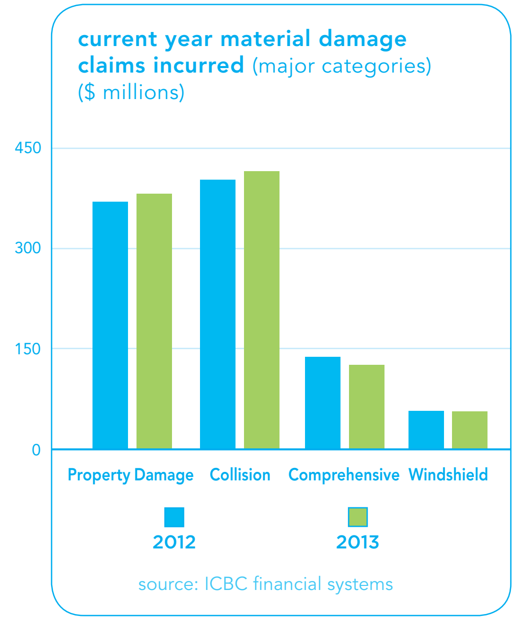
Overall, the total cost of current year injury claims increased by 5% in 2013 compared to 2012. This reflects the growth in the average cost of injury claims and the growth in policies.



Bodily injury claims costs accounted for 92% of all injury claims costs and increased by $73 million to $1,930 million in 2013 compared to 2012.

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 increased less than 2% in 2013 compared to 2012. An increase of 2% in the average cost of material damage claims due to general inflationary trends was partially offset by decreases in the frequency of comprehensive coverages from a reduction in auto crime due to enhanced policing efforts, and in the frequency of collision and property damage coverages due to drier than average 2013 weather.



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.

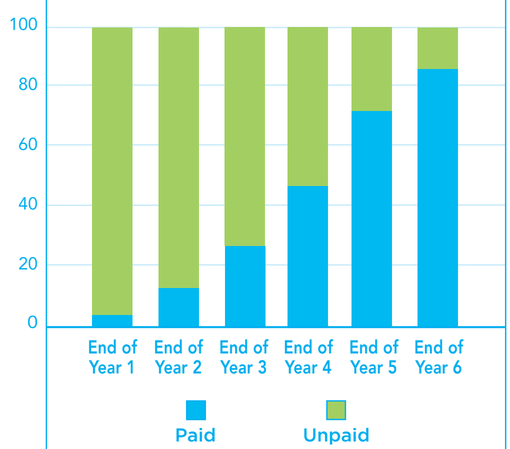
In 2013, the change in estimates for losses occurring in prior years (discounted) was reduced but is $15 million less favourable than the change in estimates made in 2012.

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 include a provision for adverse deviation (see note 2d of the consolidated financial statements).

The provision for unpaid claims at the end of 2013 was $7,513 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 accounts 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)
(%)



source: ICBC financial systems

We commission the services of an external actuary to provide an independent assessment of the provision for unpaid claims and, as part of the annual audit of the financial results, the external auditor 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.

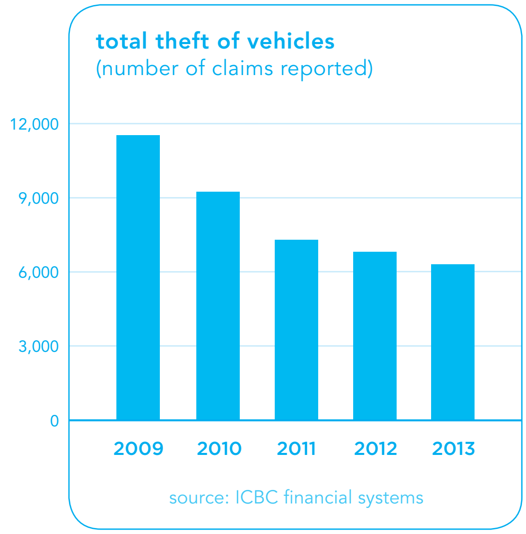
road safety and loss management

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 reducing the frequency and impact of crashes and crime.

In 2013, we invested $43 million in road safety and $8 million in loss management programs, which include auto crime and fraud prevention, investigation and detection. Using a safe systems approach, we target our road safety investments on the major risks that impact customers and costs in our business, including distractions, impaired driving, unsafe speed and crashes at intersections. To align with the corporate focus of managing bodily injury claims frequency, some programs were adjusted to focus on rear-end collisions and collisions involving cyclists and pedestrians.

We also partner with the provincial government and the RCMP on enhanced traffic enforcement and the Intersection Safety Camera program, with 140 dedicated digital cameras in 26 communities to deter drivers from running red lights. We continued our successful partnership with road authorities to reduce crashes at high-risk road locations by contributing to over 400 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 and investments in community programs such as steering wheel locks for high-theft vehicles contributed to a 7% claims reduction in stolen vehicles across BC in 2013 from 2012. Since 2003 when auto crime peaked in BC, our combined efforts, including legislative changes in vehicle design for anti-theft devices, have contributed to a 75% claims reduction in stolen vehicles across the province. The reduction in auto crime partially offsets claims cost pressures related to inflationary increases.



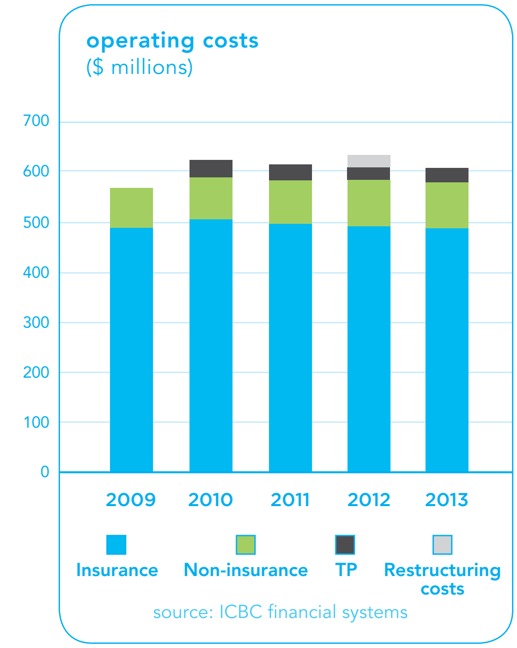
Through identification, investigation and deterrence, ICBC is committed to reducing the incidences of fraudulent claims, which protects customers from adverse impacts on premiums when fraud occurs. A Special Investigation Unit manages programs that prevent, detect and investigate fraud in all aspects 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.

We continued to focus on operating cost control and managing discretionary spending. General operating costs, excluding the Transformation Program and restructuring, of $580 million were 1% lower than 2012 due to lower compensation resulting from fewer staff after the 2012 corporate restructuring and our continued efforts to manage costs. 2013 was the fourth year for the Transformation Program, incurring $29 million of project operating expenses.

Included in total operating costs are non-insurance costs of $92 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 decreased by 2% over 2012.



Below is a table of total operating costs by nature, including the Transformation Program.

operating costs by nature ($ millions)	**2013**	**2012**
Employee benefit expense	$ 434	$ 445
Professional, administrative and other	114	109
Road improvements and other traffic safety programs	32	32
Depreciation & amortization	29	24
Restructuring	(3)	25
	$ 606	$ 635

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 commissions 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 deferred premium acquisition cost (DPAC) adjustment in the amount of $147 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. This was the case in 2013. 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.

Acquisition costs were $77 million higher than 2012. This resulted from higher injury claims costs which reduced the profitability of the Basic business causing the recognition of premium acquisition costs which otherwise would be deferred. Included in the increase were higher broker commissions of $5 million and higher premium taxes of $8 million due to higher premiums earned.

investments

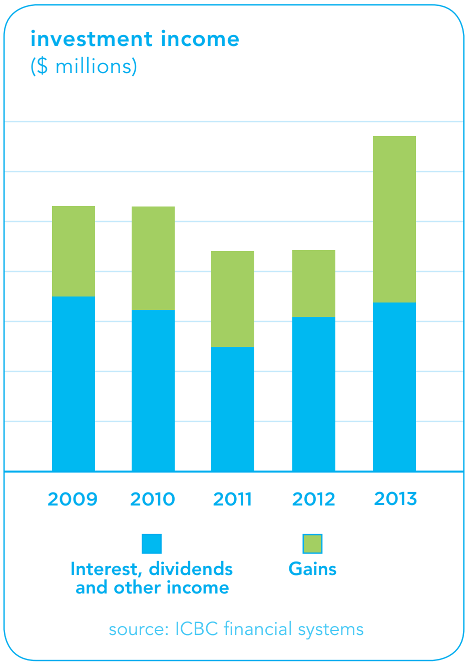
We have an investment portfolio with a carrying value of $13.5 billion which represents 89% of the company's total assets at the end of 2013.

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 a significant allocation to high-quality fixed income securities.

At December 31, 2013, 71% of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market, securities and mortgage instruments, while 29% of the portfolio was invested in equity and real estate investments.

investment income

In 2013, our investment income was $671 million. The increase of $228 million from 2012 primarily reflects the realization of investment gains associated with the change in management structure of ICBC's Canadian and US equity portfolios designed to reduce income volatility. Equity markets performed well in 2013 and ICBC's investment performance has benefited as the return on equity investments has helped to offset the impact of low bond yields.



Overall, these results equate to an accounting investment return of 5.3% in 2013 compared to 3.8% in 2012, based on the average investment balance during the year on a cost basis. The higher accounting return is reflective of strong investment income in 2013.

equity

Our equity includes retained earnings of $3,146 million and other components of equity (OCE) of $497 million as at December 31, 2013. 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 and unfavourable financial market situations which have been volatile in recent years, protect our policyholders and 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 to $597 million at December 31, 2013. 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 MCT ratio, a risk-based capital adequacy framework which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. 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 2013. At December 31, 2013, our total Corporate MCT level of 204% 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.

ICBC has applied to the BCUC to raise the Basic capital management target level to account for the additional risk related to the proposed rate smoothing model. If approved, the new Basic capital target level will increase the Corporate minimum management target from 175% to approximately 190%.

capital expenditures

In 2013, we incurred $79 million in capital expenditures relating to technology enhancements and facilities upgrades. Of these enhancements, $62 million were related to the Transformation Program (TP) compared to plan of $53 million. TP capital costs to date are $166 million. 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 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 net income of $3 million, which was $136 million better than 2012 net loss. The Basic net income increased from the prior year due to higher investment income from equity gains and higher premium revenue resulting from the Basic rate increase of 11.2% effective February 1, 2012, partially offset by higher injury claims costs and higher recognition of acquisition costs as they cannot be deferred due to lower profitability of the Basic business. The Optional insurance business generated net income of $365 million in 2013. Optional net income increased $3 million from the prior year's net income mainly due to higher investment income from equity gains, which was partially offset by higher injury claims costs and the Optional insurance average rate decrease of 6% effective February 1, 2012.

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 2013 results to the plan

Our net income for 2013 was $368 million, which was $111 million higher than plan. Higher investment income, which was $214 million higher than plan, is a significant contributing factor resulting from both gains realized on the sale of equities due to a change in management structure in the underlying portfolio designed to reduce income volatility, and strong equity returns.

Overall, net claims incurred costs were $17 million higher than plan. This was primarily due to current year bodily injury claims costs being higher than plan due to higher than expected average cost of BI claims resulting from an increased legal representation rate for BI claims. The increase in current year bodily injury claims costs was partially offset by lower expected costs to settle outstanding prior years' claims.

Operating costs of $580 million, inclusive of claims service, road safety and loss management, and insurance and non-insurance operations expenses, were $21 million below plan due to reduced discretionary spending, deferral of project costs and continued effort to manage workload and resources.

Premium taxes and commissions (including non-insurance commissions) of $568 million were $84 million higher than plan due to an unfavourable DPAC adjustment because of rising claims costs which allowed for less costs to be deferred (see page 38 for further discussion of DPAC).

The Transformation Program is a multi-year initiative and the program overall is on track, on budget and will be completed by 2016. Transformation Program project operating expenses included operational costs and depreciation expenses which were $29 million in 2013. This was $12 million lower than plan as the implementation of certain projects was delayed. This included $2 million in lower depreciation.

The excess Optional capital transfer to the Province of BC of $237 million is consistent with plan. There was also direction from the government to transfer the remaining excess Optional capital of $113 million to the Basic business.

financial forecasts

Our financial forecasts take into consideration the business risks and risk mitigation strategies currently in place. The net income forecast for 2014–2016 reflects expected growth in premiums, current expectations for 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 the excess Optional capital transfer to the Province of BC. More detailed information on ICBC's forecasts is provided in ICBC's Service Plan 2014–2016.

Finance Transformation

"It's been exciting working with different divisions and seeing how we can work together for a common goal."

Christina Chiu, manager finance transformation

As a member of ICBC's finance team, Christina Chiu has been working closely with other experts to help configure the new claims system and integrate it with SAP, the main system that holds ICBC's financial data. Ensuring a seamless flow of information is crucial to the success of ICBC's systems modernization.

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 and the appointed actuary 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
President and Chief Executive Officer

May 14, 2014

Geri Prior
Chief Financial Officer

May 14, 2014

actuary's report

I have valued the policy liabilities, including reinsurance recoverables, in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2013 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, including reinsurance recoverables, makes appropriate provision for all policy obligations, and the consolidated financial statements fairly present the results of the valuation.

W.T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
May 14, 2014

independent auditor's report

Minister Responsible for the Insurance Corporation of British Columbia
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, 2013 and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year ended December 31, 2013, 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, 2013 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
May 14, 2014

Consolidated Statement of Financial Position

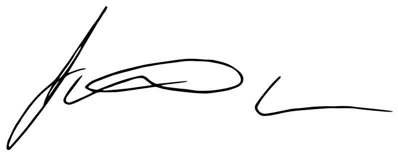
As at December 31

($ THOUSANDS)	2013	2012
Assets		
Cash and cash equivalents	$ 28,198	$ 32,463
Accrued interest	40,913	36,765
Financial investments (note 5)	12,899,176	11,671,237
Premiums and other receivables (note 8)	1,129,521	1,119,864
Reinsurance assets (note 8)	8,835	7,486
Investment properties (note 5)	600,775	601,712
Property and equipment (note 10)	120,731	130,284
Intangible assets (note 11)	164,514	106,508
Deferred premium acquisition costs and prepaids (note 17)	157,302	148,963
	$ 15,149,965	$ 13,855,282
Liabilities and Equity		
Liabilities		
Cheques outstanding	$ 45,342	$ 43,243
Accounts payable and accrued charges	299,318	264,671
Excess Optional capital payable to Province of BC (note 18)	237,000	–
Bond repurchase agreements and other liabilities (note 7)	1,080,557	1,062,826
Premium deficiency (note 17)	56,662	5,550
Premiums and fees received in advance	40,288	60,615
Unearned premiums (note 13)	1,927,918	1,861,317
Pension and post-retirement benefits (note 15)	307,372	307,804
Provision for unpaid claims (note 12)	7,512,732	7,001,939
	11,507,189	10,607,965
Equity		
Retained earnings	3,145,597	3,014,486
Other components of equity	497,179	232,831
	3,642,776	3,247,317
	$ 15,149,965	$ 13,855,282

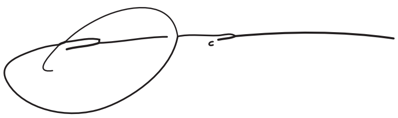
Contingent liabilities and commitments (note 21)

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

Approved by the Board



Jatinder Rai
Interim Chair of the Board of Directors



William Davidson
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31

($ THOUSANDS)	2013	2012
Premiums written		
Premium revenue – vehicle	$ 4,027,323	$ 3,894,135
Premiums ceded to reinsurers – vehicle	(9,220)	(8,880)
Net premium revenue – vehicle	4,018,103	3,885,255
Premium revenue – driver	23,092	24,822
	4,041,195	3,910,077
Revenues		
Premiums earned		
Premium revenue – vehicle	3,913,010	3,795,245
Premiums ceded to reinsurers – vehicle	(9,220)	(8,880)
Net premium revenue – vehicle	3,903,790	3,786,365
Premium revenue – driver	23,904	25,021
	3,927,694	3,811,386
Service fees	56,640	53,797
Total earned revenues	3,984,334	3,865,183
Claims and operating costs		
Provision for claims occurring in the current year (note 12)	3,167,560	3,022,699
Change in estimates for losses occurring in prior years (note 12)	(54,390)	(69,234)
Net claims incurred (note 12)	3,113,170	2,953,465
Claims services (note 16)	270,148	266,202
Road safety and loss management services (note 16)	51,342	56,624
	3,434,660	3,276,291
Operating costs – insurance (note 16)	195,665	194,151
Premium taxes and commissions – insurance (notes 16 & 17)	540,688	463,041
	4,171,013	3,933,483
Underwriting loss	(186,679)	(68,300)
Investment income (note 9)	670,931	443,126
Restructuring (notes 16 & 19)	(2,686)	24,968
Income – insurance operations	486,938	349,858
Non-insurance operations		
Provincial licences and fines revenue (note 18)	561,066	550,776
Licences and fines transferable to the Province of BC (note 18)	561,066	550,776
Operating costs – non-insurance (note 16)	91,202	92,682
Commissions – non-insurance (notes 16 & 17)	27,625	28,011
	679,893	671,469
Loss – non-insurance operations	(118,827)	(120,693)
Net income	$ 368,111	$ 229,165
Other comprehensive income		
Items that will not be reclassified to net income		
Pension and post-retirement benefits remeasurements (note 15)	$ 21,787	$ 10,055
Items that will be reclassified to net income		
Net change in available for sale financial assets	242,561	81,623
	264,348	91,678
Total comprehensive income	$ 632,459	$ 320,843

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)	Retained Earnings	Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements	Total Other Components of Equity	Total Equity
	2013				
		Other Components of Equity			
Balance, beginning of year	$ 3,014,486	$ 354,018	$ (121,187)	$ 232,831	$ 3,247,317
Comprehensive income					
Net income	368,111	–	–	–	368,111
Other comprehensive income					
Net gains reclassified to investment income	–	(332,830)	–	(332,830)	(332,830)
Net gains arising on available for sale financial assets in the year	–	575,391	–	575,391	575,391
Pension and post-retirement benefits remeasurements (note 15)	–	–	21,787	21,787	21,787
Total other comprehensive income	–	242,561	21,787	264,348	264,348
Total comprehensive income	368,111	242,561	21,787	264,348	632,459
Excess Optional Capital Transfer to Province of BC (note 18)	(237,000)	–	–	–	(237,000)
Balance, end of year	$ 3,145,597	$ 596,579	$ (99,400)	$ 497,179	$ 3,642,776

($ THOUSANDS)	Retained Earnings	Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements	Total Other Components of Equity	Total Equity
	2012				
		Other Components of Equity			
Balance, beginning of year	$ 2,785,321	$ 272,395	$ (131,242)	$ 141,153	$ 2,926,474
Comprehensive income					
Net income	229,165	–	–	–	229,165
Other comprehensive income					
Net gains reclassified to investment income	–	(124,089)	–	(124,089)	(124,089)
Net gains arising on available for sale financial assets in the year	–	205,712	–	205,712	205,712
Pension and post-retirement benefits remeasurements (note 15)	–	–	10,055	10,055	10,055
Total other comprehensive income	–	81,623	10,055	91,678	91,678
Total comprehensive income	229,165	81,623	10,055	91,678	320,843
Balance, end of year	$ 3,014,486	$ 354,018	$ (121,187)	$ 232,831	$ 3,247,317

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

Consolidated Statement of Cash Flows

For the year ended December 31

($ THOUSANDS)	2013	2012
Cash flow from operating activities		
Cash received for:		
Vehicle premiums and others	$ 4,054,153	$ 3,883,393
Licence fees	533,394	522,057
Taxes on vehicle sales and rebates	173,531	183,205
	4,761,078	4,588,655
Collection for receivables, subrogation, and driver penalty point premiums	168,960	171,014
Reinsurance recoveries	1,066	1,423
Salvage sales	59,655	63,079
Interest	239,765	256,960
Dividends and other investment income	59,717	65,799
Other	18	11
	5,290,259	5,146,941
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,735,794)	(2,604,592)
Federal Government and the Province of BC for licence fees, fines, and taxes collected	(732,031)	(693,462)
Reinsurers for reinsurance premiums	(9,061)	(8,819)
Suppliers of goods and services	(181,405)	(206,326)
Employees for salaries and benefits	(438,005)	(454,666)
Agents for commissions	(346,119)	(332,259)
Province of BC for premium taxes	(181,184)	(164,674)
	(4,623,599)	(4,464,798)
Cash flow from operating activities	666,660	682,143
Cash flow used in investing activities		
Purchase of financial investments and investment properties	(10,058,995)	(8,777,497)
Proceeds from sales of financial investments and investment properties	9,406,837	8,226,293
Net securities sold under repurchase agreements	43,986	59,346
Purchase of property, equipment and intangibles	(64,928)	(69,415)
Proceeds from sales of property, equipment and intangibles	76	1,404
Cash flow used in investing activities	(673,024)	(559,869)
Cash flow used in financing activities		
Excess Optional capital transferred to Province of BC (note 18)	–	(101,386)
Cash flow used in financing activities	–	(101,386)
(Decrease) Increase in cash and cash equivalents during the year	(6,364)	20,888
Cash and cash equivalents, beginning of year	(10,780)	(31,668)
Cash and cash equivalents, end of year	$ (17,144)	$ (10,780)
Represented by:		
Cash (note 6)	$ 28,198	$ 32,463
Cheques outstanding	(45,342)	(43,243)
Cash and cash equivalents, net	$ (17,144)	$ (10,780)

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2013

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 May 14, 2014.

2. Summary of Significant Accounting Policies

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

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 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) Financial assets

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 due to foreign exchange, of an AFS financial asset are recorded in other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired, at which time the gain or loss will be recognized in investment income. Changes in the fair value due to foreign exchange on a non-monetary AFS financial asset are recorded in OCI. Changes in fair value due to foreign exchange on a monetary AFS financial asset are recorded in investment income. Interest calculated using the effective interest rate 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. Mortgage portfolio consists of mortgages and mortgage bonds.

Loans are recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest rate method. Transaction costs are included in the initial carrying amount of the assets. Impairment losses on loans are recognized in the consolidated statement of comprehensive 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 13 *Fair Value Measurement*, the Corporation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

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

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

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

These valuations are reviewed each reporting date by management.

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 under a finance lease, the portions are accounted for separately. If the portions cannot be sold separately, the property is investment property only if an insignificant portion is held for own-use in the supply of services or for administrative purposes. Where the portion held for own-use is significant then it would be treated as property and equipment.

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

Depreciation is provided on a straight-line basis at 2.5% to 5.0% 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) Provisions

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

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

n) Pension and post-retirement benefits

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

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

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

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

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

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

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 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 remeasurements 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:

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

If the fair value of a previously impaired 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 lessee, the lease is classified as a finance lease. In these cases, an obligation and an asset are recognized based on the present value of the future minimum lease payments and balances are amortized over the lease term or useful life as applicable.

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. Circumstances may arise when the standard methods are no longer appropriate to use. In these cases and in accordance with accepted actuarial practice, modifications to the methods are made or alternative methods are employed that are specific and appropriate to the circumstances. Circumstances may include a change in the claims settlement environment, a change in the handling or reserving of claims, or an emerging trend in the statistical data used in the analysis.

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 compensation levels and healthcare costs.

The key assumptions used in calculating the cost of pension and post-retirement benefits are the discount rate, rate of compensation increase, inflation rate, life expectancies, Medical 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 and to credit interest on the net liability. The discount rate is based on high-grade corporate bond yields at the measurement date.

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

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

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

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 2013

The Corporation has adopted the standards and interpretations that are relevant to the operations of the Corporation and effective on December 31, 2013. There were no material impacts from the adoption of 2013 standards. Upon adoption and in compliance with IAS 19 (Amendment) *Employee Benefits*, the Corporation now records remeasurements of pension and post-retirement benefits to OCI and transfers these to other components of equity (OCE). As this amendment required retrospective application, remeasurements totalling $121.2 million in retained earnings were reclassified to OCE for 2012 on the consolidated statement of changes in equity. In addition, due to the adoption of this standard, the 2012 pension and post-retirement benefit expense increased by $19.4 million offset by the same amount in pension and post-retirement remeasurements; therefore total equity remained the same for 2012. Further, notes 15, 16 and 22 have been updated to reflect the changes from the adoption of this standard.

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

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

- IFRS 7 (Amendment) *Financial instruments: Disclosures*. Effective January 1, 2013, the Corporation adopted the amended disclosures that focused 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. 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 effective date is to be determined upon completion of the entire IFRS 9. 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. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.
- IAS 32 (Amendment) *Financial instruments: Presentation*. Effective January 1, 2014, 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. This 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 adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.

- IAS 36 (Amendment) *Impairment of assets*. Effective January 1, 2014, the amendment is intended to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based upon fair value less costs of disposal) is determined using a present value technique. Currently there is a requirement to disclose information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. The amendment harmonizes disclosure requirements between value in use and fair value less costs to sell. The adoption of this standard is not expected to have a material impact to the Corporation's consolidated financial statements.
- IFRIC 21 *Levies*. Effective January 1, 2014, this standard sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

The Corporation has not early adopted these standards.

5. Investments

a) Financial investments

($ THOUSANDS)		2013	2012
	Classification	Carrying Value	Carrying Value
Financial investments			
Money market securities	AFS	$ 95,506	$ 152,552
Bonds			
Federal	AFS	4,198,899	3,977,931
Provincial	AFS	889,766	848,074
Municipal	AFS	30,622	19,158
Corporate	AFS	3,104,304	2,669,397
Total bonds		8,223,591	7,514,560
Mortgages	Loans	1,304,994	1,105,235
Equities			
Canadian	AFS	1,871,121	1,621,930
United States	AFS	698,328	627,534
Europe, Australia, Far East	AFS	705,636	649,426
Total equities		3,275,085	2,898,890
Total financial investments		$ 12,899,176	$ 11,671,237
Non-current portion		$ 12,293,052	$ 10,795,605

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 $1.32 billion (2012 – $1.14 billion). Mortgages have been classified as a Level 3 fair value based on the inputs to the valuation technique used (note 2h). The fair value of the mortgages is determined by applying a discount rate ranging from 2.6% to 4.8% (2012 – 2.1% to 4.6%).

Pooled funds

The Corporation invests in six pooled funds whose investment strategies do not include the use of leverage. As at December 31, 2013, the Corporation's interests range from 0.9% to 30.0% of the net assets of the respective funds. The funds are managed by unrelated asset managers and are susceptible to the same risk and uncertainties as all equity securities. The Corporation holds redeemable units in each of its pooled funds that entitle the holder to a proportional share in the respective fund's net assets. The carrying value of the Corporation's investments in the pooled funds at December 31, 2013 is $2.8 billion.

These investments are included in financial investments as equities in the consolidated statement of financial position. The change in fair value of each pooled fund is included in the consolidated statement of comprehensive income in 'Net change in available for sale financial assets'.

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

Asset-backed securities

The Corporation purchases bonds that are secured by various assets as part of its investment strategy. The majority of the bonds is issued by Canadian bank sponsored securitization trusts and is secured by credit card receivables. The remaining bonds are issued by other Canadian corporate entities and are secured by credit card, auto, or equipment receivables. The Corporation invests only in AAA securitization trusts that have a first lien on assets and have no exposure to junior or subordinate tranches. The weighted-average duration of the asset-backed securities in the Corporation's portfolio is 2.8 years and the coupon interest rates range from 1.4% to 5.0%.

As at December 31, 2013, the carrying value of asset-backed securities included in financial investments in the consolidated statement of financial position is $442.3 million. This amount also represents the maximum exposure to losses at that date.

The Corporation also has mortgage backed securities with a carrying value of $118.5 million with an estimated fair value of $119.8 million. These mortgage bonds are included in financial investments as mortgages on the consolidated statement of financial position and each bond is secured by a first priority mortgage charge on a high quality real estate asset. The fixed interest rates on the mortgage backed securities range from 3.0% to 5.4% and will mature between one to ten years.

b) Investment properties

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

($ THOUSANDS)	2013	2012
Cost		
Balance, beginning of year	$ 654,123	$ 526,222
Additions	18,460	144,316
Capital improvements	2,054	3,619
Disposals	–	(20,034)
Impairment	(5,485)	–
Balance, end of year	669,152	654,123
Accumulated depreciation		
Balance, beginning of year	52,411	43,194
Disposals	–	(4,073)
Depreciation	15,966	13,290
Balance, end of year	68,377	52,411
Carrying value, end of year	$ 600,775	$ 601,712

The fair value of investment properties is $802.6 million (2012 – $773.3 million) and has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

Where the estimated fair value is determined by internal valuations, the valuations were determined using a combination of discount rates ranging from 6.0% to 8.0% (2012 – 6.0% to 7.9%) to discount the expected future cash flows, up to a term of 10 years, and also by applying a market capitalization rate ranging from 5.3% to 7.3% (2012 – 5.3% to 7.1%).

Lease income

The Corporation leases its investment properties. As of December 31, 2013, the future minimum lease income under non-cancellable leases over the next five years and beyond is as follows:

($ THOUSANDS)	Lease Income	Net Present Value
Up to 1 year	$ 44,626	$ 43,129
Greater than 1 year, up to 5 years	131,453	117,655
Greater than 5 years	46,931	35,865
	$ 223,010	$ 196,649

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 2013 and 2012, there were no transfers between Level 1, Level 2 and Level 3. The Corporation's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

($ THOUSANDS)	Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Cash	$ 28,198	$ –	$ 28,198	$ –
Money market securities	95,506	–	95,506	–
Bonds	8,223,591	–	8,221,938	1,653
Equities	3,275,085	1,135,713	2,139,372	–
Total financial assets	$11,622,380	$ 1,135,713	$10,485,014	$ 1,653
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	1,990,124	908,159	607
Total financial assets	$10,598,465	$ 1,990,124	$ 8,606,081	$ 2,260

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

The following table shows the movement of financial assets where fair value has been determined based upon significant unobservable inputs (Level 3). There was a disposition of two venture capital equities and a gain of $0.2 million (2012 – nil) was recognized.

($ THOUSANDS)	Fair Value Measurements using Level 3 Inputs	
	Bonds	Equities
December 31, 2013		
Balance, beginning of year	$ 1,653	$ 607
Disposals	–	(607)
Balance, end of year	$ 1,653	$ –
December 31, 2012		
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 non-current portion of these other financial assets is $29.0 million (2012 – $26.4 million), the fair values of other financial assets approximate their carrying values due to their short-term nature.

c) Financial liabilities

Financial liabilities include cheques outstanding, accounts payable and accrued charges, and bond repurchase agreements, other liabilities, and amounts payable to the Province of BC. All financial liabilities are carried at cost or amortized cost. Except for other liabilities, the fair values of the remaining financial liabilities approximate their carrying values, due to their short-term nature. The assumptions used in estimating the fair value of other liabilities are discussed in note 7.

7. Bond Repurchase Agreements and Other Liabilities

($ THOUSANDS)	2013	2012
	Carrying Value	Carrying Value
Bond repurchase agreements	$ 1,003,035	$ 959,049
Other liabilities	77,522	103,777
Total bond repurchase agreements and other liabilities	$ 1,080,557	$ 1,062,826
Non-current portion	$ 39,595	$ 72,051

Other liabilities consist of investment-related liabilities and a finance lease obligation. Investment-related liabilities are comprised of mortgages payable of $69.1 million (2012 – $103.8 million) with repayment terms ranging from one to nine years and interest rates ranging from 5.2% to 6.6% (2012 – 5.0% to 6.6%). These liabilities are classified as Level 2 fair value.

The Corporation entered into a 12-year finance lease during the year for computer software, with an obligation of $8.4 million. The discount rate applied to estimate the obligation is 4.0% (note 11).

Estimated principal repayments for other liabilities are as follows:

($ THOUSANDS)	2013	2012
Up to 1 year	$ 37,927	$ 31,726
Greater than 1 year, up to 5 years	27,749	54,443
Greater than 5 years	11,846	17,608
	$ 77,522	$ 103,777

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 benefits are greater than estimated. Insurance events have an element of randomness and the actual number and amount of claims and benefits will vary each year from the level established using statistical techniques.

Frequency and severity of claims

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 67% (2012 – 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 one percentage point increase in the discount rate will have a favourable impact on the provision for unpaid claims, net income, and equity of $169.3 million (2012 – $160.4 million) and a one percentage point decrease in the discount rate will have an unfavourable impact on the provision for unpaid claims, net income, and equity of $178.5 million (2012 – $169.4 million). A one per cent 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 $75.0 million (2012 – $70.0 million). The changes in selected loss and count development factors and actuarial assumptions in 2013 had an estimated 6.5% unfavourable impact (2012 – 4.1% unfavourable) on the 2013 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 competition risk for its Basic insurance product. However, the Basic insurance rate level is sensitive to investment market conditions and claims experience, which can result in premiums being insufficient to cover costs. The Corporation is subject to regulations over its Basic insurance and applies to BCUC for approval to change its Basic insurance rate level. The Corporation is required to make Basic rate applications on an annual basis, and the BCUC is required to set rates according to accepted actuarial practice. These aspects of regulation mitigate the underwriting risk associated with pricing for the Basic insurance product (note 22).

The Corporation's underwriting risk associated with pricing for its Basic insurance product is in transition. Subject to BCUC approval, new regulation allows for the use of capital to promote more stable and predictable rates to remove adverse rate volatility. Stable and more predictable rates occur when rate changes are in a range similar to the previous rate change where significant upward or downward changes, as compared to the previous rate change, are smoothed out. As a result, the BCUC may deliberately set rates below cost for a time in order to bring rate levels up gradually over a period of a couple years, to the level necessary to cover costs. Under this new rate smoothing framework, the Corporation's capital faces added risk (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, 2013, the equity portfolio was 28.3% (2012 – 25.7%) invested in the financial sector, 17.0% (2012 – 17.8%) in the energy sector, 9.1% (2012 – 13.0%) in the materials sector, and 10.5% (2012 – 8.9%) in the industrial sector; the bond portfolio was 62.3% (2012 – 64.5%) invested in the government sector and 20.9% (2012 – 18.0%) 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, 2013, 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 $327.5 million (2012 – $289.9 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 2013 and 2012, the Corporation did not use derivative financial instruments to hedge interest rate risk on its investment portfolio.

	2013		2012	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Federal	1.5	2.2	1.5	2.4
Provincial	2.1	3.1	2.4	2.8
Municipal	2.2	4.0	2.1	4.5
Corporate	2.6	2.4	3.1	2.2
Total bonds	2.0	2.4	2.2	2.4
Mortgages	4.3	3.3	4.7	3.0
Total bonds and mortgages	2.3	2.5	2.5	2.4

At December 31, 2013, a 100 basis point change in interest rates would result in a change of approximately $238.0 million (2012 – $210.3 million) in fair value of the Corporation's fixed income portfolio and a corresponding impact of approximately $238.0 million (2012 – $210.3 million) to a component of 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 21a). The total credit risk exposure is $6.5 billion (2012 – $5.9 billion).

Fixed income securities

Fixed income securities comprise of bonds and mortgages. 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 $5.3 billion (2012 – $4.6 billion). There is minimal credit risk exposure to cash.

The counterparty risk associated with repurchase agreements for 2013 and 2012 is not material.

The Corporation's money market securities and bonds by credit quality according to Standard and Poor's at December 31, 2013 is as follows:

($ THOUSANDS)	2013	2012
Money market securities		
AAA	$ 95,506	$ 152,552
Bonds		
AAA	$ 4,853,310	$ 4,654,257
AA	1,166,909	853,537
A	1,773,645	1,539,421
BBB	429,727	467,345
	$ 8,223,591	$ 7,514,560

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, 2013, the Corporation considered $64.5 million (2012 – $68.8 million) of its premiums and other receivables to be uncollectible and has provided for them. The allowance was determined by applying a percentage derived from four to five years of collection experience by receivable type to the total of current and prior years' gross billings.

The following table outlines the aging of premiums and other receivables as at December 31, 2013:

($ THOUSANDS)	Current	Past Due 1-30 days	Past Due 31-60 days	Over 60 days	Total
December 31, 2013					
Premiums and other receivables	$1,110,247	$ 3,441	$ 2,450	$ 77,851	$1,193,989
Provision	(1,330)	(1,276)	(1,279)	(60,583)	(64,468)
Total premiums and other receivables	$1,108,917	$ 2,165	$ 1,171	$ 17,268	$1,129,521
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

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

($ THOUSANDS)	2013	2012
Balance, beginning of year	$ (68,780)	$ (71,024)
Charges for the year	(19,746)	(20,022)
Recoveries	5,411	5,720
Amounts written off	18,647	16,546
Balance, end of year	$ (64,468)	$ (68,780)

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 $8.8 million (2012 – $7.5 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, 2013.

($ THOUSANDS)	2013	2012
Reinsurance recoverable (note 12)	$ 8,763	$ 6,699
Reinsurance receivable	72	787
Reinsurance assets	$ 8,835	$ 7,486

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.

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

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

The following table summarizes the maturity profile as at December 31, 2013 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, 2013				
Bonds				
Federal	$ –	$ 4,155,940	$ 42,959	$ 4,198,899
Provincial	–	889,766	–	889,766
Municipal	–	30,622	–	30,622
Corporate	396,487	2,675,408	32,409	3,104,304
Total bonds	396,487	7,751,736	75,368	8,223,591
Mortgages	114,132	967,952	222,910	1,304,994
	$ 510,619	$ 8,719,688	$ 298,278	$ 9,528,585
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

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, 2013 would change the fair value of these investments and a corresponding change to OCI of approximately $72.3 million (2012 – $64.5 million). As all other foreign currency investments individually comprise five per cent or less of the total investment portfolio in both 2013 and 2012, 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	2013	2012
Interest			
Money market	AFS	$ 1,814	$ 2,973
Bonds	AFS	159,086	171,582
Mortgages	Loans	51,267	52,590
		212,167	227,145
Gains on investments			
Equities	AFS	321,225	74,356
Bonds	AFS	11,595	49,733
Investment properties	Other	–	9,969
Unrealized fair value changes [1]	AFS	10	87
		332,830	134,145
Dividends and other income (expenses)			
Equities	AFS	119,189	75,894
Income from investment properties	Other	26,711	24,886
Investment management fees	Other	(6,278)	(7,069)
Impairment loss	AFS	(9,355)	(8,700)
Other	Other	(4,333)	(3,175)
		125,934	81,836
Total investment income		$ 670,931	$ 443,126

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

($ THOUSANDS)	2013	2012
Amounts recognized in investment income for investment properties		
Rental income	$ 76,309	$ 67,175
Direct operating expenses that generated rental income	(47,861)	(40,338)
Direct operating expenses that did not generate rental income	(1,737)	(1,951)
Income from investment properties	26,711	24,886
Gain on sale of investment properties	–	9,969
Total amount recognized in investment income	$ 26,711	$ 34,855

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, 2013 and December 31, 2012, there were no securities loaned or received as collateral.

At December 31, 2013, the OCE comprised of $608.2 million (2012 – $382.9 million) in unrealized gains and $11.6 million (2012 – $28.9 million) in unrealized losses arising on available for sale assets.

10. Property and Equipment

($ THOUSANDS)	Land	Buildings	Furniture & Equipment	Leasehold Improvements	Total
December 31, 2013					
Cost					
Balance, beginning of year	$ 31,685	$ 162,124	$ 113,088	$ 7,227	$ 314,124
Additions	24	2,370	6,315	2,127	10,836
Disposals	–	–	(15,643)	(1,464)	(17,107)
Balance, end of year	31,709	164,494	103,760	7,890	307,853
Accumulated depreciation					
Balance, beginning of year	–	130,055	51,346	2,439	183,840
Disposals	–	–	(15,144)	(881)	(16,025)
Depreciation charge for the year	–	3,370	14,804	1,133	19,307
Balance, end of year	–	133,425	51,006	2,691	187,122
Net book value, end of year	$ 31,709	$ 31,069	$ 52,754	$ 5,199	$ 120,731
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

The balances in property and equipment include $6.7 million (2012 – $6.9 million) in assets under development.

The additions to property and equipment include $0.3 million (2012 – $1.7 million) capitalized for the Transformation Program (note 20).

11. Intangible Assets

($ THOUSANDS)	2013	2012
Cost		
Balance, beginning of year	$ 148,334	$ 95,899
Additions	68,459	58,121
Disposals	(8,734)	(5,686)
Balance, end of year	208,059	148,334
Accumulated amortization		
Balance, beginning of year	41,826	40,823
Disposals	(8,246)	(5,686)
Amortization charge for the year	9,965	6,689
Balance, end of year	43,545	41,826
Net book value, end of year	$ 164,514	$ 106,508

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

The balances in intangible assets include $35.9 million (2012 – $74.2 million) in assets under development.

The additions in intangible assets include $59.9 million (2012 – $54.5 million) capitalized for the Transformation Program (note 20). Of the total additions during the year, $9.7 million is for leased computer software (note 7). There were no indefinite life intangible assets as at December 31, 2013 and December 31, 2012.

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)	2013			2012		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
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, beginning of year	7,001,939	(6,699)	6,995,240	6,492,719	(616)	6,492,103
Change in liabilities (assets):						
Provision for claims occurring in the current year	3,167,560	–	3,167,560	3,022,699	–	3,022,699
Change in estimates for losses occurring in prior years:						
Prior years' claims adjustments	(49,359)	(1,932)	(51,291)	(109,757)	(6,237)	(115,994)
Prior years' changes in discounting provision	(2,967)	(132)	(3,099)	46,606	154	46,760
	(52,326)	(2,064)	(54,390)	(63,151)	(6,083)	(69,234)
Net claims incurred per consolidated statement of comprehensive income	3,115,234	(2,064)	3,113,170	2,959,548	(6,083)	2,953,465
Cash (paid) recovered for claims settled in the year for:						
Claims incurred in current year	(1,029,268)	–	(1,029,268)	(1,009,541)	–	(1,009,541)
Recoveries received on current year claims	67,682	–	67,682	74,820	–	74,820
	(961,586)	–	(961,586)	(934,721)	–	(934,721)
Claims incurred in prior years	(1,701,412)	–	(1,701,412)	(1,583,141)	–	(1,583,141)
Recoveries received on prior years' claims	58,557	–	58,557	67,534	–	67,534
	(1,642,855)	–	(1,642,855)	(1,515,607)	–	(1,515,607)
Total net payments	(2,604,441)	–	(2,604,441)	(2,450,328)	–	(2,450,328)
Balance, end of year	$ 7,512,732	$ (8,763)	$ 7,503,969	$ 7,001,939	$ (6,699)	$ 6,995,240
Notified claims	$ 7,140,772	$ (8,763)	$ 7,132,009	$ 6,715,095	$ (6,699)	$ 6,708,396
Incurred but not reported	371,960	–	371,960	286,844	–	286,844
Balance, end of year	$ 7,512,732	$ (8,763)	$ 7,503,969	$ 7,001,939	$ (6,699)	$ 6,995,240

The Corporation discounts its provision for unpaid claims using a discount rate of 3.5% (2012 – 3.4%). The Corporation determines the discount rate based upon the expected return on its investment portfolio, the expected asset default risk of its investment portfolio, and uses assumptions for interest rates relating to reinvestment of maturing investments. As a result of the slight increase in the discount rate, there was a favourable adjustment to both current and prior years' provision of $5.2 million (2012 – $18.1 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, 2013				
Provision for unpaid claims, net	$ 7,329,668	$ (586,185)	$ 760,486	$ 7,503,969
Reinsurance recoverable	8,769	(960)	954	8,763
Provision for unpaid claims, gross	$ 7,338,437	$ (587,145)	$ 761,440	$ 7,512,732
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

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.

($ THOUSANDS)	Insurance Claims – Gross of Reinsurance										
Accident Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	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	$ 3,030,779	$ 3,146,388	
- 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	3,065,562		
- Two years later	2,351,339	2,465,521	2,517,961	2,651,655	2,692,277	2,626,760	2,730,183	2,830,063			
- Three years later	2,350,581	2,439,326	2,513,261	2,632,885	2,654,416	2,587,367	2,699,473				
- Four years later	2,318,077	2,419,725	2,508,005	2,633,582	2,621,457	2,594,054					
- Five years later	2,302,765	2,420,056	2,498,790	2,623,784	2,641,489						
- Six years later	2,303,033	2,430,329	2,496,837	2,612,371							
- Seven years later	2,298,727	2,421,466	2,491,614								
- Eight years later	2,293,687	2,418,345									
- Nine years later	2,289,925										
Current estimate of cumulative claims	2,289,925	2,418,345	2,491,614	2,612,371	2,641,489	2,594,054	2,699,473	2,830,063	3,065,562	3,146,388	26,789,284
Cumulative payments to date	(2,259,868)	(2,373,520)	(2,427,209)	(2,505,936)	(2,423,748)	(2,169,472)	(1,842,473)	(1,540,534)	(1,346,277)	(961,067)	(19,850,104)
Undiscounted unpaid liability	$ 30,057	$ 44,825	$ 64,405	$ 106,435	$ 217,741	$ 424,582	$ 857,000	$ 1,289,529	$ 1,719,285	$ 2,185,321	$ 6,939,180
Undiscounted unpaid liability in respect of 2003 and prior years											123,464
Undiscounted unallocated loss adjustment expense reserve											275,793
Total undiscounted unpaid claims liability											**$7,338,437**
Discounting adjustment											174,295
Total discounted unpaid claims liability (gross)											**$7,512,732**

The table above reflects the total discounted unpaid claims liability of $7.51 billion (2012 – $7.00 billion) before the amount for reinsurance recoverable. The total discounted unpaid claims liability after the amount for reinsurance recoverable of $0.01 billion (2012 – $0.01 billion) would be $7.50 billion (2012 – $7.00 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, 2013	$ 2,029,741	$ 1,669,781	$ 1,399,958	$ 985,924	$ 536,711	$ 716,322	$ 7,338,437
December 31, 2012	$ 1,914,903	$ 1,571,506	$ 1,272,923	$ 869,150	$ 469,402	$ 729,507	$ 6,827,391

The non-current portion of the undiscounted unpaid claims provision is $5.3 billion (2012 – $4.9 billion).

The weighted-average term to settlement of the discounted unpaid claims provision at December 31, 2013 is 2.4 years (2012 – 2.4 years).

13. Unearned Premiums

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

($ THOUSANDS)	2013	2012
Balance, beginning of year	$ 1,861,317	$ 1,762,626
Premiums written during the year	4,041,195	3,910,077
Premiums earned in the year	(3,927,694)	(3,811,386)
Premium adjustment	(46,900)	–
Balance, end of year	$ 1,927,918	$ 1,861,317

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, 2013 and 2012 as follows:

a) For catastrophic occurrences, portions of losses up to $225.0 million (2012 – $225.0 million) in excess of $25.0 million (2012 – $25.0 million); and

b) For individual casualty loss occurrences, portions of losses up to $45.0 million (2012 – $45.0 million) in excess of $5.0 million (2012 – $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

Plan information

The Corporation sponsors a defined benefit registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). 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. These plans provide benefits to members based on their length of service and salary in the final years leading up to retirement. Subject to the terms of the plans, pensions are indexed in line with increases in the Consumer Price Index (CPI). Employees are required to contribute to the Management and Confidential Plan. Effective September 1, 2013, new hires to management and confidential positions will not have short-term incentive payments included in pensionable earnings.

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

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

The Corporation pays Medical Services Plan premiums, life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its qualifying retirees. The benefits are not prefunded. New employees to the Corporation hired September 1, 2013 or later are not eligible for these benefits. Benefit entitlements differ for management and confidential and bargaining unit staff.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes at December 31 of each year. Defined benefit obligations are extrapolated from the most recent actuarial valuation date for each of the plans. The Management and Confidential Plan and the post-retirement benefits actuarial valuations are as of December 31, 2012 and the COPE Plan is as of December 31, 2011. Updated actuarial valuations for each plan will be as of no later than three years from their most recent actuarial valuation date.

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

	Pension Plans		Post-Retirement Benefits	
	2013	2012	2013	2012
Weighted-average duration	17 years	18 years	17 years	16 years
Proportion of obligation in respect of:				
- Active members	68.0%	71.0%	67.0%	67.0%
- Deferred members	3.0%	4.0%	0.0%	0.0%
- Retired members	29.0%	25.0%	33.0%	33.0%

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

COPE Plan accounting treatment

The results of the COPE Plan actuarial funding valuation resulted in a significant solvency deficiency for the COPE Plan which resulted in a contribution increase. The Trustees of the COPE Plan were unable to reach agreement on how this increased contribution should be allocated between Plan members and the Corporation. On June 13, 2012, the Corporation filed a petition to the Supreme Court of British Columbia (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 in March 2013 and a judgment was issued on March 27, 2013. The Court dismissed the petition. The Corporation appealed and on December 20, 2013 the BC Court of Appeal dismissed the Corporation's appeal. As a result, the Corporation will be required to fund significantly more than half of the required contributions. The Corporation continues to explore other options but has prospectively changed its accounting treatment to reflect the Corporation's increased financial responsibility. Prior to 2013, the Corporation recognized its 50% share of the COPE Plan pension expense, defined benefit obligation and actuarial remeasurements in its consolidated financial statements. In 2013, the accounting recognition has changed from recognizing 50% of the COPE Plan's financial impact to 100%.

The impact of the prospective change to the COPE Plan accounting treatment is presented as the "COPE Plan accounting change" in the Financial Information table.

Contributions to all pension and post-retirement benefit plans

Total contributions for employee future benefits for 2013, 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 $43.1 million (2012 – $58.8 million). As permitted by legislation, the Corporation secured certain solvency funding requirements using an unsecured letter of credit for $80.7 million, which led to the decrease in the Corporation's actual 2013 contribution.

Estimated employer contributions for the year ending December 31, 2014 are $69.4 million. The estimate is based on the plans' most recent actuarial funding valuations. In addition, as permitted under the legislation, the Corporation will continue to secure certain solvency funding requirements using letters of credit.

Financial information

The net total liability for all pension plans and post-retirement benefits as at December 31, 2013 is $307.4 million (2012 – $307.8 million), which is reflected in the consolidated statement of financial position. Information regarding the pension plans and post-retirement benefits and the restatements reflective of the amended IAS 19 in 2012 are as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2013	2012	2013	2012
Plan assets				
Fair value, beginning of year	$ 996,330	$ 887,803	$ –	$ –
COPE Plan accounting change	461,587	–	–	–
Interest on plan assets	66,763	46,887	–	–
Actuarial gain on assets	62,207	34,317	–	–
Employer contributions	37,278	44,684	4,881	4,855
Employee contributions	24,415	15,169	–	–
Benefits paid	(47,597)	(32,088)	(4,881)	(4,855)
Non-investment expenses	(900)	(442)	–	–
Fair value, end of year	$ 1,600,083	$ 996,330	$ –	$ –
Defined benefit obligation				
Balance, beginning of year	$ 1,018,061	$ 968,793	$ 265,794	$ 224,503
COPE Plan accounting change	441,308	–	–	–
Current service cost	61,448	43,115	10,781	8,692
Interest cost	67,408	52,032	12,330	12,000
Remeasurements on obligation				
- due to changes in financial assumptions	(81,319)	5,634	(11,795)	25,454
- due to changes in demographic assumptions	91,726	–	16,103	–
- due to participant experience	3,400	(18,500)	(19,106)	–
Benefits paid	(47,597)	(32,088)	(4,881)	(4,855)
Curtailment impact	–	(925)	–	–
Balance, end of year	$ 1,554,435	$ 1,018,061	$ 269,226	$ 265,794
Funded status – plan surplus (deficit)	$ 45,648	$ (21,731)	$ (269,226)	$ (265,794)
Impact of surplus derecognition	(83,794)	(20,279)	–	–
Net liability recognized in the consolidated statement of financial position	$ (38,146)	$ (42,010)	$ (269,226)	$ (265,794)
Impact of surplus derecognition				
Impact, beginning of year	$ (20,279)	$ (8,180)	$ –	$ –
COPE Plan accounting change	(20,279)	–	–	–
Interest on surplus derecognition	(1,825)	(425)	–	–
Remeasurements on surplus derecognition	(41,411)	(11,674)	–	–
Impact, end of year	$ (83,794)	$ (20,279)	$ –	$ –

The net total pension expense for the pension plans and post-retirement is $63.6 million (2012 – $62.1 million). In addition, the Corporation contributed $0.9 million in 2013 (2012 – $0.9 million) to the BC Public Service Pension Plan.

In 2012, the Corporation underwent a corporate wide restructuring and reduced the number of employees resulting in a curtailment in the Management and Confidential Plan. The impact was a $0.9 million reduction in the obligation, and was recognized immediately through pension expense.

Assets

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2013	2012
Cash and accrued interest	1%	1%
Equities		
Canadian	29%	30%
Foreign	28%	27%
Fixed income		
Government	28%	30%
Corporate	14%	11%
Mortgages	0%	1%
	100%	100%

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

Pension plan assets generated a return of 8.8% for the year ended December 31, 2013 (2012 – 9.2%).

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

At December 31, 2013 and December 31, 2012, 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.

Assumptions

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

	Pension Plans		Post-Retirement Benefits	
	2013	2012	2013	2012
Discount rate	4.8%	4.5%	4.8%	4.5%
Rate of compensation increase	3.1%	2.9%	n/a	n/a
Pension increase rate	2.0%	2.0%	n/a	n/a

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

December 31, 2013				December 31, 2012			
Life expectancy at 65 for a member currently				Life expectancy at 65 for a member currently			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
21.3	24.0	22.3	24.7	19.7	22.1	21.2	22.9

At December 31, 2013, the Medical Services Plan trend rate is assumed to be six per cent per annum for six years, decreasing to three per cent per annum thereafter. At December 31, 2012, the Medical Services Plan trend rate was assumed to be six per cent per annum for the first seven years, decreasing to three per cent per annum thereafter.

At December 31, 2013, the extended healthcare trend rate is assumed to be seven per cent per annum for the first year, decreasing linearly over six years to five per cent per annum thereafter. At December 31, 2012, the extended healthcare trend rate was assumed to be eight per cent per annum for the first year, decreasing linearly over seven years to five per cent per annum thereafter.

The Plans' sensitivity to significant assumptions is shown below:

($ THOUSANDS)	Pension Plans	Post-Retirement Benefits
	2013	2013
Estimated increase in defined benefit obligation – end of year due to:		
1% decrease in discount rate	$ 261,930	$ 45,243
1% increase in salary increase rate	$ 72,481	n/a
1% increase in pension increase rate	$ 208,421	n/a
1% increase in healthcare trend rate	n/a	$ 7,090
1% increase in medical services premium increase rate	n/a	$ 20,956
1 year increase in life expectancy	$ 42,454	$ 4,682

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

16. Operating Costs by Nature

($ THOUSANDS)	2013	2012
Operating Costs – by nature		
Premium taxes and commission expense	$ 515,367	$ 502,403
Premium deficiency adjustments	52,946	(11,351)
Employee benefit expense:		
Compensation and other employee benefits	369,702	381,691
Pension and post-retirement benefits (note 15)	64,450	63,011
Professional and other services	39,330	42,024
Road improvements and other traffic safety programs	31,605	32,148
Building operating expenses	32,227	31,546
Office supplies and postage	19,048	16,761
Computer costs	23,923	23,065
Depreciation and amortization	29,272	24,164
Restructuring (note 19)	(2,686)	24,968
Other income	(1,200)	(4,751)
	$ 1,173,984	$ 1,125,679
Operating Costs – consolidated statement of comprehensive income		
Premium taxes and commissions – insurance	$ 540,688	$ 463,041
Claims services	270,148	266,202
Operating costs – insurance	195,665	194,151
Operating costs – non-insurance	91,202	92,682
Road safety and loss management services	51,342	56,624
Commissions – non-insurance	27,625	28,011
Restructuring (note 19)	(2,686)	24,968
	$ 1,173,984	$ 1,125,679

17. Deferred Premium Acquisition Costs and Prepaids and Premium Deficiency

The deferred premium acquisition costs for the Optional line of business is as follows:

($ THOUSANDS)	2013	2012
Deferred premium acquisition costs, beginning of year	$ 140,580	$ 142,238
Acquisition costs related to future periods	147,300	140,580
Amortization of prior year acquisition costs	(140,580)	(142,238)
Deferred premium acquisition costs, end of year	$ 147,300	$ 140,580
Deferred premium acquisition costs	$ 147,300	$ 140,580
Prepaid expenses	10,002	8,383
Deferred premium acquisition costs and prepaids	$ 157,302	$ 148,963

The premium deficiency for the Basic line of business is as follows:

($ THOUSANDS)	2013	2012
Premium deficiency, beginning of year	$ (5,550)	$ (22,235)
Acquisition costs related to future periods	84,638	82,804
Amortization of prior year deficiency	5,550	22,235
Actuarial valuation adjustment	(141,300)	(88,354)
Premium deficiency, end of year	$ (56,662)	$ (5,550)

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
December 31, 2013			
Amount payable	$ 344,108	$ 179,813	$ 523,921
Amortization of prior year deferred premium acquisition costs	85,525	49,505	135,030
Deferred premium acquisition costs	(111,925)	(35,375)	(147,300)
Premium deficiency	23,555	33,107	56,662
Premium taxes, commission expense and deferred premium acquisition costs	$ 341,263	$ 227,050	$ 568,313
Represented as:			
Insurance	$ 313,638	$ 227,050	$ 540,688
Non-insurance	27,625	–	27,625
	$ 341,263	$ 227,050	$ 568,313
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	(106,604)	(33,976)	(140,580)
Premium deficiency	21,079	(15,529)	5,550
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

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 has elected to apply the exemption for government-related entities under IAS 24, *Related party disclosures*.

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

The Corporation acts as an agent for the Ministry of Finance regarding the collection of provincial taxes on imported and privately sold used vehicles and motor vehicle-related debts. The Corporation is the sole provider of Basic 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.

At December 31, 2013, the government directed the Corporation to transfer excess Optional capital of $237.0 million to the Province of BC and $113.2 million to Basic insurance. The transfer of $237.0 million (2012 – nil) to the Province of BC has been accrued as a payable (note 20). At December 31, 2012, the government directed the Corporation to transfer all of the excess Optional capital to Basic insurance.

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)	2013	2012
Key management compensation		
Compensation and other employee benefits including restructuring costs	$ 5,802	$ 11,113
Pension and post-retirement benefits	726	877
	$ 6,528	$ 11,990

At December 31, 2013, $1.4 million (2012 – $4.7 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, 2013, the Corporation incurred $3.0 million (2012 – $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, 2013, $0.6 million (2012 – $6.1 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

In 2012, the Corporation underwent a corporate wide restructuring and reduced the number of employees to improve efficiencies and meet business objectives. The Corporation had put in place a restructuring plan which was communicated as at December 31, 2012. The Corporation had recorded a provision for severance costs of $25.0 million associated with the termination of employees in 2012. At December 31, 2013, $16.6 million of these costs were paid and an estimated $5.7 million to be paid by 2015. During 2013, the Corporation reversed the balance of the provision of $2.7 million as it is not required. The corresponding expense and reversal are 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 2013. At December 31, 2013, the Corporation's MCT was 204.4% (2012 – 200.4%), which includes the Transformation Program 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 2013, the government directed the Corporation to transfer excess Optional capital of $237.0 million to the Province of BC and $113.2 million to Basic insurance. 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)	2013	2012
Transformation Program Reserve		
Balance, beginning of year	$ 309,139	$ 333,580
Reserve reduction	(400)	–
Costs including depreciation expensed during the year	(28,578)	(24,441)
Balance, end of year	$ 280,161	$ 309,139

During 2013, there were $60.2 million (2012 – $56.2 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 as at December 31, 2013 is approximately $1.08 billion (2012 – $1.13 billion), which are not recorded in the consolidated financial statements of the Corporation. Management does not believe any provision for credit risk is required in relation to these annuities as at December 31, 2013, as all approved life insurance companies are rated investment-grade and outstanding balances are backed by the not-for-profit organization. The not-for-profit organization provides guarantees of up to $2,000 a month or 85% of the promised monthly income benefit, whichever is higher. The Corporation's exposure to credit risk beyond the guarantee is insignificant. To date, the Corporation has not experienced any losses resulting from these arrangements.

b) Lease payments

The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years and beyond and the net present value are as follows:

($ THOUSANDS)	Lease Payments	Net Present Value
Up to 1 year	$ 11,930	$ 11,530
Greater than 1 year, up to 5 years	22,740	20,590
Greater than 5 years	4,961	4,043
	$ 39,631	$ 36,163

The operating lease payments recognized as an expense during the year were $17.1 million (2012 – $17.5 million).

c) Other

The Corporation entered into seven new agreements to provide mortgage funding in 2013 totalling $71.7 million. In 2012, the Corporation entered into two commitments. One was for annual telecommunication services until 2021, with a total contract value of $50.6 million and the other was for the acquisition of $7.5 million of computer software by 2013.

The Corporation entered into an investment in a limited partnership for real estate in which a commitment of $40.0 million was made.

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. Effective November 2012, in any case where the estimates or outlook for the quarterly and/or year-end Basic MCT level is 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 Basic 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.

During the year, the government established in legislation a framework for promoting greater rate stability and predictability in Basic rates, while continuing to maintain Basic insurance on a strong financial footing. The new rate smoothing framework limits the range of allowable Basic insurance rate changes for 2014 and beyond and uses Basic capital to smooth through volatility in Basic insurance rates. The framework requires that a new capital management plan be approved for 2014 that includes the existing capital management solvency target and an additional margin of capital for rate smoothing. It also requires the loss costs forecast variance not be reflected in 2013 Basic rates. For 2014 and beyond, BCUC may exclude some or all of that rate year's loss costs forecast variance in accordance with the new capital management plan approved by the BCUC.

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	
	2013	2012	2013	2012	2013	2012
Net premiums written	$ 2,360,718	$ 2,292,622	$ 1,680,477	$ 1,617,455	$ 4,041,195	$ 3,910,077
Revenues						
Net premiums earned	$ 2,324,865	$ 2,178,607	$ 1,602,829	$ 1,632,779	$ 3,927,694	$ 3,811,386
Service fees	32,228	30,718	24,412	23,079	56,640	53,797
Total earned revenues	2,357,093	2,209,325	1,627,241	1,655,858	3,984,334	3,865,183
Claims and operating costs						
Provision for claims occurring in the current year (note 12)	2,175,833	2,072,493	991,727	950,206	3,167,560	3,022,699
Change in estimates for losses occurring in prior years (note 12)	(11,257)	(23,724)	(43,133)	(45,510)	(54,390)	(69,234)
Claim services, road safety and loss management services	212,061	212,447	109,429	110,379	321,490	322,826
	2,376,637	2,261,216	1,058,023	1,015,075	3,434,660	3,276,291
Operating costs – insurance (note 16)	86,014	86,769	109,651	107,382	195,665	194,151
Premium taxes and commissions – insurance (note 17)	211,312	139,454	329,376	323,587	540,688	463,041
	2,673,963	2,487,439	1,497,050	1,446,044	4,171,013	3,933,483
Underwriting (loss) income	(316,870)	(278,114)	130,191	209,814	(186,679)	(68,300)
Investment income (note 9)	437,393	280,946	233,538	162,180	670,931	443,126
Restructuring (note 19)	(1,650)	15,237	(1,036)	9,731	(2,686)	24,968
Income (Loss) – insurance operations	122,173	(12,405)	364,765	362,263	486,938	349,858
Loss – non-insurance operations	(118,827)	(120,693)	–	–	(118,827)	(120,693)
Net income (loss) for the year	$ 3,346	$ (133,098)	$ 364,765	$ 362,263	$ 368,111	$ 229,165
Equity						
Retained earnings, beginning of year	$ 1,271,775	$ 1,032,285	$ 1,742,711	$ 1,753,036	$ 3,014,486	$ 2,785,321
Net income (loss) for the year	3,346	(133,098)	364,765	362,263	368,111	229,165
Excess Optional capital transfer to Basic business (note 20)	113,232	372,588	(113,232)	(372,588)	–	–
Excess Optional capital transfer to Province of BC (note 18)	–	–	(237,000)	–	(237,000)	–
Retained earnings, end of year	1,388,353	1,271,775	1,757,244	1,742,711	3,145,597	3,014,486
Other components of equity, beginning of year	155,535	97,330	77,296	43,823	232,831	141,153
Net change in available for sale assets	158,130	51,750	84,431	29,873	242,561	81,623
Pension and post-retirement benefits remeasurements (note 15)	14,118	6,455	7,669	3,600	21,787	10,055
Other components of equity, end of year	327,783	155,535	169,396	77,296	497,179	232,831
Total equity	$ 1,716,136	$ 1,427,310	$ 1,926,640	$ 1,820,007	$ 3,642,776	$ 3,247,317

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2013	2012	2013	2012	2013	2012
Liabilities						
Unearned premiums	$ 1,121,858	$ 1,086,005	$ 806,060	$ 775,312	$ 1,927,918	$ 1,861,317
Provision for unpaid claims (note 12)	$ 5,722,123	$ 5,291,068	$ 1,790,609	$ 1,710,871	$ 7,512,732	$ 7,001,939

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 in accordance with accepted 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.

24. Subsequent Events

As at May 14, 2014, the Corporation entered into agreements to provide mortgage funding totalling $109.6 million.

On February 24, 2014, the Corporation acquired 50% interest in a real estate investment for $36.5 million.

On April 30, 2014, the Office of the Chief Justice of the BC Supreme Court amended the discount rate for future care and future wage loss claims in accordance with the *Law and Equity Act*. The amended discount rate for future care is 2.0% and for future wage loss is 1.5% (previously 3.5% and 2.5% respectively). The amended rates are effective as at April 30, 2014 for all outstanding and future applicable claims. The Corporation estimates that the impact to the 2014 financial statements would be an increase of $245 million to $325 million to net claims incurred. Subsequent to 2014, the Corporation estimates that net annual claims incurred will increase by approximately $50 million to $70 million annually absent of any other changes.

"While I know change may bring growing pains, I also know it's worthwhile."

Debra Ekelund, manager injury services

As a Claims subject matter expert, Debra Ekelund has been helping to influence the design and development of the new claims system, to enable more effective case management for injured and recovering customers.

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. ICBC operates its Optional insurance in competition with the private sector. 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 2013 Annual Report, ICBC has complied with the performance expectations outlined in our 2013 Government's Letter of Expectations. This includes the specific items outlined on the following page.

2013 Government's Letter of Expectations	ICBC Alignment
• Comply with Treasury Board direction on the capital management frameworks for Basic and Optional insurance.	• ICBC is complying with the revised capital management frameworks for Basic and Optional insurance.
• 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 for customers, and implement more streamlined processes for employees that will improve customer service.	• 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. As part of this Transformation Program, ICBC has begun the implementation of a new claims systems in parts of the province.
• Support implementation of government's new BC Services Card and continue to support government's priority policy objectives and any new priority transformational initiatives.	• ICBC has implemented the first phase of the BC Services Card and continues to support government's priority policy objectives.
• Ensure the annual plan for all ICBC projects supporting government initiatives is submitted to Treasury Board for approval.	• ICBC is working with the provincial government to establish an annual plan and planning process for ICBC projects that are implemented in support of government initiatives.
• Implement the ICBC action plan in response to the August 2012 crown review completed by Internal Audit and Advisory Services and provide regular quarterly progress updates to government.	• ICBC has aggressively reduced costs by implementing recommendations of the 2012 Government Review to significantly reduce costs. ICBC has provided quarterly progress updates to government.
• Comply with government's requirements to be carbon neutral under the *Greenhouse Gas Reduction Targets Act*, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the Corporation's scope of operations.	• ICBC continued to meet the requirement to be carbon neutral by tracking and reporting its greenhouse gas emissions and purchasing offsets. ICBC continued to implement aggressive measures to reduce its carbon footprint. Our greenhouse gas emissions were below the 2007 baseline and ICBC is on track to meet the 2020 reduction target.

The 2014 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 2013 Government's Letter of Expectations. For 2014, it includes direction to collaborate with government on creating a framework and workplan for delivering on priority non-insurance projects that are essential to government's mandate, including an Off-road Recreational Vehicle Strategy, the BC Services Card; and road safety systems. It also directs the corporation to continue to invest in road safety initiatives by collaborating with stakeholders to aid in managing claims costs and focus on achieving high customer satisfaction levels for Insurance Services, Claims Services and Driver Licensing.

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 96 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

Byron Horner *Steve Crombie* *James Furney* *Catherine Aczel Boivie* *Brian Jarvis* *Mark Blucher* *Stacy Shields* *Andy Platten*

Mark Blucher	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
Barbara Meens Thistle	Vice-President, Human Resources
Kathy Parslow	Vice-President, Corporate Services
Andy Platten	Chief Information Officer
Geri Prior	Chief Financial Officer

Ronald Olynyk *Kellee Irwin* *Kathy Parslow* *Sheila Eddin* *Maureen Howe*

William Davidson *Geri Prior* *Jatinder Rai* *Rick Thorpe* *Barbara Meens Thistle*

Board Members

Jatinder Rai, Interim Chair
Catherine Aczel Boivie
William Davidson
James Furney
Byron Horner
Maureen Howe
Ronald Olynyk
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.

interim chair: Jatinder Rai

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

executive team

mandate: The primary role of the Executive Team 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.

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

Barbara Meens Thistle, Vice-President, Human Resources

Kathy Parslow, Vice-President, Corporate Services

Andy Platten, Chief Information Officer

Geri Prior, Chief Financial Officer

governance committee

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

chair: Rick Thorpe

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: James Furney, Maureen Howe, 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

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additional information

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

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