Insurance Corporation of British Columbia

2005 ANNUAL REPORT

PROFILE

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation established in 1973 to provide universal automobile insurance to motorists in British Columbia. Today, ICBC operates and administers universal compulsory automobile insurance (Basic insurance), the rates for which are regulated by the British Columbia Utilities Commission (BCUC), and offers and competes with other insurance companies in the sale of Optional automobile insurance products.

ICBC is one of Canada's largest property and casualty insurers, with approximately $3.1 billion in premiums written and $8.1 billion in assets, and employs approximately 4,900 people (full time equivalents). ICBC offers automobile insurance products through a network of approximately 900 independent brokers, and provides claims handling services at 40 locations throughout BC. ICBC also invests in loss management and road safety programs to reduce crashes, automobile crime and fraud, which benefit customers by reducing claims costs and helping to keep rates low and stable over the long term. In addition, ICBC provides vehicle and driver licensing services and vehicle registration services on behalf of the provincial government through almost 120 driver services centres, expressways and government agent and appointed agent offices across BC.

As a provincial Crown corporation, ICBC is governed by legislation that is applicable to all Crown corporations. ICBC operates under the authority of the *Insurance Corporation Act* and through the Shareholder's Letter of Expectations established between ICBC and the Minister responsible. The Minister of Public Safety and Solicitor General is the Minister responsible for ICBC.

VISION

ICBC will be the leading insurance company in all aspects of its business, operating competitively and valued by its customers.

MISSION

ICBC will be the insurer of choice delivering insurance products, licensing services, road safety, and other loss management initiatives that are superior, innovative and valued by our customers, at the lowest cost possible. Our reputation will be as a dependable, fair, equitable, and competitive service provider. We will accomplish this with our dedicated employees working in a performance-based culture, achieving operational excellence with the assistance of our independent broker force and other business partners.

VALUES

In providing valued products and services, ICBC is guided by the following corporate values:

- **Integrity** – We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.
- **Commitment** – We demonstrate commitment as employees by doing our best work at all times. ICBC demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.
- **Dedication to the Customer** – We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

Table of Contents

Library and Archives Canada Cataloguing in Publication Data
Insurance Corporation of British Columbia.
Annual report. – 1st (1973/74)-

Annual.
First report covers period Apr. 1973 – Feb. 1974.
Report year ends Feb. 28, 1974-1978; Dec. 31, 1979-
ISSN 0317-7947 = Annual report (Insurance Corporation of British Columbia)

1. Insurance Corporation of British Columbia – Periodicals. 2. Insurance, Automobile – British Columbia - Periodicals. I. Title.

HG9970.A68C35 368'.006'2711 C75-080052-6

Welcome to ICBC

ICBC's vision is to be the leading insurance company in all aspects of its business, operating competitively and valued by its customers.

Letter of Transmittal and Accountability Statement

Honourable John Les
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia

Dear Minister:

The 2005 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The information presented reflects the actual performance of ICBC for the year ended December 31, 2005. All significant decisions, events and identified risks as of December 31, 2005 have been considered in preparing the report.

ICBC's 2005 Annual Report was prepared in accordance with the BC Reporting Principles and is in compliance with the Province's *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations*. The information presented in the report represents a comprehensive picture of our actual results in relation to ICBC's Service Plan, including information on performance and outcomes in 2005, key developments, significant issues, risks and uncertainties, as well as summary information on ICBC's future outlook.

I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported, as well as for the design and operation of internal controls to ensure performance information is measured accurately and in a timely fashion. The measures presented are consistent with ICBC's vision, mission, goals and objectives, and focus on key aspects of ICBC's performance. This report contains estimates and interpretive information that represent the best judgement of management. Any significant limitations in the reliability of the data are identified.

On behalf of the Board of Directors, senior management and employees, it is my privilege to submit the Annual Report of the Insurance Corporation of British Columbia for the year ended December 31, 2005.

Sincerely,

T. Richard Turner, Chair
Board of Directors

Key Financial and Operating Comparatives

FIVE YEAR COMPARISON
FOR THE YEARS ENDED DECEMBER 31

	2005	2004	2003	2002	2001
For the year:					
Premiums earned ($000)	3,117,412	3,026,481	2,852,411	2,621,383	2,440,075
Service fees ($000) [1]	37,479	36,633	33,585	27,201	22,535
Claims incurred during the year ($000) [2]	2,444,515	2,242,334	2,208,140	2,193,492	2,126,250
Prior years' claims adjustments ($000) [2 & 3]	80,662	(4,740)	10,392	(24,791)	2,230
Claims services and operating costs ($000) [1]	423,991	419,350	409,272	397,901	480,389
Insurance premium taxes and commissions ($000) [4]	478,476	323,184	274,839	249,778	301,758
Investment income ($000)	579,436	395,319	329,936	327,269	453,955
Net income (loss) for the year ($000)	197,924	372,959	224,807	44,968	(250,519)
At year end:					
Cash and investments at year end ($000)	7,180,746	7,055,237	6,436,189	5,857,937	5,548,362
Total assets ($000)	8,086,249	7,461,955	6,806,029	6,166,390	5,835,233
Retained earnings ($000)	1,157,148	959,224	586,265 [5]	314,190	269,222
Autoplan policies earned [6]	2,896,000	2,818,000	2,750,000	2,705,000	2,661,000
Average premium ($) [7]	1,059	1,048	1,009	960	888
Claims reported during the year [8]	924,000	929,000	931,000	1,072,000	1,105,000
Loss ratio:					
- Current year (%)	87.5	83.4	87.0	94.0	100.1
- Prior years' claims adjustments (%) [3]	2.6	(0.2)	0.4	(0.9)	0.1
Loss ratio (%) [9]	90.1	83.2	87.4	93.1	100.2
Insurance expense ratio (%) [10]	16.1	15.9	15.5	15.5	17.1
Number of employees [11]	4,908	4,889	4,754	5,100	5,625

[1] Service fees previously netted against expenses have been reclassified to revenue.
[2] Claims incurred and prior years' claims adjustments are presented on a discounted basis for 2005 and 2004. 2003 and prior years are presented on an undiscounted basis.
[3] ( ) denotes a favourable adjustment, i.e. a reduction in expense.
[4] Insurance premium taxes and commissions include deferred premium acquisition cost adjustments.
[5] Retained earnings has been restated for prior period adjustment as a result of a change in accounting policy for unpaid claims discounting and other net adjustments. See note 5 – page 61.
[6] Annualized values have been used for policies with a term of less than 12 months.
[7] Average premium is based on premiums earned.
[8] Claims reported represents the number of claims reported against purchased insurance coverages.
[9] Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
[10] Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs and other unusual items).
[11] Number of employees is based on year-end full time equivalents.

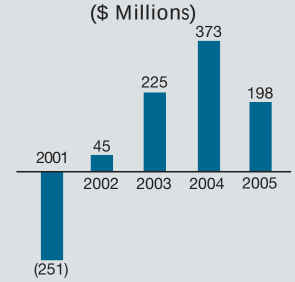
Certain comparative figures have been restated to conform to the current year's presentation.

Performance Highlights

Net Income

In 2005, ICBC recorded net income of $198 million. Net income stays in the Corporation to help keep insurance rates low and stable over the long term and helps protect policyholders against unexpected losses.

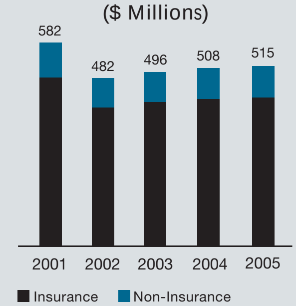
Net Income*
($ Millions)



Controllable Costs

Continued focus on fiscal management throughout the Corporation kept controllable cost increases to a minimum in 2005 despite upward cost pressures. Controllable costs remain approximately 20% lower than in 2000.

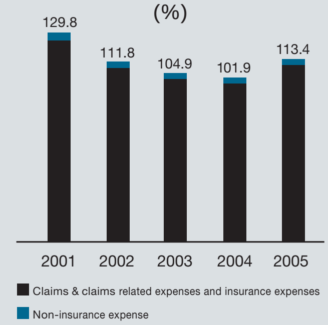
Controllable Costs*
($ Millions)



Combined Ratio

The combined ratio of 113.4% is higher than 2004, which is mainly attributable to increasing injury claims costs. ICBC's combined ratio includes both an insurance and a non-insurance component.

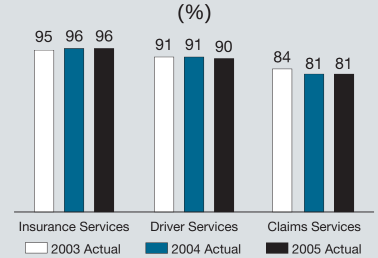
Combined Ratio*
(%)



Customer Satisfaction

Customer satisfaction levels for insurance services and claims services remained unchanged, while driver services declined marginally in 2005.

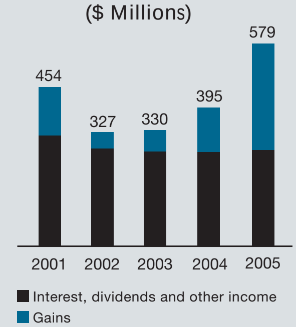
Customer Satisfaction
(%)



Investment Income

Investment income increased to $579 million in 2005. Income from investments reduces premiums otherwise payable by policyholders.

Investment Income
($ Millions)



* Certain comparative figures have been restated to conform to the current year's presentation.

Strategic Direction

ICBC's strategic direction is on track — to be a leader in all aspects of our business, from insurance to licensing to road safety, to operate competitively, and to ensure that we focus on meeting the needs of our customers.

Message from the Chair and the President and CEO

ICBC's strategic direction continues to be focused on being the leading insurance company meeting the needs of British Columbians by providing low and stable auto insurance rates over the long term. Our corporate goals are to position the company to compete successfully, to build corporate financial stability through operational excellence, to enhance the overall customer experience, and to focus on employees as a key component of ICBC's success.

While 2005 produced mixed results, we were able to make significant progress in meeting the needs of our customers. Optional insurance rates were lowered for approximately 1.6 million better-risk drivers, with annual premium savings to customers of approximately $100 million and approximately $41 million in refunds to eligible customers who purchased or renewed a 2005 policy before the rate decreases were announced.

We were also able to improve claims service to our customers on several fronts. These improvements included expanded hours of service at key claim centres and driver services centres in the Lower Mainland, on Vancouver Island, and in the Southern Interior. In addition, Basic insurance rates continued to be amongst the lowest in the country. With the signing of the new Collision Repair Industry Agreement, we also were able to improve the services for customers involved in crashes with more streamlined processes designed to deliver fast and safe repairs. In addition, customers who finance their insurance premiums, which is just over half of our customers, will benefit from the new ICBC Payment Plan, which affords customers a more streamlined and cost-effective process.

On the financial front, ICBC achieved net income of $198 million, which is about half of the record level results from 2004. A significant contributor to the positive net income results was the strong investment returns, which exceeded the 2004 return by approximately $184 million. The income generated from ICBC's investment portfolio reduced premiums for each policyholder by approximately $200 in 2005.

To help maintain low and stable rates, ICBC also invested in road safety and loss prevention programs. Initiatives such as the Community Crash Reduction Challenge and ICBC's support of the innovative Bait Car program produced positive results.

In 2005, while controllable costs were on target with planned levels, claims costs were significantly higher than planned, reflecting increasing injury claims costs. Since over 80% of the cost of all injury claims is covered by Basic insurance, in its 2006 rate application, ICBC proposed that the British Columbia Utilities Commission approve a 6.5% rate increase to ensure that Basic insurance premiums are sufficient to cover the cost of claims and expenses. A key focus for ICBC moving forward will be finding ways to address rising injury claims costs.

ICBC is committed to operating competitively and offering products and services that are valued by its customers in a dependable, fair and equitable manner. ICBC is on the right strategic path: committed to being a leader in all aspects of our business, from insurance to licensing to road safety; to operate competitively; and, to ensure that we focus on the needs of our customers. We will continue to be guided by our vision and mission as we move forward in 2006, investing in measures that support a capable and engaged workforce while addressing our key 2006 priorities of delivering appropriately priced and valued products and services, maintaining fiscal discipline and addressing claims costs pressures.

T. Richard Turner
Chair, Board of Directors

Paul Taylor
President and CEO

Serving British Columbians

ICBC provides automobile insurance products, driver and vehicle licensing and vehicle registration services, government fines collection, and loss management and road safety programs in communities throughout the province.

Corporate Overview

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation established in 1973 under the *Insurance Corporation Act* to provide universal automobile insurance to BC motorists. At the time it was established, ICBC was the sole provider of auto insurance in British Columbia. Soon afterwards, legislation was amended to allow private insurance companies to compete in the sale of Optional automobile insurance products. Today, ICBC is the sole provider of Basic automobile insurance, which is compulsory and for which the rates are regulated through the British Columbia Utilities Commission (BCUC), and competes with other companies in the sale of Optional automobile insurance products. In providing these products, ICBC operates as an integrated company, which benefits customers in terms of convenience and reduced costs.

As part of its mandate, ICBC also provides driver and vehicle licensing and vehicle registration services, government fines collection, and funding for commercial vehicle compliance operations on behalf of the Province. The commercial vehicle compliance function was transferred back to the provincial government in 2003.

ICBC is currently one of BC's largest corporations and one of Canada's largest property and casualty (P&C) insurers. ICBC receives approximately $3.1 billion in insurance premiums from almost 2.9 million annualized policies. Through a province-wide network of more than 900 independent brokers, government agents, and appointed agents, ICBC provides insurance products, driver licensing, and vehicle licensing and registration services. ICBC also provides services to those involved in crashes and victims of auto crime, and processes more than 900,000 claims per year through its 24-hour telephone claims handling facility, province-wide network of 40 claims service locations, and corporate website, www.icbc.com. In addition, ICBC partners with businesses and organizations in communities throughout BC, including law enforcement agencies, members of the automobile repair industry, health service providers, defence lawyers, and public and community organizations. These partners are involved in different aspects of the insurance and claims processes, such as road safety programs, repair or replacement of damaged vehicles, medical and rehabilitation services, and legal services.

INSURANCE PRODUCTS AND SERVICES

Insurance and Claims

Similar to other vehicle owners across Canada, motorists in BC are required to purchase a Basic package of automobile insurance. In BC, this Basic insurance is provided solely by ICBC. Private passenger and commercial vehicle owners are provided with $200,000 in third-party legal liability protection, accident benefits and $1 million of underinsured motorist protection; buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory liability levels. In addition to offering Basic insurance, ICBC competes with other automobile insurance companies in the sale of extended third-party legal liability, collision, comprehensive, and other Optional insurance coverages. The figure below illustrates the full spectrum of ICBC's Basic and Optional insurance products.

The automobile insurance product in BC is based on a full tort system, which means that an injured party is entitled to take the at-fault party to court for the full amount of his or her damages. In addition, the insured injured party has access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss through his or her Basic insurance from ICBC. Systems in other provinces in Canada are based on some variant of no-fault or mixed no-fault and tort system models, which means that compensation can be based on predetermined benefit schedules regardless of who is at fault, there may be thresholds and/or caps or deductibles on pain and suffering awards, and there may be little or no ability to sue for further damages. These differences make inter-provincial comparisons difficult since the related products, services and cost structures of each system are unique.

ICBC'S BASIC AND OPTIONAL INSURANCE PRODUCTS

Basic Coverage

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

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

Optional Coverage

Additional coverage to meet customer needs:

Vehicle

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

Equipment

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

Individual

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

Insurance brokers are a key business partner for ICBC, distributing the Corporation's insurance products. ICBC and the brokers are guided in this partnership through the five-year Broker Accord, which was renewed in 2002, and Autoplan Agency Agreements between ICBC and individual agencies. Other key partners for ICBC are those in the collision repair industry and the medical community.

In 2005, ICBC entered into a new partnership with the collision repair industry to establish a performance-based compensation model.

Loss Management and Road Safety

ICBC invests in road safety and loss management programs that provide a direct benefit to its customers through reduced claims costs that ultimately help keep premiums low and stable over the long term. ICBC works with many partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the law enforcement community, the Ministry of Attorney General, the Ministry of Transportation, brokers, municipalities, community organizations, and volunteers.

Enforcement Support

ICBC provides funding to the Ministry of Public Safety and Solicitor General for enhanced traffic law enforcement initiatives. This funding enables law enforcement agencies to determine the best use of resources for activities that reduce crashes caused by impaired driving, speed and aggressive driving, as well as reducing injuries caused by motorists not wearing seat belts.

Fraud Prevention

Zero tolerance for fraud is one part of ICBC's strategy to keep rates low and stable. ICBC uses a number of techniques and tools to investigate all types of suspected fraud, including staged crashes and claims, vendor and premium fraud, and licensing and identity fraud. ICBC also recovers monies paid out in cases where fraud has been perpetrated against the Corporation.

Auto Crime Prevention

ICBC works with partners and volunteers to develop community solutions to auto crime. These tactics include continued support for the Bait Car program, sharing the costs of increased parking lot patrols with business improvement associations, providing equipment for community policing groups to help identify stolen vehicles, and supporting public awareness campaigns that encourage motorists to take steps to protect their vehicles.

Problems happen when you least expect them. ICBC claims service professionals can help you 24 hours a day, seven days a week.

Autoplan Broker Road Safety Program

The road safety partnership between ICBC and its brokers was renewed in 2002. Through this agreement, ICBC and its brokers work together on initiatives to make BC roads safer and reduce crashes. Many of these initiatives involve working with children, youth and their parents in local communities, helping to create strong community partnerships.

Road Improvement and Road Safety Planning

ICBC works with partners like the Ministry of Transportation and municipalities to make improvements to high crash locations and to highlight safety issues in the development of new roads and communities. Under the Safer City initiative, ICBC, local governments, police and community stakeholders work together to develop road safety plans that address local problems.

Non-Insurance Services

ICBC provides a number of non-insurance services on behalf of the provincial government, which include vehicle and driver licensing, vehicle registration, and government fines collection. The Service Agreement established in 2003 between the provincial government and ICBC outlines the provision of these services and the associated costs. The costs of these non-insurance services are funded through ICBC's Basic insurance premiums. In addition, ICBC provides funding to the provincial government for commercial vehicle compliance.

Driver Licensing and Fines Collection

Driver licensing services are provided through approximately 120 points of service, including driver services centres, expressways, appointed agents and government agents' offices throughout BC. On behalf

Driver and vehicle licensing and vehicle registration services are available to the public at approximately 120 locations across BC.

ICBC performs driver examinations and provides a number of learning resources for drivers online and at driver services centres.

of the provincial government, ICBC collects and remits revenues from driver and vehicle licences, fees and fines, and motor vehicle and other debts. ICBC also administers the Graduated Licensing Program (GLP) and the regulations that govern the driver training industry.

Vehicle Registration and Licensing

Since the mid 1970s, ICBC has been collecting vehicle registration and licensing fees and managing the issuance of vehicle licence plates and decals on behalf of the provincial government. ICBC provides these services through its network of brokers who perform registration and licensing functions at the time of insurance purchase. The linkage between the requirement for vehicle registration and licensing prior to issuing of insurance minimizes the number of unlicensed and uninsured vehicles operating in BC.

Commercial Vehicle Compliance

The regulatory functions for commercial vehicle safety and enforcement were transferred back to the provincial government from ICBC on April 1, 2003. As part of the transfer, ICBC has committed to provide annual funding of approximately $24.7 million to government for these functions up to March 31, 2006.

Performance and Results

ICBC's four corporate goals are to position the company to compete successfully, to build corporate financial stability through operational efficiency, to enhance the overall customer experience, and to focus on employees as a key component of ICBC's success.

Report on Performance

ICBC's overall strategic direction is based on its vision and mission to be the leading insurance company in British Columbia in all aspects of its business, operating competitively and offering services that are valued by its customers in a dependable, fair and equitable manner. Underlying ICBC's vision and mission are four corporate goals:

- become more competitive;
- revenue driven and fiscally responsible;
- customer focused; and,
- personally accountable, capable and engaged people.

In 2005, continued focus on the corporate goals, objectives and strategies helped ICBC achieve positive results in many areas. Key achievements in 2005 include the following.

- ICBC's Optional insurance rates were reduced for approximately 1.6 million of ICBC's better-risk customers, resulting in total premium savings to customers of approximately $100 million and refunds of approximately $41 million to policyholders who had purchased or renewed a 2005 policy before the rate decreases were announced. In addition, there were no changes in Basic insurance rates in 2005.

- Investment returns were strong in 2005. Income earned on investments helps keep premiums as low as possible. As a result, average premiums for 2005 were approximately $200 less than they otherwise would have been.

- Throughout 2005, controllable costs continued to be managed efficiently, resulting in actual costs coming in lower than plan. However, claims incurred costs were significantly higher than anticipated, particularly the costs of injury claims, driving total 2005 expenditures upwards and impacting current year financial results. Since over 80% of the cost of all injury claims is covered by Basic insurance, this pressure will impact Basic insurance rates in 2006. As a result, in January 2006 ICBC applied to the British Columbia Utilities Commission (BCUC) for an interim rate increase of 6.5%, which was subsequently approved with an effective date of March 15, 2006. A final decision from the BCUC on the 2006 Basic insurance rates is expected following public hearings in April.

- A Collision Repair Industry Agreement was signed with industry partners. The new agreement includes a performance-based compensation model for collision repair and body shops and is intended to both help manage repair costs and improve customer satisfaction.

- A new ICBC Payment Plan was introduced, replacing the previous Autoplan 12, for customers wishing to finance their premiums. This change to ICBC's premiums financing results in a more streamlined and cost-effective process.

- Loss management and road safety highlights include the success of programs that encourage safe driving, such as the Community Crash Reduction Challenge, and the successful expansion of the Bait Car program that helped reduce automobile crime in 2005.

Performance results to date are taken into consideration in shaping future plans and initiatives. Looking forward, ICBC's key priorities will be to continue developing pricing and products that provide value to customers, maintain financial discipline and address the issue of increasing injury claims costs, and improve customer service while investing in a capable and engaged workforce. Additional information on future objectives, strategies and measures can be found in ICBC's 2006 – 2008 Service Plan.

SUMMARY FINANCIAL PERFORMANCE AND OUTLOOK

The table below provides an overview of ICBC's 2005 financial performance relative to its 2005 – 2007 Service Plan (February 2005) and 2005 – 2007 Service Plan Update (September 2005), as well as a forecast of financial results for the next three years as set out in ICBC's 2006 – 2008 Service Plan. These results and forecasts form the basis upon which key performance targets are set.

To be consistent with the industry practice, ICBC has started to present unpaid claims on a discounted basis at year end to reflect the time value of money when the unpaid claims are expected to be paid in future years. In addition, for greater clarity, service fees which were previously netted against expenses have been reclassified to revenue. These changes affect the calculations of return on equity, combined ratio, loss ratio and expense ratio. These reclasses have been reflected throughout the annual report.

($ Millions)	2005 (Plan)	2005 (Outlook)	2005 (Actual)	2006 (Plan)	2007 (Forecast)	2008 (Forecast)
Premiums earned	$3,028	$3,075	$3,117	$3,207	$3,366	$3,502
Service fees	41	41	38	47	47	47
Investment income	353	500	579	404	410	427
Total Revenues	**3,422**	**3,616**	**3,734**	**3,658**	**3,823**	**3,976**
Net claims incurred [1]	2,343	2,416	2,525	2,574	2,707	2,837
Claims service and loss management	292	292	284	307	318	325
Insurance operations expenses	152	146	140	159	164	167
Premium taxes and commissions [2]	352	367	478	392	416	433
Non-insurance expenses	107	110	109	95	92	94
Total Expenses	**3,246**	**3,331**	**3,536**	**3,527**	**3,697**	**3,856**
Net Income	**$ 176**	**$ 285**	**$ 198**	**$ 131**	**$ 126**	**$ 120**

[1] Claims incurred include prior years' claims adjustments.
[2] Premium taxes and commissions include deferred premium acquisition cost adjustments.

In 2005, ICBC's net income was $198 million, based on total revenues of $3.7 billion and total expenses of $3.5 billion.

Premiums earned were $89 million higher than plan and $42 million higher than outlook due to a higher than expected number of vehicles insured, along with better than anticipated sales of Optional insurance products. Investment income was $226 million higher than plan and $79 million higher than outlook mainly due to gains from bond and equity investments.

For expenses, claims incurred was $182 million higher than plan and $109 million higher than outlook, primarily reflecting the impact of a significant increase in the cost of injury claims and the re-estimation of unpaid claims reserves. Premium taxes and commissions were $126 million higher than plan and $111 million higher than outlook, mainly due to required adjustments to the amount of deferred premium acquisition costs. Claims services and loss management expenses were $8 million lower than both plan and outlook, and expenses for insurance operations were $12 million lower than plan and $6 million lower than outlook. In addition, non-insurance expenses were in line with plan and outlook.

For future years, ICBC has identified a number of factors that could impact performance, including potential impacts from the emerging regulatory environment, increased competition in the Optional insurance market, the BCUC final decision on 2006 Basic insurance rates, volatility in the investment markets, and claims cost pressures. The outlook for financial performance has been prepared based on ICBC's assessment of these risks and the three-year outlook as presented in the 2006 – 2008 Service Plan includes a number of assumptions. Further information on potential issues and risks can be found in the "Business Risks and Risk Management" section of this report. More detailed information on ICBC's outlook is provided in ICBC's 2006 – 2008 Service Plan.

The following sections provide further information on ICBC's goals, objectives and key strategies, as well as its 2005 performance results relative to its performance measures and targets. Performance measures and targets for 2006, as outlined in ICBC's 2006 – 2008 Service Plan, are also provided.

To assess progress against its goals and objectives, ICBC relies on a number of corporate performance measures, which are standard within the insurance industry and are relevant in monitoring performance. ICBC data used in the calculation of performance results are derived from the Corporation's financial and operating systems or are based on independent surveys. The controls over these systems are periodically reviewed by ICBC's internal and external auditors, and independent surveys used in assessing customer satisfaction are conducted by experienced and reputable firms. Where external sources of data are used, the most current available information is used. ICBC recognizes the inherent limitations in all control systems and believes the systems provide an appropriate balance between costs and benefits desired.

GOAL: BECOME MORE COMPETITIVE

Becoming more competitive is about being a better business and providing low and stable rates to customers over the long term; this applies equally to ICBC's Basic and Optional business. As the sole provider of Basic insurance, ICBC works to ensure that its services meet the needs of the public and provide value to customers, and that products are priced appropriately. ICBC applies the same approach in providing Optional insurance, except that it competes with private insurers in delivering Optional insurance products and services.

BECOME MORE COMPETITIVE – *Multi-year Objectives, Strategies and Measures 2005 – 2007 Service Plan**

Objectives:
- Deliver innovative, competitive, and tailored products and services
- Achieve planned financial results

Measures:
- Return on equity
- Combined ratio
- Investment return

Strategies:
- Manage Optional products to remain competitive
- Strengthen the collection and use of business intelligence
- Enhance the value of broker relationships
- Streamline point of sale and related processes
- Manage legislative and regulatory change effectively

*Revised objectives and strategies for 2006 and future years are reflected in ICBC's 2006 – 2008 Service Plan.

In 2005, ICBC's Optional insurance rates were reduced for approximately 1.6 million of ICBC's better-risk customers, resulting in total premium savings to customers of approximately $100 million and refunds of approximately $41 million to policyholders who had purchased or renewed their Optional insurance in 2005 with ICBC before the rate decreases were announced. In addition, there were no changes to Basic insurance rates in 2005.

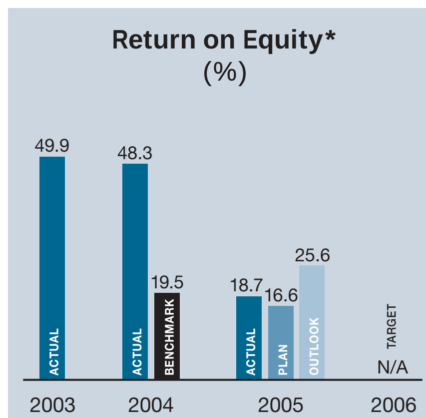
Insurance brokers are a key partner for ICBC, delivering the Corporation's insurance products and, in 2005, ICBC implemented several initiatives to make it easier for brokers to do business with our mutual customers. In 2005, ICBC expanded the types of transactions and the number of special coverage policies that brokers are able to process online. Another improvement implemented in 2005 was an inquiry tool that allows brokers to quickly and easily demonstrate to clients how their insurance premium is calculated on the Claim Rated Scale. Other 2005 initiatives include improvements to the Autoplan Extranet to enhance functionality and measures to improve broker access to information on ICBC processes and projects.

Performance Measures, Targets and Results:

Return on Equity

This is a standard financial measure that indicates the change in value to a shareholder for investing in an organization and is the ratio of net income to the average of the opening and closing retained earnings.

ICBC's 2005 net income of $198 million reflects higher than forecast premium revenue and investment income. These positive factors were offset by higher acquisition costs due to a write-down of deferred premiums acquisition costs, and higher than anticipated claims incurred costs. ICBC ended the year with a return on equity that exceeded its initial (February 2005) plan but was lower than outlook (September 2005). The 2004 industry benchmark was 19.5%.[1]



Source: ICBC Financial Systems

* Certain comparative figures have been restated to conform to the current year's presentation (see page 16).

Return on equity measures corporate profitability as a percentage of average retained earnings. As a Crown corporation responsible for mandatory Basic insurance, ICBC does not have the business objective of maximizing profits or return on equity, so this is not the optimal competitive measure for the Corporation. Moving forward, ICBC will use the Minimal Capital Test (MCT) to measure financial health and stability and will no longer include return on equity as a public corporate performance measure.

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions for insurance companies across Canada, which are federally regulated, and is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long term financial stability. MCT is a new measure for ICBC and the appropriate targets are still being refined. Over the long term, ICBC will move towards operating at a capital level of at least 150% MCT.

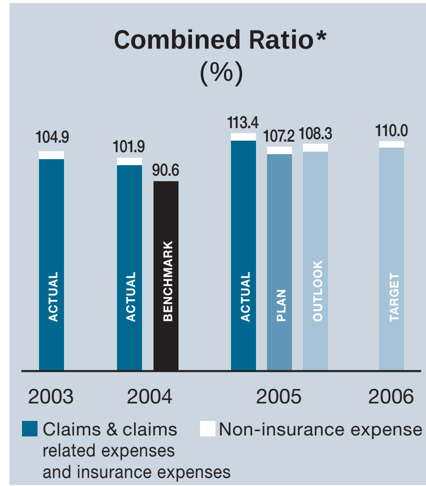
[1] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2005. Total Canadian Property Casualty Industry (including Lloyd's, excluding ICBC).

Combined Ratio

The combined ratio is a key measure within the insurance industry for overall profitability and is the ratio of insurance costs (claims costs, claims-related costs, and insurance operating costs) to insurance 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 to cover costs).

In addition to claims costs, claims-related costs and insurance operating costs, ICBC also incurs non-insurance costs for services provided on behalf of government that are not incurred by private insurers. In 2005, non-insurance costs totalled approximately $109 million and accounted for 3.5 percentage points of the combined ratio.

ICBC's combined ratio was higher than both its 2005 plan and 2005 outlook, mainly due to higher costs for injury claims and the associated adjustments to deferred premium acquisition costs. The 2004 industry benchmark was 90.6.[2] The combined ratio target for 2006 is lower than 2005 actual, reflecting current expectations about claims cost trends. The 2006 target for non-insurance expenses is also lower, reflecting the conclusion of ICBC's payments to the provincial government for commercial vehicle compliance on March 31, 2006.



Source: ICBC Financial Systems

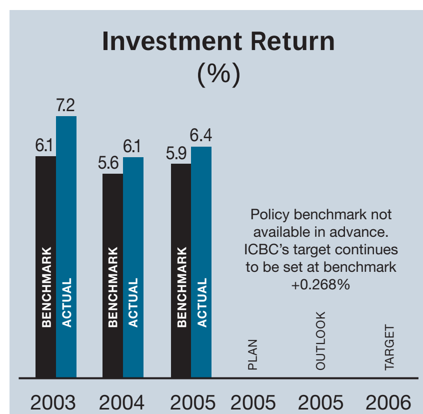
* Certain comparative figures have been restated to conform to the current year's presentation (see page 16).

Investment Return

ICBC manages an investment fund of over $7 billion (at cost), which generates investment income used to reduce premiums for policy-holders. ICBC holds a conservative portfolio with the majority of monies (more than 70%) invested in high quality fixed income securities. These assets are held primarily to provide for future claims payments.

Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard industry benchmarks. In addition, the return of the overall portfolio is measured against a policy benchmark calculated as the average of individual asset class 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.

ICBC's investment returns continue to compare favourably to market returns. As reported in ICBC's 2005 plan and outlook, over a four year period, ICBC has established an added value objective to exceed the four-year annualized market-based benchmark[3] by 0.268%. For 2005, ICBC's four-year annualized return was 6.4% and the comparable market benchmark was 5.9%. The difference is well in excess of the added value objective of 0.268%.



Source: ICBC Financial Systems

[2] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2005. Total Canadian Property Casualty Industry (including Lloyd's, excluding ICBC).

[3] Sources: Scotia Capital Debt Market Indices, S&P/TSX Capped Composite Index, MSCI EAFE Index, S&P 500 Index, and Merrill Lynch Global Government Index Series.

GOAL: REVENUE DRIVEN AND FISCALLY RESPONSIBLE

Being revenue driven and fiscally responsible provides the financial foundation for ICBC to meet its other goals and to provide low and stable rates over the long term to its policyholders. ICBC continues to exercise disciplined financial management, to invest in road safety and loss prevention strategies that help manage the frequency and cost of claims, and to pursue performance-based supplier arrangements and procurement opportunities that capitalize on its economies of scale.

REVENUE DRIVEN AND FISCALLY RESPONSIBLE
*– Multi-year Objectives, Strategies and Measures 2005 – 2007 Service Plan**

Objectives:
- Excel in operational effectiveness and efficiency
- Minimize claims costs, severities, and frequencies
- Improve the value of goods and services purchased and the recovery of costs for services provided

Measures:
- Loss ratio
- Expense ratio
- Claims efficiency ratio

Strategies:
- Deliver programs and initiatives to manage the frequency and cost of claims
- Expand ability to realize cost reductions through performance-based supplier arrangements
- Realize procurement opportunities that capitalize on ICBC's economies of scale

*Revised objectives and strategies for 2006 and future years are reflected in ICBC's 2006 – 2008 Service Plan.

In 2005, ICBC entered into a new partnership with the collision repair industry to establish a performance-based compensation model under the new Collision Repair Industry Agreement (CRIA). With the signing of this new agreement, ICBC was able to improve the services for customers involved in crashes with more streamlined processes designed to deliver fast and safe repairs.

The new streamlined and more cost-effective ICBC Payment Plan was introduced in 2005, replacing the previous Autoplan 12 premium financing program. Under the new payment plan, ICBC will realize substantial savings and will have greater flexibility in serving its customers.

Fewer crashes, along with reductions in automobile crime and insurance fraud, lead to decreases in property damage, injuries, and fatalities and result in savings that can be passed on to customers. In 2005, approximately $47 million was invested in loss management and road safety programs, such as projects to improve intersection safety and road signs, programs that encourage safe driving such as the Community Crash Reduction Challenge, and programs delivered in partnership with provincial and municipal governments and other agencies, such as the Bait Car program and enhanced traffic law enforcement initiatives.

In 2005, ICBC also implemented a number of changes that support the provincial government's initiatives to combat drinking and driving, including the Ignition Interlock program, enhancements to the Vehicle Impoundment program, and stronger sanctions supporting 24-hour prohibitions and driving while prohibited violations.

ICBC continued to be proactive in preventing insurance fraud and to recover the costs of insurance fraud where it has occurred. In 2005, 175 fraud-related criminal charges were laid against 94 people and other fraud cases were pursued through civil court.

Several other projects undertaken in 2005 used technology to improve services and operations. Examples of these projects include the development of automated processes to reduce the time and cost associated with document management and information technology solutions to support claims appointments and scheduling, as well as systems solutions to help manage the significant work effort needed to fulfill ICBC's responsibilities in the BCUC processes.

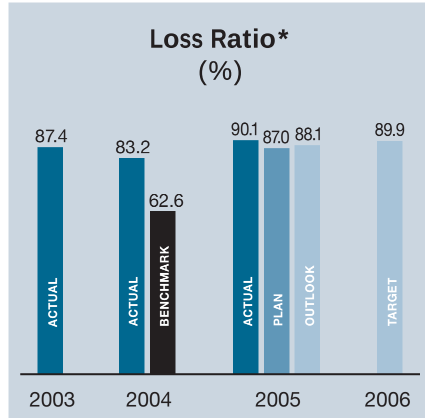
Performance Measures, Targets and Results:

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, including loss management and road safety costs, to insurance premium dollars earned; the lower the percentage, the more profitable the product.

In 2005, ICBC's loss ratio was 90.1%, slightly higher than both its 2005 plan and 2005 outlook, reflecting the increasing injury claims costs. The 2005 P&C industry benchmark is not yet available; however, the 2004 P&C industry benchmark was 62.6%.[4] ICBC's loss ratio is typically higher than the P&C industry ratio.

The 2006 target shows an improvement over 2005 actual results but remains higher than 2004 and prior years, reflecting current expectations for continued pressure from rising costs of injury claims.



Source: ICBC Financial Systems

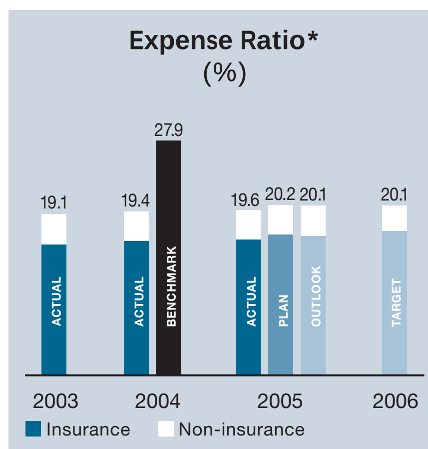
* Certain comparative figures have been restated to conform to the current year's presentation (see page16).

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. For ICBC, this includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid to government on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver licensing and vehicle registration. To facilitate comparisons with industry benchmarks, the expense ratio excludes the impact of one-time non-recurring items, such as adjustments to deferred premium acquisition costs and other unusual items.

For ICBC, the expense ratio consists of two key components; the insurance expense ratio and the non-insurance expense ratio. Unlike the rest of the industry, ICBC incurs costs for non-insurance expenses such as driver licensing, commercial vehicle compliance, vehicle registration and licensing, and government fines collection. Segregating expenses in this way allows ICBC to better manage the costs of operating its insurance business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

ICBC's overall expense ratio for 2005 was 19.6%. This is lower than the 2005 plan and the 2005 outlook, and remains significantly lower than the 2004 P&C industry benchmark of 27.9%[4] (an expense ratio specific to automobile insurance is not available). ICBC believes that the automobile insurance expense ratio for the industry would be lower than the overall P&C expense ratio and that ICBC's expense ratio is



Source: ICBC Financial Systems

* Certain comparative figures have been restated to conform to the current year's presentation (see page16).

[4] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2005. Total Canadian Property Casualty Industry (including Lloyd's, excluding ICBC).

lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting and general administration costs.

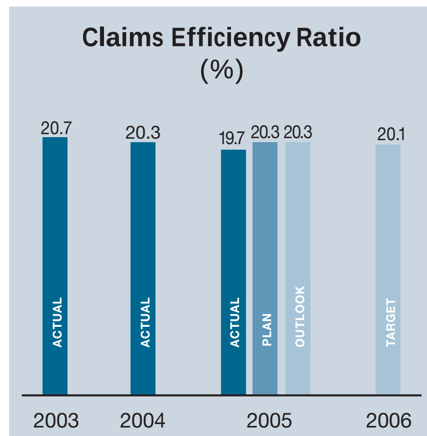
The 2006 target for ICBC's expense ratio reflects current expectations about premiums and operating costs. The 2006 target also reflects the March 31, 2006 expiration of ICBC's payments to government for commercial vehicle compliance functions.

Claims Efficiency Ratio

Managing claims represents a significant component of ICBC's workforce and operating costs. The claims efficiency ratio measures ICBC's claims handling efficiency and is the ratio of claims handling costs (including allocated expenses) over claims paid, less the allocated expenses. Allocated expenses consist primarily of outside legal counsel fees and disbursements, medical reports, private investigators, independent adjusters, and towing costs. In general, a year-over-year reduction in this measure indicates an overall increase in operating efficiency.

The claims efficiency ratio is an extension of the loss ratio and should be viewed in conjunction with that measure. For example, if ICBC were to defend a claim by going to trial, its legal costs would increase and if the court ruling supported ICBC's position, the amount paid out in claims could decrease. Both of these impacts could worsen the claims efficiency ratio, but the offsetting impact would be a better loss ratio.

The 2005 actual claims efficiency ratio of 19.7% is lower than the 2005 plan and 2005 outlook of 20.3%, reflecting the fact that the operating costs to manage those claims increased at a slower rate than the increase in claims costs. The 2006 target of 20.1% is consistent with historical performance and reflects current expectations regarding claims and claims handling cost trends.



Source: ICBC Financial Systems

[5] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2005. Total Canadian Property Casualty Industry (including Lloyd's, excluding ICBC).

GOAL: CUSTOMER FOCUSED

Being customer focused means understanding customers' needs and expectations. ICBC is working to improve customer satisfaction by delivering services to its customers in a fair manner, and by enhancing service delivery and interactions with key business partners. ICBC is committed to continuous improvement, competitive prices, and customer convenience in accessing services.

CUSTOMER FOCUSED – *Multi-year Objectives, Strategies and Measures 2005 – 2007 Service Plan**

Objectives:

- Increase customer understanding and approval of ICBC

Measures:

- Insurance services satisfaction
- Driver services satisfaction
- Claims services satisfaction
- Customer approval index

Strategies:

- Achieve competitive levels of customer service and satisfaction
- Strengthen service channels to improve customer satisfaction and enhance efficiencies
- Offer coverages that are competitive and valued by customers

*Revised objectives and strategies for 2006 and future years are reflected in ICBC's 2006 – 2008 Service Plan.

The strategies above reflect the importance of both the value of the products and services provided and the manner in which these products and services are provided. In June 2005, ICBC's Optional insurance rates were reduced for approximately 1.6 million of its better-risk customers, resulting in premium savings to customers of approximately $100 million and refunds of approximately $41 million to policyholders who had purchased or renewed a 2005 policy before the rate decreases were announced. In addition, there was no change in Basic insurance rates in 2005.

ICBC is committed to enhancing service delivery and several measures were implemented in 2005, including changes to better match service availability with demand through extended hours of operation at six higher volume claim centres and four higher volume driver services centres, and the opening of the Richmond Expressway in February 2005. Improvements were also made to ICBC's website, www.icbc.com, to accommodate expanded web-based services and make information more readily accessible. In addition, call centre technology was upgraded to more cost-effectively provide service to customers and to maintain customer service levels over the long term.

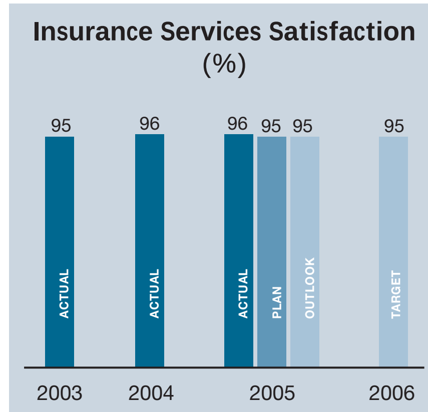
Performance Measures, Targets and Results:

The key customer service measure of performance for ICBC is the percentage of satisfied customers. A separate measure is used for each major transaction type – insurance services, driver services and licensing, and claims services. An independent research firm conducts ongoing customer surveys to monitor satisfaction. The number of surveys completed is targeted to achieve a range of accuracy of results between 0.9% to 3.0% at a 95% confidence level.

Insurance Services Satisfaction

Each year, ICBC and independent insurance brokers process approximately 5.5 million insurance transactions for customers. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance transaction and is based on quarterly surveys; over 1,000 customers are surveyed annually.

Historically, this percentage has been over 90% and is evidence of the positive relationship ICBC and its brokers enjoy with customers. Actual results for 2005 are consistent with the previous years' results and are marginally higher than the 2005 plan and outlook.



Source: Surveys conducted by independent firm.

Driver Services Satisfaction

On an annual basis, ICBC performs approximately 1.3 million transactions relating to driver licences and driver exams. The driver services satisfaction measure represents the percentage of customers satisfied with a recent driver transaction with ICBC. The transaction could relate to renewing a licence, or taking a knowledge test or road test. The measure is drawn from a sample of almost 4,000 customers surveyed annually and is weighted by the number of transactions for each type of service.

2005 actual results for driver services satisfaction are consistent with the 2005 plan and outlook.

Source: Surveys conducted by independent firm.

Claims Services Satisfaction

In an average year, more than 900,000 claims are processed through ICBC's claims handling facilities and repair facilities across the province. The claims satisfaction measure represents the percentage of customers satisfied with a recent claims transaction with ICBC and is based on a representative sample of between 7,000 and 8,000 claims customers.

In 2003, ICBC changed the sample selection and calculation of this measure in order to be able to benchmark performance to P&C companies in Ontario; however, the Financial Services Commission of Ontario subsequently discontinued its requirement that auto insurers conduct the claimant satisfaction survey. As a result, this benchmark is no longer available and ICBC will be reviewing its customer survey methodology in 2006. ICBC's 2005 results are consistent with its 2004 actual results and lower than the target that was set for 2005.

Source: Surveys conducted by independent firm.

For 2006, the claims services satisfaction target is set at 82% and reflects ICBC's commitment for improvement in this measure.

Customer Approval Index

The customer approval index (CAI) was a relatively new measure for ICBC intended to help ICBC understand and manage how customers perceive and approve of the company. The CAI is calculated from 11 survey questions structured around the three key themes of customer perceptions related to service, rates, and road safety. It is a simple average of the percentage of respondents who agree with each of the 11 statements and gives a measure that can range from 0 to 100.

Research conducted over the past two years has shown that the CAI is sensitive to elements within and outside of ICBC's control. This means that, although the CAI is a useful indicator of the public's perception of performance, this may not reflect actual service levels. As a result, ICBC will continue to use the CAI to better understand the public's perception but will no longer be using it as a public reporting measure. Results are reported for 2005 to be consistent with the measures outlined in ICBC's 2005 – 2007 Service Plan and Update.

Source: Surveys conducted by independent firm.

GOAL: PERSONALLY ACCOUNTABLE, CAPABLE AND ENGAGED PEOPLE

Personally accountable, capable and engaged people will help position the company to succeed in all aspects of its business. Through its people, ICBC provides value to its customers, achieves financial success, and differentiates itself from its competitors. ICBC is committed to providing employees with a working environment that fosters engagement and ensures people have the right tools and training to do their jobs.

PERSONALLY ACCOUNTABLE, CAPABLE AND ENGAGED PEOPLE
*Multi-year Objectives, Strategies and Measures 2005 – 2007 Service Plan**

Objectives:
- Increase employee engagement
- Ensure ICBC has a workforce capable of meeting current and future business needs

Measure:
- Employee engagement index

Strategies:
- Identify and improve key workplace people practices that strongly influence engagement
- Build leadership management and talent
- Develop and implement a learning strategy tied to business needs
- Plan for future workforce needs and implement strategies to achieve these needs

*Revised objectives and strategies for 2006 and future years are reflected in ICBC's 2006 – 2008 Service Plan.

In 2005, ICBC continued to work on developing and implementing measures to address key areas targeted for improvement, and an employee opinion survey was conducted in October 2005 to monitor and help improve understanding of issues that are important to employees. A number of coaching and mentoring programs and succession plans were also implemented or expanded in 2005.

Specific corporate-wide projects or initiatives underway in 2005 include a New Manager Development program which helps ensure that new managers have the capabilities to perform to full capacity in their jobs quickly and effectively, and "lunch and learn" series to provide employees with additional training and learning opportunities. In addition to these corporate-wide initiatives, project or division-specific initiatives included training to almost 400 ICBC employees to support the signing of the new Collision Repair Industry Agreement, and the establishment of peer mentoring groups in ICBC's Information Services Division to enable individuals to build positive working relationships and learn from each other.

ICBC also took action on several fronts to improve communications within the Corporation. A new internal web page was created to promote open dialogue between employees and the President, and he also held face-to-face meetings at locations across the province in order to more effectively connect and engage staff province-wide. Throughout 2005, executive and senior management also met with employees through various forums to facilitate increased dialogue.

ICBC is proud to support the United Way and is particularly proud of the results of the 2005 campaign in which over $641,000 was raised, more than $100,000 over the campaign goal and a record amount for the Corporation and its employees. In acknowledgement of these efforts, ICBC was recognized as the Employee Campaign Team of the Year at the Scotiabank and United Way of the Lower Mainland's annual Spirit Awards. The award salutes the achievements of workplace volunteers for organizing and conducting the most exceptional United Way campaign. Working together, COPE Local 378 members, and ICBC managers and non-union employees were able to achieve this great success for ICBC, the United Way and our communities.

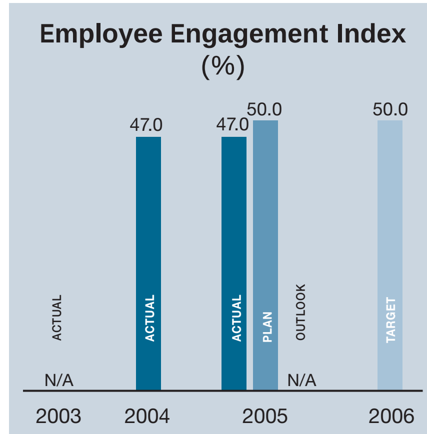
Performance Measures, Targets and Results:

Employee Engagement Index

This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the organization 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.

This is a relatively new measure for ICBC. In June 2004, ICBC conducted its first survey of all employees to establish a baseline result. The survey found that 47% of ICBC's employees felt engaged, and identified areas where ICBC could make meaningful changes.

In October 2005, employees completed the second survey with the result again at 47%, which is lower than the 2005 plan. At the same time, the survey pointed to some initial positive results, notably, employees felt that progress had been made on a number of areas targeted for improvement in 2005. The 2006 target has been maintained at the 2005 target of 50%, representing ICBC's long term commitment for improvement in this area.



Source: Surveys conducted by independent firm.

Members of ICBC's 2005 United Way Campaign team celebrate this year's record-setting campaign and the contributions made towards helping our communities across BC.

Summary of Goals and Performance

The table below provides an overview of ICBC's historical performance based on the goals, objectives and measures outlined in its 2005 – 2007 Service Plan and Update.

GOAL	OBJECTIVES – High Level	MEASURES	ACTUAL 2003 *	2004 *	2005
Become More Competitive	• Deliver innovative, competitive and tailored optional products and services • Achieve planned financial results	Return on Equity (annual basis)	49.9%	48.3%	18.7%
		Combined Ratio			
		• Claims and Claims Related Expenses and Insurance Expense	101.3%	98.4%	109.9%
		• Non-insurance Expenses	3.6%	3.5%	3.5%
		Total [B]	104.9%	101.9%	113.4%
		Investment Return			
		• ICBC Portfolio	7.2%	6.07%	6.36%
		• Policy Benchmark	6.1%	5.61%	5.89%
		Excess	1.1%	0.46%	0.47%
Revenue Driven and Fiscally Responsible	• Excel in operational effectiveness and efficiency • Minimize claims costs, severities and frequencies • Improve the value of goods and services purchased and increase the recovery of costs for services provided	Loss Ratio	87.4%	83.2%	90.1%
		Expense Ratio			
		• Insurance Expense Ratio [A B]	15.5%	15.9%	16.1%
		• Non-insurance Expense Ratio	3.6%	3.5%	3.5%
		Total	19.1%	19.4%	19.6%
		Claims Efficiency Ratio	20.7%	20.3%	19.7%
Customer Focused	• Increase customer approval of ICBC	Insurance Services Satisfaction	95%	96%	96%
		Driver Services Satisfaction	91%	91%	90%
		Claims Services Satisfaction	84%	81%	81%
		Customer Approval Index	N/A	59.3%	61.0%
Personally Accountable, Capable and Engaged People	• Increase employee engagement • Ensure that ICBC has a workforce that is capable of meeting current and future business needs	Employee Engagement Index	N/A	47%	47%

[A] Excludes deferred premium acquisition cost adjustments and other unusual items.
[B] Service fees previously netted against expenses have been reclassified to revenue.
* Certain comparative figures have been restated to conform to the current year's presentation.

Alignment with Government's Strategic Plan

ICBC's strategic direction focuses the company on providing significant value to all British Columbians, from the customers who purchase its products and use its services, to individuals who hold a BC driver's licence, to individuals and communities that benefit from its road safety investments. As a provincial Crown corporation, ICBC's strategic direction also supports achievement of the goals put forward by the provincial government, as outlined below.

BC GOVERNMENT STRATEGIC PLAN	ICBC'S STRATEGIC DIRECTION
Goals	**ICBC Alignment**
• To make BC the best educated, most literate jurisdiction on the continent.	• ICBC involves the general public in promoting education specific to its mandate and safe driving through joint initiatives with schools, industry associations, brokers, and municipalities. • ICBC invests in employee training programs.
• To lead the way in North America in healthy living and physical fitness.	• ICBC works to assure the safety of British Columbians through investments in loss management and road safety programs that reduce the frequency and severity of crashes. • ICBC works with individuals and their communities to address issues such as crime and fraud prevention, and safe driving.
• To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	• ICBC provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently. • ICBC recognizes that seniors and disabled persons often have different vehicle utilization patterns and offers discounted insurance rates on this basis.

Managing Risk

ICBC's Corporate Risk Framework helps guide the Corporation to effectively identify risks, raise awareness of those risks, and to initiate further action to control significant risks.

Business Risks and Risk Management

ICBC's Corporate Risk Framework is approved and monitored by its Board of Directors. The framework defines the corporate approach towards the effective assessment and management of significant corporate risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective of this framework is to identify risks, raise awareness of those risks throughout the Corporation, and to initiate further action to control significant risks. The framework is used by ICBC executives to monitor strategic risks and planned mitigation strategies. Through monitoring, new risks may emerge and, other risks may be reduced or eliminated through mitigation strategies. Executive management and the Audit Committee of ICBC's Board of Directors review key corporate risks and status of the related mitigation strategies quarterly and an update is provided to the Board of Directors on a quarterly basis. Key risks and mitigating strategies are outlined below.

CLAIMS COSTS

Automobile-related crashes and crime present a significant social and economic cost to all British Columbians. As the vehicle population grows and the urban density of many BC communities increases, the risk of automobile crashes rises. Changes in driver behaviours and driving conditions are factors that can either contribute to or mitigate this risk.

Auto crime impacts insurance costs for all British Columbians and continues to be an area of focus for ICBC. After a few years of increases in auto crime rates, current trends are beginning to show a decline in the auto crime rate.

CLAIMS COSTS	
Description of Sensitivities / Risks: • Increased claims fraud, severity, frequency and/or litigation results in higher claims costs. Claims costs account for approximately 70% of ICBC's total expenditures. A 1% fluctuation in claims incurred represents a $25-$28 million change in net income, and a 1% fluctuation in the unpaid claims balance represents a change of approximately $50 million in claims costs.	**Mitigation Strategies:** • ICBC uses a number of strategies to minimize the impact of rising claims costs, including road safety and loss management activities aimed at reducing crashes, preventing injuries and reducing auto crime. Ongoing monitoring of claims trends and implementation of cost control initiatives are also undertaken. In addition, ICBC works closely with its industry partners to address cost pressures on an ongoing basis. • In 2005, regular claims monitoring identified changing trends in injury claims costs. ICBC is currently analyzing this change and will determine appropriate responses to help address increasing claims costs. In addition, completion of a new performance-based compensation model in the new Collision Repair Industry Agreement will help manage repair cost pressures while maintaining the quality of repairs.

FINANCIAL MARKETS

Like all insurers, ICBC holds investment assets to provide for unpaid claims costs and for unearned premiums, and retained earnings that can mitigate future volatility in insurance rates. In holding such assets, investment income is earned and contributes to the company's overall net income helping to keep rates low and stable over the long term. This income is affected by the overall condition of the general investment market.

FINANCIAL MARKETS	
Description of Sensitivities / Risks: • ICBC manages an investment fund of approximately $7.2 billion in order to provide for future claims costs and unearned premiums, and to provide retained earnings that can help mitigate future volatility in insurance rates. A 1 percentage point fluctuation in return means a $72-$76 million change in investment income. • ICBC's bond/equity yields and investment income are vulnerable to changes in interest rates, the performance of equity markets, and currency markets. Realized investment gains are an important part of ICBC investment income and can create significant fluctuations in income over the year.	**Mitigation Strategies:** • ICBC's investment policy is governed by the "prudent person" standard. It addresses the Corporation's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy, which is established by the Investment Committee and approved by the Board of Directors, is based on prudence and regulatory requirements, and provides guidelines for balancing the level of risk and return in ICBC's investment portfolio. • ICBC follows a long term strategy and diversifies its investment holdings to manage income fluctuations. • ICBC holds a conservative portfolio with the majority of monies invested in fixed income assets.

IMPACT OF THE REGULATORY PROCESS

As a Crown corporation, ICBC is governed under provincial legislation and is affected by government policy and regulatory and legislative changes. The British Columbia Utilities Commission (BCUC) provides regulatory oversight of Basic insurance rates and services and ensures that costs are appropriately allocated between ICBC's Basic and Optional insurance businesses. ICBC supports this as part of an open and transparent process for the setting of Basic insurance rates.

IMPACT OF THE REGULATORY PROCESS

Description of Sensitivities / Risks:

- Legislative, regulatory or government policy changes can impact ICBC, including potential adjustments to business systems and processes, and may shift corporate priorities in order to integrate new requirements. Changes may also impact ICBC's costs of service delivery (e.g. changes in medical rates and benefits), and may also impact non-insurance services delivered by ICBC on behalf of the provincial government and the associated costs.
- The BCUC regulatory process is resource intensive and an order from the BCUC on issues under its purview could have significant implications for ICBC.
- The BCUC's final decision on ICBC's 2006 Basic insurance rate may impact future years' income.

Mitigation Strategies:

- ICBC works with government to ensure that legislative or policy changes that either directly or indirectly impact ICBC are anticipated and effectively implemented. ICBC also works with stakeholders on an ongoing basis.
- Impacts on non-insurance services are managed through a Service Agreement between the provincial government and ICBC to ensure that these services continue to serve the best interests of ICBC's customers and the general public. In addition, non-insurance services provided by ICBC are monitored by the BCUC in the process of reviewing ICBC's internal costs.
- Building sustainable capacity and refining internal processes to effectively and efficiently meet the responsibilities associated with the BCUC regulatory process continues to be a focus for ICBC.

COMPETITIVE ENVIRONMENT

The impact of changing market conditions in the Optional insurance market creates a new competitive environment that ICBC must be positioned to meet. In addition, external factors stemming from competitor actions can impact market share.

COMPETITIVE ENVIRONMENT

Description of Sensitivities / Risks:

- In 2003, the provincial government set the stage for greater competition in the Optional insurance market with legislation that would create a common regulatory framework for both private insurers and ICBC, including requirements for ICBC's Optional business to hold industry levels of capital.

Mitigation Strategies:

- ICBC monitors product profitability and develops strategies for improvement. The general direction is to move towards more competitive pricing models and build capacity to respond more quickly to Optional insurance market changes.

EVOLUTION OF SERVICE DELIVERY

Like many companies, ICBC faces the challenge of an aging workforce requiring reinvestment in people and training. ICBC must also continue to evolve its service delivery with a focus on the changing needs of customers and leveraging technology to deliver services better and more efficiently. Today, ICBC provides customers a high level of value through integrated points of service, a result of the economies of scale that come from an effective integration of ICBC's various business services. Moving forward, ICBC will continue to build on this foundation with focus on helping its people and partners provide even better levels of service and value for customers.

EVOLUTION OF SERVICE DELIVERY	
Description of Sensitivities / Risks: • ICBC faces the challenges of an aging workforce requiring reinvestment in people and training. • In order to continue to operate efficiently and effectively, ICBC must also continue to evolve its service delivery with a focus on the needs of customers and leveraging technology to deliver services better and more efficiently.	**Mitigation Strategies:** • ICBC invests in employee training programs and is developing succession plans for key positions. • The current collective agreement provides the opportunity to work together to meet the service expectations of customers through initiatives like extended hours of operation in claims and driver services centres, and provides the opportunity for employees to share in the company's success. • Technological advancements are monitored for potential applicability. Business systems and processes are updated as appropriate.

OTHER RISKS

ICBC's risk management process identified additional potential corporate level risks that are actively monitored and mitigated. These key risks and their mitigation strategies are outlined below.

ACCESS TO PERSONAL INFORMATION	
Description of Sensitivities / Risks: • ICBC maintains a significant amount of personal information regarding its customers, and deals with business partners and customers over the Internet. Access to this information must be carefully managed and measures must be in place to guard against unauthorized access to this data.	**Mitigation Strategies:** • ICBC has data security measures in place, as well as a Code of Ethics policy governing the access and appropriate use of corporate data. ICBC has an Enterprise IT Security Strategy in place to enhance systems and procedures that protect ICBC's electronic information assets.
BUSINESS INTERRUPTION	
Description of Sensitivities / Risks: • Business interruption arising from labour disputes, technology issues or natural disaster may disrupt service levels for insurance, driver, and claims services.	**Mitigation Strategies:** • ICBC has a business continuity plan and a business continuity management program to enable the provision of critical services in the event of such an occurrence. In addition, back-up copies of data are moved to off-site storage, and regular testing of critical system data recovery through a remote Canadian site is completed.

REPUTATION

Description of Sensitivities / Risks:	Mitigation Strategies:
• On behalf of the provincial government, ICBC is the sole provider of driver licences in British Columbia. If a licence is fraudulently obtained it could result in public safety or identity fraud issues.	• A new strategy to address licensing fraud was created in 2004 and implementation began in 2005.

CUSTOMER SUPPORT

Description of Sensitivities / Risks:	Mitigation Strategies:
• ICBC's focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, or other ICBC programs can impact customer satisfaction.	• ICBC monitors customer service performance by measuring the percentage of satisfied customers for each major transaction type — insurance services, driver services, and claims services. • ICBC communicates with the public and stakeholder groups to raise awareness and inform the public of ICBC's products and the unique value received. • ICBC has implemented policies and procedures to support our commitment to fairness in all its dealings with customers, including an initiative called FairClaim to provide customers with more information about decision-making and financial impacts in the claims process.

CATASTROPHIC LOSS

Description of Sensitivities / Risks:	Mitigation Strategies:
• Catastrophic loss can result from an earthquake or other major event.	• In the event of losses resulting from catastrophes, ICBC has financial protection through a reinsurance policy that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. • In addition to protecting against individual catastrophic events, the reinsurance agreement protects the Corporation against abnormally large claims losses by limiting the amount for which the Corporation is liable in any single year.

Analyzing and Reporting

ICBC's 2005 net income of $198 million is higher than the target established at the beginning of the year, although lower than its 2004 results. ICBC remains committed to delivering valued products and services and to keeping rates low and stable over the long term.

Management Discussion and Analysis

FINANCIAL OVERVIEW

For 2005, ICBC posted a net income of $198 million for the year compared to $373 million for 2004. The decline in 2005 is primarily due to higher than expected injury claims costs, which were partially offset by higher investment returns and higher insurance premiums earned.

- Investment returns were strong and investment income of $579.4 million in 2005 was $184.1 million higher than in 2004. Realized gains recorded on both bond and equity investments were higher than expected due to strong investment markets.
- In 2005, premiums earned increased by $90.9 million over 2004. This is primarily due to a higher than expected increase in the number of vehicles insured during the year and higher than expected sales of Optional insurance products. The 2005 results also reflect the Optional insurance rate reduction in June 2005; however, the full financial impact of these rate reductions will not flow through to the financial statements until 2006 and 2007.
- At approximately $2.5 billion, 2005 claims incurred costs were 12.9% higher than in 2004. This is mainly due to the increase in the cost of injury claims. Although the number of claims reported in 2005 was slightly lower than in 2004, this was more than offset by the impact of the increase in the average cost per injury claim, primarily due to a change in the mix of claims. The more severe injury claims have increased whereas the lower value injury claims have decreased. With these increases in claims costs (mainly injury claims), an unfavourable adjustment of $80.7 million was also required for prior years' unpaid claims in 2005.
- ICBC continued to manage operating costs responsibly, ending the year with controllable costs of $515.1 million or 1.4% higher than in 2004. The increase in 2005 over 2004 is mainly attributed to increased road safety expenditures and the expansion of driver licensing facilities to improve service delivery.

ICBC operates as an integrated company in the provision of Basic and Optional insurance products and reports on its financial and performance results on this integrated basis. The $198 million net income for the year is comprised of net income from the Optional insurance business of $407 million and a net loss of $209 million from the Basic insurance business. The net loss from the Basic insurance business results mainly from the increasing injury claims costs experienced in the year. Detailed financial information provided by ICBC's Basic and Optional lines of business is included in the 2005 financial statements (note 15) included in this annual report.

PREMIUMS

In 2005, the premium rate for Basic insurance remained unchanged from 2004. In June 2005, ICBC's Optional insurance rates were reduced for approximately 1.6 million better-risk customers, resulting in total premium savings to customers of approximately $100 million and refunds of approximately $41 million to policyholders who purchased or renewed 2005 policies before the rate decreases were announced. There was a 2.9% increase in the number of policies sold mainly due to vehicle population growth and an increase in policy years written, with a policy year written defined as twelve months of insurance coverage. In addition, premium revenue from the sales of Optional insurance coverages, mainly for extended third party liability, collision and comprehensive coverages, was higher than 2004, despite the reduction in Optional insurance rates implemented in 2005. The full financial impact of the Optional insurance rate reductions will not flow through to the financial statements until 2006 and 2007. With these factors, total premiums earned increased to $3.12 billion from $3.03 billion in 2004.

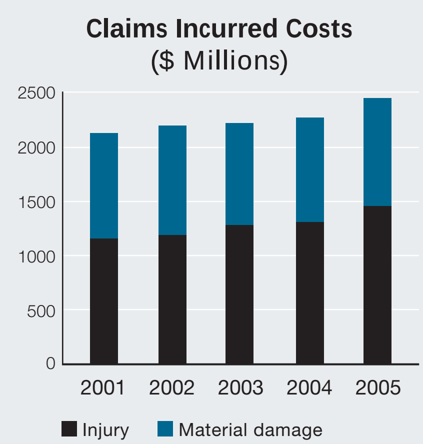
SERVICE FEES

Service fees primarily comprise interest and other fees received from policyholders who have chosen to finance their annual insurance premiums over a period of six or twelve months. Service fees were previously included as an offset to operating expenses and served to reduce total operating expenses. As the amount of service fees has increased over the years, these amounts have been reclassified and are included as part of revenues. The amount of service fees received in 2005 is consistent with the amount received in 2004.

CLAIMS

Claims Costs

Claims incurred costs account for approximately 70% of ICBC's total expenditures. Claims incurred costs are impacted by the number of claims reported in a year and the average cost of claims. Overall, 2005 claims incurred costs were $2.5 billion, which is an increase of $287.6 million or 12.9% over 2004 and is comprised of a $202.2 million increase in current year claims costs and an $85.4 million increase for prior years' claims costs.

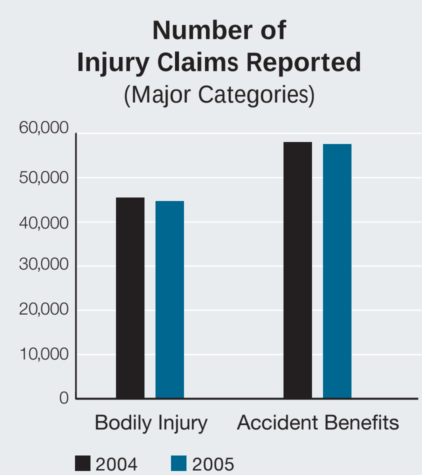


The number of claims reported is influenced by factors that include driving behaviour, driving experience, weather, and the effectiveness of loss management and road safety programs. In 2005, the number of claims reported is slightly lower than in 2004.

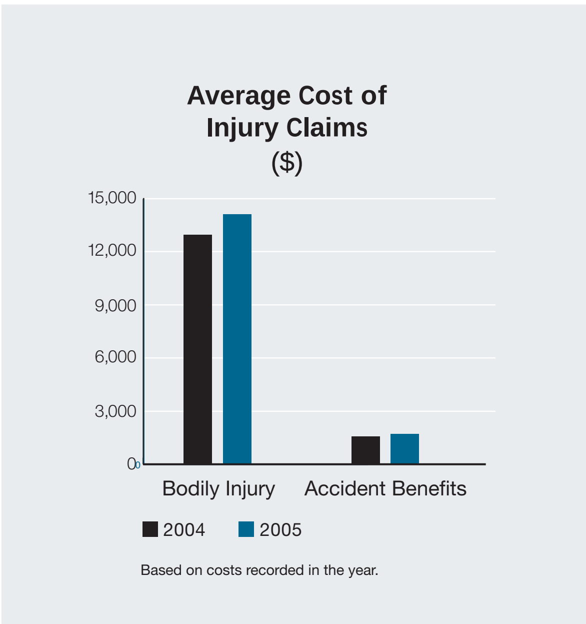
Average cost is influenced by factors such as inflation, settlement awards, legal costs, medical costs, vehicle repair costs, and independent adjusting costs. The average cost of claims in 2005 increased significantly over 2004, primarily due to an increase in injury claims costs.

Injury Claims

Injury claims account for approximately 60% of claims incurred costs, and include amounts for pain and suffering, future care, past and future wage loss, medical and rehabilitation expenses, and external claims handling expenses. In 2005, the number of injury claims reported declined marginally by 1.5%. Within this category, bodily injury claims declined by 2.0%. Offsetting this was an increase in the average costs of injury claims by 8.2% over 2004.



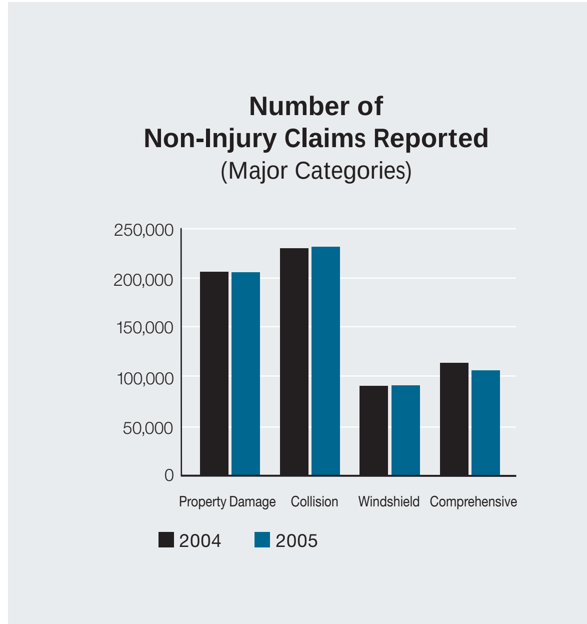
The increase in the cost of bodily injury claims is attributed to two distinct causes. There has been a change in the mix of claims with a decrease in the occurrence of smaller value claims and an increase in the occurrence of larger value claims, specifically claims settled for amounts higher than $40,000. In addition, claims payments in 2005 were higher than historical trends primarily due to increases in general damages and future wage loss.



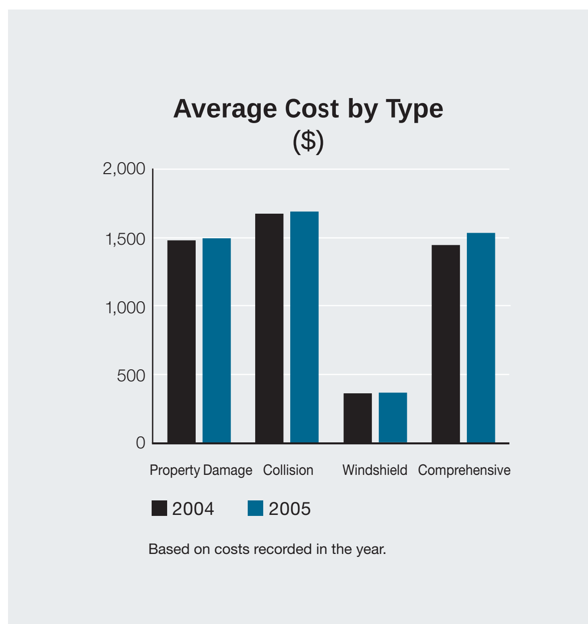
Non-injury Claims

The main categories of non-injury or material damage claims are property damage, collision, comprehensive, and windshield claims. In 2005, there was a small reduction in the volume of non-injury claims. The number of comprehensive claims reported decreased by 6.8% relative to 2004 which was attributed in part to loss management programs and initiatives. Collision and windshield claims increased over 2004 but this increase is consistent with the increase in the number of vehicles insured in the year.

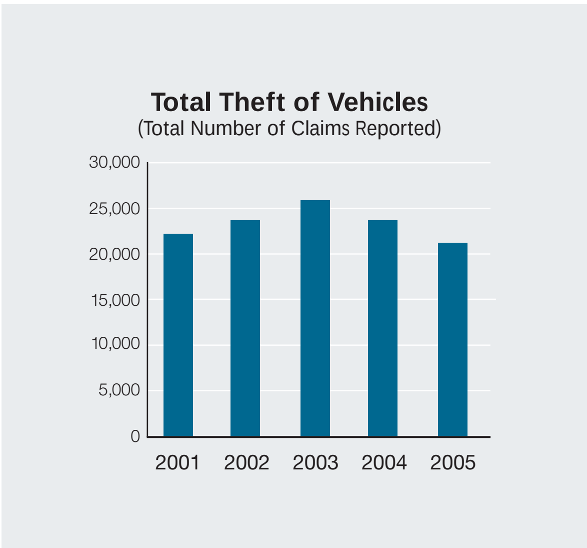
The average cost of all material damage claims remained consistent with 2004, increasing minimally (1.0%) over amounts recorded for the previous year. Inflationary increases in the automobile repair sector and changes in vehicle design such as the number of



airbags and other safety measures are factors in the increasing cost trend. Within this category, the average cost of comprehensive claims is 5.9% higher than in 2004, reflecting the fact that there has been a decline in the number of lower cost claims, particularly theft from automobiles.



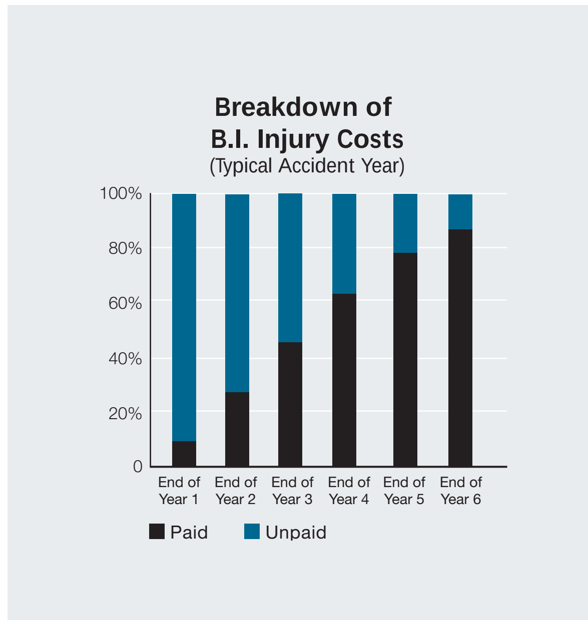
Within comprehensive claims, claims costs associated with stolen vehicles total more than $100 million annually. As shown in the chart, the number of auto theft claims decreased by 9.9 % in 2005, following an 8.7% decrease in 2004. The expansion of the Bait Car program has been a significant contributor to the decline in automobile thefts.



Unpaid Claims and Prior Years' Claims Adjustments

The unpaid claims reserve is money set aside in anticipation of future claims payments. The adequacy of this liability is reviewed and adjusted periodically throughout the year based on revised actuarial estimates. Adjustments to the prior years' claims reserve are due to the re-estimation of future claims costs for claims in progress and those incurred in prior years but not reported. ICBC commissions the services of an external actuary to provide an independent assessment of the claims reserves and, as part of its annual audit of the financial results, the external auditor reviews the adequacy of the unpaid claims reserves.

The estimate of the unpaid claims at the end of 2005 was $5.1 billion; however, estimates for these future claims costs can change significantly due to the time-frame in which certain types of claims are settled. Bodily injury claims costs account for approximately half of total claims costs and more serious injury claims generally take several years to settle. As illustrated in the following chart, only a small percentage of injury claims costs are paid and known in the first year of the claim's occurrence with a greater proportion of the costs being an estimate of claims costs payable in future years. As time passes, more information becomes available and the estimate of the remaining future claims payments is refined and adjustments to the unpaid claims reserve are required to reflect the most current forecast of claims costs.



During 2005, the estimated costs of settling claims for 2004 and prior years was adjusted to reflect an increase in the expected costs to settle unpaid injury claims. This is as a result of new information available as time passes and actual experience with settlement amounts. The re-estimation resulted in a net increase of $80.7 million in 2005 to prior years' claims.

To be consistent with industry practice, ICBC has started to present unpaid claims on a discounted basis to reflect the time value of money when the unpaid claims are expected to be paid in future years. This has been actuarially determined and reflects the payment history experience from prior accident years. In accordance with actuarial standards and practice, a provision for adverse development for claims has also been included to provide for any future unexpected changes to unpaid claims.

LOSS MANAGEMENT AND ROAD SAFETY

ICBC invests in effective crash, auto crime and fraud prevention because safer roads and less crime help keep automobile insurance rates low and stable. Crash and auto crime prevention programs share a common objective of reducing claims costs, and fewer crashes means fewer injuries and fatalities. In 2005, the Corporation invested $47.5 million in road safety and loss management programs, approximately $4.4 million more than in 2004.

The Road Improvement Program is one of ICBC's road safety initiatives. ICBC shares the costs of road safety engineering programs with road authorities such as the Ministry of Transportation and local municipal governments to reduce crashes at high risk road locations. ICBC's total investment in road improvement strategies in 2005 was $10.8 million.

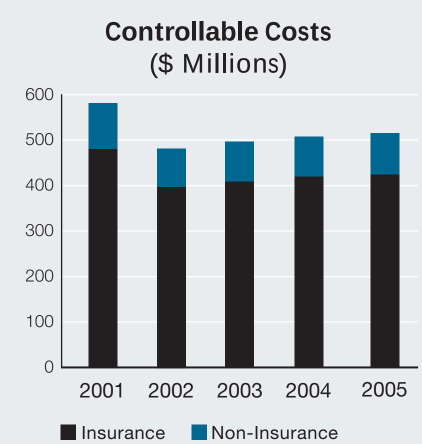
ICBC continues to provide funding support for police enforcement through the Ministry of Public Safety and Solicitor General, which began a five-year partnership in 2004. Funding increased by approximately 17% in 2005. One of the new initiatives is Integrated Road Safety Units, which focus local police resources on traffic enforcement. In 2005, units were announced for southern Vancouver Island, the Southern Interior and Fraser Valley, with further expansion anticipated in 2006.

The Community Crash Reduction Challenge was again a highlight for ICBC's road safety awareness efforts in 2005. This month-long event, first introduced in 2004, focuses attention on local contributing factors to crashes and how individuals can make a difference in making roads safer. ICBC also continued to be involved in community-based road safety activities throughout 2005, including the Speed Watch program and its partnership with Autoplan brokers to help fund road safety awareness programs targeted mainly at youth. ICBC also continued to deliver regional road safety programs.

ICBC has a Fraud Prevention and Investigation department that administers a number of ongoing programs for the prevention and detection of fraud, including potential cases of material damage and bodily injury fraud, driver's licence and identity fraud, staged accidents and vendor fraud.

OPERATING COSTS

In 2005, ICBC continued to focus on managing operating costs, and ended the year with controllable costs of $515.1 million, which is an increase of 1.4% from 2004 but less than the annual rate of inflation. The increase in 2005 over 2004 is mainly attributed to increased road safety expenditures and expansion of driver licensing facilities to improve service delivery. As shown in the chart, ICBC has been successful in maintaining its operating cost base with only a marginal increase in costs over 2004.



Controllable costs are defined as costs (compensation and operating costs) required to operate the insurance and non-insurance business with the exception of claims payments, commissions, and premium taxes. ICBC's cost structure has remained relatively static despite continual cost pressures arising from business improvement changes, technology and system upgrades, contractual arrangements, and general inflationary increases. ICBC continues to work with business partners and has been successful in renewing contracts at competitive rates. ICBC also seeks innovative ways to form mutually beneficial working business relationships.

Included in total operating costs are non-insurance costs, which consist of vehicle and driver licensing, vehicle registration, government fines collection, and funding for commercial vehicle compliance. Non-insurance costs are funded from Basic insurance premiums and totaled $108.8 million in 2005 (which represents 3.5% of premiums earned), which is $3.4 million more than in 2004, primarily reflecting initiatives to expand access to driver licensing services. In 2005, ICBC made payments totaling $24.8 million to the government to fund the commercial vehicle compliance operations.

CAPITAL EXPENDITURES

ICBC's current infrastructure requires investment in capital expenditures. In 2005, ICBC incurred $13.4 million in capital expenditures, relating to technology enhancements and facilities costs.

INVESTMENTS

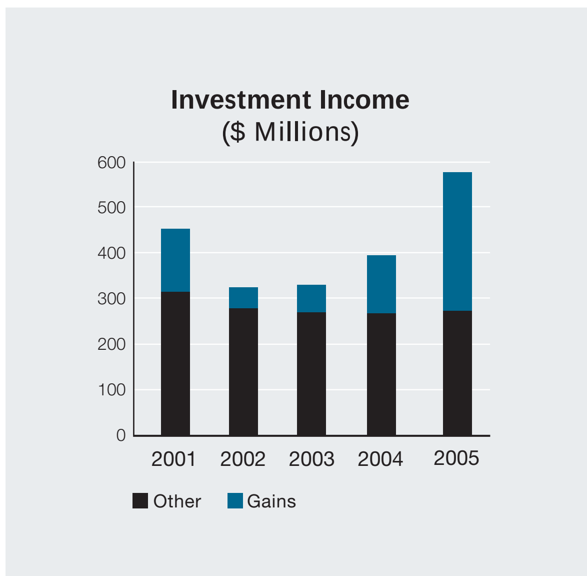
ICBC has an investment portfolio of approximately $7.6 billion (at market value) at the end of 2005. Funds available for investment purposes come primarily from the reserves set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2005, ICBC's investment portfolio (at cost) totaled $7.2 billion and represents almost 89% of the Corporation's assets. ICBC has a conservative investment portfolio concentrated in fixed income securities comprised of highly rated bonds, money market securities, and mortgage instruments (76% of total portfolio holdings). Equities and real estate (22% and 2% of total portfolio holdings, respectively) comprise the remainder of the portfolio.

As of December 31, 2005, ICBC had unrealized gains of approximately $399 million compared to approximately $468 million at December 31, 2004.

Investment Income

In 2005, ICBC's investment income increased by $184.1 million over 2004 results, from $395.3 million to $579.4 million, which equates to an accounting investment return of 8.0% compared to 5.8% in 2004. In 2005, there was an increase in bond income associated with an increase in both bond interest income and gains on the sale of bonds. Equity income increased in the year due to higher dividend income and higher gains on the sale of equity investments. The gains on equity investments reflect exceptionally strong Canadian equity market performance and gains realized in the transition of international equity assets to a new management structure.

The chart provides a breakdown of investment income over the last 5 years.



RETAINED EARNINGS

With ICBC's 2005 net income of $198 million and the accounting policy change to present unpaid claims on a discounted basis, retained earnings increased to $1,157.1 million as at December 31, 2005. Retained earnings are required to provide the ability to absorb unexpected significant increases in claims costs and to maintain a stable rate environment for ICBC's customers. In the private insurance industry, the adequacy of retained earnings 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 is a risk-based capital adequacy framework which assesses assets, policy liabilities, and other potential liabilities to determine capital levels. Under this framework, property and casualty insurers are required to meet a capital available to capital required test known as the Minimum Capital Test (MCT).

In 2004, the provincial government issued Special Direction IC2, which set out target levels of MCT for ICBC and the timeframes in which these must be achieved. Special Direction IC2 requires ICBC to achieve by December 31, 2014, and to maintain after that date, capital available for the total Corporation equal to 110% of MCT. In addition, ICBC is required to achieve by the same date, and maintain after that date, capital available equal to 100% of MCT for Basic insurance. For Optional insurance, ICBC is required to achieve by December 31, 2010, and maintain after that date, capital available equal to at least 200% of MCT.

In October 2005, ICBC received direction from the provincial government to transfer $530 million of capital available from ICBC's Optional insurance business to its Basic insurance business. ICBC complied with this direction and, including this amount, capital available for Basic insurance was equal to 79% of MCT at year end, which is less than the regulatory target of 100%. At year-end, regulatory MCT targets for Optional insurance and for the total Corporation were achieved. It is ICBC's objective to maintain capital levels that are adequate to protect its policyholders from financial risk, while maintaining low and stable rates over the long term.

Responsibility and Accountability

ICBC is committed to providing the public with information needed to understand the company's plans and to evaluate its performance against those plans.

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 Canadian generally accepted accounting principles. 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 the Corporation'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, and fee arrangements. The Committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors to discuss auditing, financial reporting, and internal control matters. The Audit Committee receives regular reports on the internal audit results and evaluation of internal control systems; and it reviews and approves major accounting policies including alternatives and potential key management estimates or judgements. Both internal and external auditors have access to the Audit Committee without management's presence. The Audit Committee has reviewed these financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

INDEPENDENT AUDITORS AND ACTUARY

Our independent auditors, 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 Partners Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of the Corporation's policy liabilities which include provision for claims and claim 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 the Corporation 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.

Paul Taylor

President and Chief Executive Officer
February 3, 2006

Geri Prior

Chief Financial Officer
February 3, 2006

Auditors' Report

The Honourable John Les
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2005 and the consolidated statements of operations, retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
February 3, 2006

Actuary's Report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2005 and their changes in its consolidated statements of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

William T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
February 3, 2006

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
ASSETS		
Cash and investments (note 3)	$ 7,180,746	$ 7,055,237
Accrued interest	58,388	55,378
Amount recoverable from reinsurers (notes 6 & 7)	21,825	29,347
Premiums and other receivables (note 8)	647,599	47,832
Deferred premium acquisition costs and prepaid expenses (note 11)	45,933	154,474
Accrued pension benefit (note 9)	48,947	36,243
Property and equipment (note 4)	82,811	83,444
	$ 8,086,249	$ 7,461,955
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 45,497	$ 32,416
Accounts payable and accrued charges	197,683	216,776
Accrued post-retirement benefits (note 9)	86,721	76,703
Premiums and fees received in advance	48,916	37,980
Unearned premiums	1,497,176	1,467,316
Provision for unpaid claims (notes 5 & 6)	5,053,108	4,671,540
	6,929,101	6,502,731
RETAINED EARNINGS (note 5)	1,157,148	959,224
	$ 8,086,249	$ 7,461,955

Contingent liabilities and commitments (note 14)

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

Approved by the Board

T. Richard Turner
Chair of the Board of Directors

Bob Quart
Vice-Chair of the Board of Directors

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
REVENUES		
Net Premiums Written		
Vehicle	$ 3,132,116	$ 3,077,043
Driver	15,156	12,292
	$ 3,147,272	$ 3,089,335
Net Premiums Earned		
Vehicle	$ 3,103,658	$ 3,013,049
Driver	13,754	13,432
	3,117,412	3,026,481
Service Fees	37,479	36,633
TOTAL EARNED REVENUES	3,154,891	3,063,114
CLAIMS AND OPERATING COSTS		
Net claims incurred during the year (note 6)	2,444,515	2,242,334
Prior years' claims adjustments (note 6)	80,662	(4,740)
Net claims incurred (note 6)	2,525,177	2,237,594
Claims services	236,905	237,605
Road safety and loss management services	47,486	43,086
	2,809,568	2,518,285
Operating costs – insurance (note 10)	139,600	138,659
Premium taxes and commissions (note 11)	478,476	323,184
	3,427,644	2,980,128
UNDERWRITING (LOSS) / INCOME	(272,753)	82,986
Investment income (note 3c)	579,436	395,319
INCOME – INSURANCE OPERATIONS	306,683	478,305
NON-INSURANCE OPERATIONS		
Provincial licences and fines (note 12)	469,021	450,446
Licences and fines transferable to the Province (note 12)	469,021	450,446
Operating costs – non-insurance (note 10)	91,060	88,402
Commissions (note 11)	17,699	16,944
	577,780	555,792
LOSS – NON-INSURANCE OPERATIONS	(108,759)	(105,346)
NET INCOME FOR THE YEAR (note 5)	$ 197,924	$ 372,959

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
RETAINED EARNINGS		
Beginning of year	$ 959,224	$ 535,879
Prior period adjustment (note 5)	-	50,386
Beginning of year, 2004 restated	959,224	586,265
Net income for the year (note 5)	197,924	372,959
End of year, 2004 restated	$ 1,157,148	$ 959,224

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 2,772,853	$ 3,259,098
Licence fees	450,145	444,161
Social service taxes	90,204	91,717
	3,313,202	3,794,976
Collection for receivables, subrogation, and driver penalty point premiums	274,132	277,873
Salvage sales	54,901	56,723
Interest	281,894	299,078
Capital gains realized	167,559	82,646
Dividends and other investment income	23,490	30,279
Other	(327)	528
	4,114,851	4,542,103
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,225,935)	(2,148,807)
Province of BC for licence fees, fines, and social service taxes collected	(573,966)	(555,455)
Suppliers of goods and services	(234,749)	(209,251)
Employees for salaries and benefits	(347,590)	(341,250)
Agents for commissions	(248,507)	(237,941)
Policyholders for premium refunds	(317,885)	(276,632)
Province of BC for premium taxes	(148,762)	(125,175)
	(4,097,394)	(3,894,511)
Cash flow from operating activities	17,457	647,592
CASH FLOW USED IN INVESTING ACTIVITIES		
Purchase of investment securities	(6,734,100)	(5,126,970)
Proceeds from sales of investment securities	6,243,768	4,494,745
Securities sold under resale agreements	458,505	(98,687)
Payments to vendors of property and equipment	(13,161)	(14,335)
Proceeds from sale of property and equipment	65	6,832
Cash flow used in investing activities	(44,923)	(738,415)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(27,466)	(90,823)
Cash and cash equivalents, beginning of year	193,903	284,726
Cash and cash equivalents, end of year	$ 166,437	$ 193,903
REPRESENTED BY:		
Cash and money market securities (note 3)	$ 211,934	$ 226,319
Cheques outstanding	(45,497)	(32,416)
	$ 166,437	$ 193,903

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

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2005

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation incorporated in 1973 and continued under the *Insurance Corporation Act,* R.S.B.C. 1996 chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Motor Vehicle) Act,* and is also responsible for non-insurance services under the *Insurance Corporation Act and Motor Vehicle Act.* Non-insurance services include vehicle licensing, registration, and issuance of driver licences. 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 15).

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), $150,000 in accident benefits to all insured parties, $1,000,000 under-insured motorist protection, and protection against uninsured and unidentified motorists outside of the Province of British Columbia (the Province). The Corporation also offers insurance in a competitive environment (Optional), which includes the following coverages: extended third party legal liability, comprehensive, collision, loss of use, and others. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent agents located throughout the Province. 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 auto insurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles as required by the *Insurance Corporation Act.* The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. As required by the *Insurance Corporation Act,* the Corporation reports the revenues and expenses attributable to universal compulsory automobile insurance and non-insurance separately from the other operations of the Corporation (note 15).

The following are the significant accounting policies adopted by the Corporation:

Premiums earned

The Corporation recognizes vehicle and driver premiums, net of reinsurance, evenly over the term of each vehicle policy written or the driver's penalty point year, respectively. Premium refunds are reversed accordingly, against premiums earned. Unearned premiums are the portion of premiums relating to the unexpired term.

Reinsurance

The Corporation reflects reinsurance balances on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of operations on a net basis to indicate the results of its retention of premiums written.

Deferred premium acquisition costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and, to the extent recoverable from unearned premiums, 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 premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a total corporate basis in the statement of financial position.

Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of reinsurance recoverable. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis (note 6) and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

To recognize the uncertainty in establishing best estimates, the Corporation includes PFAD in the assumptions relating to claims development, reinsurance recoveries and related future investment income. The PFAD included in the unpaid claims consists of the three elements, as set out in the Standards of Practice of the Canadian Institute of Actuaries: a claims development portion that reflects considerations relating to the Corporation's claims practices, the underlying data and the nature of the lines of business written; a reinsurance recovery portion that reflects considerations relating to the ceded claims ratio and potential problem reinsurers; and thirdly, a portion for the investment return rate that reflects uncertainty in the investment portfolio yield, the investment climate in general and the rate at which claims are paid. The margins used are determined by evaluating the above considerations.

The margin for claims development is a percentage of the unpaid claims excluding the provision for adverse deviations. The margin for recovery of reinsurance ceded is a percentage of the amount deducted on account of reinsurance ceded in calculating the unpaid claims without provision for adverse deviations. The margin for investment return rate is a deduction from the expected rate of return per annum.

The provision for unpaid claims is an estimate subject to random volatility and, as with any insurance company, could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, timing of claims payments, the recoverability of reinsurance and future rates of investment return. All changes to the estimate are recorded as incurred claims and prior years' claims adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims, taking into consideration the consistency of the Corporation's claims handling procedures, the amount of information available, and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates will be. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is challenging to predict for several reasons, including some claims not being reported until many years after a policy term, or changes in the legal environment. Provisions for such difficult to estimate 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 (note 14a).

In common with the insurance industry in general, 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 (note 14c) and other liabilities.

Investments and investment income

Bonds are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Mortgages are valued at principal amounts adjusted to reflect any principal repayments. Equities are valued at cost. Real estate held for investment consists of income-producing properties, which are recorded at cost less accumulated amortization and provision for impairment in value (note 3).

Income on interest-bearing securities is accrued daily. Dividends on equity investments are recognized as income on their payment dates. Capital gains and losses on bonds, equities, and other investments are included in income in the period realized.

If the value of an investment suffers a loss in value that is other than temporary, the investment is adjusted to the estimated realizable value with the adjustment being included in the statement of operations.

The Corporation also participates in the sale and repurchase of Government of Canada and U.S. Treasury bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. Under the terms of the sale and repurchase agreement, the payments associated with the bond repurchase may be settled on a net basis. These sale and repurchase arrangements are accounted for as secured financings. As the repurchase payments may be settled on a net basis, the repurchase obligation has been recorded against the carrying value of these bonds (note 3). The difference between the sale price and the agreed repurchase price on a repurchase contract is recorded as interest expense.

Hedging and derivative instruments

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation uses derivative financial instruments to hedge interest rate risk associated with interest liabilities denominated in Canadian and United States currencies. Interest rate swaps are used to create a hedge to match a liability, and may contain a cross-currency component. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount. Cross-currency interest rate swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

The Corporation uses basis swaps and forward foreign exchange contracts to hedge foreign exchange risk. Basis swaps involve the exchange of principal and interest payments in two different currencies. ICBC uses short-term forward foreign exchange contracts to fix the rate of exchange of expected future foreign currency cash flows.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. All swap derivatives have been designated as hedging items that qualify under Accounting Guideline 13 (AcG-13) *Hedging Relationships* issued by the Canadian Institute of Chartered Accountants (CICA). Any costs associated with the hedge are recorded on a cash basis.

For purposes of meeting the requirements of AcG-13, all hedges are hedging relationships that have been designated, and documented detailing the risk management objective and strategy for undertaking the hedge. The documentation specifically identifies the asset or liability being hedged, the type of derivative used, and the effectiveness of the hedge. All hedges are fair value hedges as they are used to hedge interest rate risk. Also, there is a formal assessment at the inception of the hedge and on an ongoing basis as to whether the derivatives used in the hedges are highly effective in offsetting changes in fair values or cash flows of hedged items throughout the whole relationship.

The income or expense resulting from the derivative transactions is included in interest income when the hedge item is recognized in earnings. In the event that the hedging relationship is no longer effective, the resulting realized or unrealized gain or loss from a swap would be recognized in the statement of operations as part of investment income. The associated derivative instrument would be subsequently recognized in the statement of financial position at fair value.

Pensions and post-retirement benefits

The cost of pensions and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, compensation levels, retirement ages of employees and expected healthcare costs.

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

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

The transitional asset is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. Funding to this plan is accounted for on a cash basis.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Software development costs, which are comprised of labour and material costs for design, construction, testing, implementing and other related costs, 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.

Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life at the following annual rates: buildings 5-10%, furniture and equipment 10-33%, and software 10-33%. Leasehold improvements are amortized over the term of each lease.

Cash and cash equivalents

For purposes of the statement of cash flows, the Corporation considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, net of outstanding cheques and money market securities as equivalent to cash.

Translation of foreign currencies

Foreign currency investments are translated at exchange rates at the date of purchase. Other foreign currency assets and liabilities considered monetary items are translated at exchange rates in effect at the year end date. Foreign currency revenues and expenses are translated at transaction date exchange rates. Exchange gains and losses are included in the determination of net income.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are provisions for unpaid claims, provisions for doubtful accounts, and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in applicable future periods.

3. CASH AND INVESTMENTS

($ THOUSANDS)	2005		2004	
	Carrying Value	Estimated Fair value	Carrying Value	Estimated Fair value
Cash and money market securities	$ 211,934	$ 211,934	$ 226,319	$ 226,319
Bonds				
Canadian				
Federal	2,188,511	2,175,509	2,131,406	2,161,348
Bond repurchase obligations (note 2)	(657,632)	(657,632)	(227,864)	(227,864)
	1,530,879	1,517,877	1,903,542	1,933,484
Provincial	823,422	837,284	648,741	680,937
Municipal	196,588	209,687	264,837	284,498
Corporate	1,722,708	1,730,917	1,563,386	1,607,991
	4,273,597	4,295,765	4,380,506	4,506,910
Global	392,095	356,475	382,907	364,505
Bond repurchase obligations (note 2)	(26,746)	(26,746)	-	-
	365,349	329,729	382,907	364,505
Total bonds	4,638,946	4,625,494	4,763,413	4,871,415
Mortgages	600,612	603,636	486,662	497,539
Equities				
Canadian	768,324	1,128,230	754,778	1,020,644
United States	374,600	387,917	342,579	361,480
Europe, Asia, Far East	432,525	433,087	351,296	390,119
Total equities	1,575,449	1,949,234	1,448,653	1,772,243
Real estate, net of provision	153,805	189,651	130,190	155,716
	$ 7,180,746	$ 7,579,949	$ 7,055,237	$ 7,523,232

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon the net present value of the payment stream using rates currently in effect. The estimated fair value of real estate is based on the most recent Government Assessment Authority values. The carrying value of the Surrey City Central real estate investment is net of a provision of $103.7 million for impairment in value that was determined to be other than temporary based on an independent appraisal in a prior year.

The total notional amount of interest rate swaps outstanding at December 31, 2005 is $35.0 million (2004 – $136.2 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2005 is $55.5 million (2004 – $55.5 million). The notional amount of basis swaps outstanding at December 31, 2005 is $12.2 million (2004 – $nil). At December 31, 2005, the interest rate swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three-month Canadian Dealer Offer Rate plus 36.7 basis points (2004 – 31.7 basis points) and an average pay interest rate of 5.65% (2004 – 5.80%), and the basis swaps have an average pay floating rate of London Inter-Bank Offer Rate plus 15 basis points and an average receiving floating interest rate of the three-month Canadian

Dealer Offer Rate plus 24 basis points. The swaps had an estimated fair value of $13.1 million as at December 31, 2005 (2004 – $7.0 million). The fair value of interest rate swap contracts and foreign exchange swap contracts is determined by discounting expected future cash flows using current market interest and exchange rate instruments. The values of these swaps have been reflected in the estimated fair value of bonds. The principal of all forward foreign exchange contracts is $26.7 million as at December 31, 2005 (2004 – $nil).

a) Fixed income – interest rate risk

	2005		2004	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canadian				
Federal	3.6	3.4	4.0	3.6
Provincial	4.4	7.6	4.9	6.7
Municipal	5.7	4.3	5.8	5.6
Corporate	4.3	3.5	4.6	3.2
Global	3.5	5.5	3.4	5.3
Total bonds	4.0	4.3	4.3	4.1
Mortgages	5.7	3.1	6.7	2.5
Total bonds and mortgages	4.1	4.2	4.5	4.0

b) Fixed income – maturity profile

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

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

($ THOUSANDS)	Within One Year	One Year to Five Years	After Five Years	Total
2005				
Bonds				
Canadian				
Federal	$ -	$ 1,325,795	$ 205,084	$ 1,530,879
Provincial	7,728	369,902	445,792	823,422
Municipal	-	107,610	88,978	196,588
Corporate	32,118	1,460,771	229,819	1,722,708
Global	38,987	158,895	167,467	365,349
Total bonds	78,833	3,422,973	1,137,140	4,638,946
Mortgages	97,647	283,825	219,140	600,612
	$ 176,480	$ 3,706,798	$ 1,356,280	$ 5,239,558
2004				
Bonds				
Canadian				
Federal	$ -	$ 1,597,208	$ 306,334	$ 1,903,542
Provincial	14,118	356,394	278,229	648,741
Municipal	14,145	107,360	143,332	264,837
Corporate	109,070	1,321,081	133,235	1,563,386
Global	-	205,772	177,135	382,907
Total bonds	137,333	3,587,815	1,038,265	4,763,413
Mortgages	98,136	264,458	124,068	486,662
	$ 235,469	$ 3,852,273	$ 1,162,333	$ 5,250,075

c) Investment income

($ THOUSANDS)	2005	2004
Interest		
Money market	$ 6,418	$ 10,232
Bonds	200,135	196,496
Mortgages	32,787	32,006
	239,340	238,734
Gains (losses) on the sale of investments		
Equities	236,578	86,976
Bonds	98,361	41,964
Real estate	-	7,449
Foreign exchange	(26,627)	(9,802)
	308,312	126,587
Dividend and other income (expenses)		
Equities	38,325	28,756
Real estate	7,286	3,551
Other	(3,309)	2,015
Investment management fees	(10,518)	(4,324)
	31,784	29,998
Total investment income	$ 579,436	$ 395,319

d) Securities lending

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 to allow them to meet delivery commitments. 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, 2005 securities with an estimated fair value of $88 million (2004 – $1,383 million) have been loaned and securities with an estimated fair value of $94 million (2004 – $1,485 million) have been received as collateral.

4. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2005		2004	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 23,939	$ 23,939	$ 23,939	$ 23,939
Buildings	140,212	32,132	137,412	33,069
Furniture and equipment	102,805	17,596	99,396	17,793
Software	22,018	8,562	20,162	8,093
Leasehold improvements	7,676	582	7,426	550
	$ 296,650	$ 82,811	$ 288,335	$ 83,444

Amortization expense for the year ended December 31, 2005 amounted to $14.0 million (2004 – $11.7 million).

5. CHANGE IN ACCOUNTING POLICY

Effective December 31, 2005 the Corporation began reporting, in accordance with accepted actuarial practice in Canada, its provision for unpaid claims on a discounted basis to reflect the time value of money which includes a provision for adverse deviations (PFAD). Previously, unpaid claims were presented on an undiscounted basis.

The change in accounting policy was adopted retroactively and the prior year's financial statements were restated to give effect to the new accounting policy.

The change in accounting policy impacted previously reported amounts. To account for the cumulative effect to December 31, 2003, retained earnings as at January 1, 2004 retroactively increased by $50.4 million. At December 31, 2004, due to a decrease in the discount rate from 5.0% in 2003 to 4.9% in 2004, there was an increase in the provision for unpaid claims of $15.4 million, a decrease in the amount recoverable from reinsurers of $0.9 million, resulting in an increase in claims incurred, and decrease in net income and retained earnings of $16.3 million. In 2005, due to a decrease in discount rate from 4.9% in 2004 to 4.7% in 2005 and a 1% – 1.5% (by coverage) increase in the claims development margin used in the calculation of the PFAD, claims incurred increased, and net income and retained earnings decreased by $12.8 million.

6. PROVISION FOR UNPAID CLAIMS

The changes in the provision for unpaid claims recorded in the consolidated statement of financial position and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2005	2004 (Restated - note 5)
Unpaid claims net – beginning of year	$ 4,642,193	$ 4,449,965
Change in estimates for losses occuring in prior years		
Prior years' claims adjustments	38,782	(45,846)
Increase in claims incurred in prior years due to a reduction in discount rate	41,880	41,106
	80,662	(4,740)
Provision for claims occuring in the current year	2,444,515	2,242,334
	2,525,177	2,237,594
Less:		
Payments on claims incurred in the current year	938,534	932,890
Payments on claims incurred in prior years	1,314,033	1,224,261
Recoveries on claims	(116,480)	(111,785)
	2,136,087	2,045,366
Unpaid claims net – end of year	5,031,283	4,642,193
Recoverable from reinsurers	21,825	29,347
Unpaid claims gross – end of year	$ 5,053,108	$ 4,671,540

The provision for unpaid claims at December 31, 2005 includes an estimate of $84 million (2004 – $71 million) in anticipation of increases to the court tariff costs used to compute legal costs for indemnification of successful litigants.

The Corporation discounts its provision for unpaid claims at an investment rate of return of 4.7% (2004 – 4.9%). The Corporation determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The following table shows the effects of discounting on the provision for unpaid claims:

($ THOUSANDS)	Undiscounted	Effect Of Present Value	PFADs	Discounted
2005				
Provision for unpaid claims	$ 5,052,782	$ (545,298)	$ 523,799	$ 5,031,283
Amount recoverable from reinsurers	25,163	(2,189)	(1,149)	21,825
	$ 5,077,945	$ (547,487)	$ 522,650	$ 5,053,108
2004				
Provision for unpaid claims	$ 4,676,243	$ (494,417)	$ 460,367	$ 4,642,193
Amount recoverable from reinsurers	34,375	(3,483)	(1,545)	29,347
	$ 4,710,618	$ (497,900)	$ 458,822	$ 4,671,540

7. 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, 2005 with the following terms:

a) up to $275 million in excess of $25 million annually for catastrophic occurrences;
b) up to $25 million in excess of $5 million for individual casualty loss occurrences.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2004 with the following terms:

a) up to $175 million in excess of $25 million annually for catastrophic occurrences;
b) up to $25 million in excess of $5 million for individual casualty loss occurrences.

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.

8. PREMIUMS AND OTHER RECEIVABLES

In June 2005, the Corporation implemented an internal payment plan for Autoplan premiums. Previously, the Corporation entered into finance contracts through a financing institution under its financing programs (note 14b). As a result of this change, premiums receivable by the Corporation have increased significantly over 2004.

($ THOUSANDS)	2005	2004
Premium receivables	$ 640,045	$ 41,438
Other receivables	7,554	6,394
	$ 647,599	$ 47,832

The Corporation grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts.

9. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation sponsors a registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). It also sponsors two supplemental pension arrangements for certain employees.

The Corporation also contributes to two other pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of COPE Local 378 are members of the COPE 378/ICBC Pension Plan (the COPE Plan), a pension plan jointly trusteed by trustees appointed by each of the Corporation and COPE Local 378. In addition, certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of the BC Public Service Pension Plan.

The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. The Corporation has no role in the governance of the COPE Plan or the BC Public Service Pension Plan.

The Corporation pays Medical Services Plan and life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. Benefit entitlements differ for management and confidential, and bargaining unit staff.

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefit plans were $25.9 million (2004 –$18.9 million).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations of the pension plans for funding purposes are prepared on a triennial basis. The Management and Confidential Plan had an actuarial valuation as of December 31, 2004 which was extrapolated to December 31, 2005. The COPE Plan had an actuarial valuation as of December 31, 2002 which was extrapolated to December 31, 2005. The COPE Plan will be actuarially valued in early 2006 for funding purposes as of a December 31, 2005 valuation date.

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	**2005**	**2004**	**2005**	**2004**
Plan assets				
Fair value at beginning of year	$ 743,381	$ 656,812	$ -	$ -
Actual return on plan assets	97,011	74,177	-	-
Employer contributions	23,286	16,397	1,667	1,588
Employees' contributions	15,964	16,229	-	-
Net transfers	843	813	-	-
Benefits paid	(20,941)	(21,047)	(1,667)	(1,588)
Fair value at end of year	859,544	743,381	-	-
Accrued benefit obligation				
Balance at beginning of year	733,299	638,478	97,592	80,733
Current service cost and employees' contributions	40,831	39,295	4,847	5,325
Net transfers	843	813	-	-
Interest cost	44,698	40,727	5,944	5,201
Actuarial losses	66,244	35,033	20,114	7,921
Benefits paid	(20,941)	(21,047)	(1,667)	(1,588)
Balance at end of year	864,974	733,299	126,830	97,592
Funded status - plan (deficit) surplus	(5,430)	10,082	(126,830)	(97,592)
Unamortized net actuarial losses	129,241	110,010	41,918	22,899
Unamortized plan adjustments	-	-	(1,809)	(2,010)
Unamortized transitional asset	(74,864)	(83,849)	-	-
Accrued benefit asset (liability)	$ 48,947	$ 36,243	$ (86,721)	$ (76,703)

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2005	2004
Cash and accrued interest	2%	3%
Equities		
Canadian	27%	29%
Foreign	22%	21%
Fixed Income		
Government	29%	30%
Corporate	6%	6%
Pooled fixed income funds	4%	4%
Mortgages	5%	4%
Real estate	5%	3%
	100%	100%

The following amounts are included in the accrued benefit obligation in respect of plans that are not funded:

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	2005	2004	2005	2004
Accrued benefit obligation and plan deficit	$ 7,699	$ 8,028	$ 126,830	$ 97,592

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

($ THOUSANDS)	Pension Plans 2005	Pension Plans 2004	Post-Retirement Benefits 2005	Post-Retirement Benefits 2004
Current service cost	$ 24,867[1]	$ 23,066[1]	$ 4,847	$ 5,325
Interest cost	44,698	40,727	5,944	5,201
Expected return on plan assets	(52,600)	(46,410)	-	-
Amortization of transitional asset	(8,985)	(8,985)	-	-
Plan adjustments	-	-	(201)	(201)
Amortization of net actuarial loss	2,602	2,891	1,095	628
Net expense	$ 10,582	$ 11,289	$ 11,685	$ 10,953

[1] Net of employees' contributions of $15,964 (2004 - $16,229)

The Corporation contributed $0.9 million in 2005 (2004 – $0.9 million) to the BC Public Service Pension Plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Plans 2005	Pension Plans 2004	Post-Retirement Benefits 2005	Post-Retirement Benefits 2004
Discount rate	5.00%	5.85%	5.00%	5.85%
Expected long-term rate of return on plan assets	6.6%	7.0%	n/a	n/a
Rate of compensation increase	3.8%	4.5%	3.8%	4.5%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services plan trend rate	n/a	n/a	0.0%	0.0%

In 2005 the extended healthcare trend rate is assumed to be 12% in the first year, decreasing linearly over 10 years to 6% per year thereafter. In 2004 the extended healthcare trend rate was assumed to be 10% per year until 2012 and 6% per year thereafter.

10. OPERATING COSTS

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses are as follows:

($ THOUSANDS)	2005	2004
Operating costs – insurance		
Administrative and other expenses	$ 97,586	$ 98,507
Insurance services	42,014	40,152
	$ 139,600	$ 138,659
Operating costs – non-insurance		
Administrative and other expenses	$ 29,756	$ 29,365
Payment to the Province for Compliance Operations	24,827	23,359
Driver services	36,477	35,678
	$ 91,060	$ 88,402

11. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

($ THOUSANDS)	2005	2004
Deferred premium acquisition costs	$ 38,600	$ 146,100
Prepaid expenses	7,333	8,374
	$ 45,933	$ 154,474

As at December 31, 2005 there were premium acquisition costs of $175.4 million (2004 – $168.3 million) related to future periods. An actuarial valuation determined that $38.6 million (2004 – $146.1 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

($ THOUSANDS)	2005	2004
Optional	$ 115,400	$ 109,600
Basic	(76,800)	36,500
	$ 38,600	$ 146,100

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
2005			
Amount payable	$ 250,734	$ 137,941	$ 388,675
Amortization of prior year deferred premium acquisition costs	93,237	52,863	146,100
Deferred premium acquisition costs	(24,100)	(14,500)	(38,600)
Premium taxes and commission expense	$ 319,871	$ 176,304	$ 496,175
Represented as:			
Insurance	$ 302,172	$ 176,304	$ 478,476
Non-insurance	17,699	-	17,699
	$ 319,871	$ 176,304	$ 496,175
2004			
Amount payable	$ 239,298	$ 135,930	$ 375,228
Amortization of prior year deferred premium acquisition costs	71,546	39,454	111,000
Deferred premium acquisition costs	(93,237)	(52,863)	(146,100)
Premium taxes and commission expense	$ 217,607	$ 122,521	$ 340,128
Represented as:			
Insurance	$ 200,663	$ 122,521	$ 323,184
Non-insurance	16,944	-	16,944
	$ 217,607	$ 122,521	$ 340,128

12. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on 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 an indeterminate number of vehicles owned or leased by the government of the Province 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 responsible for collecting all vehicle related income for acquiring and distributing licence plates and decals including permit and other fees under the *Motor Vehicle Act* and fines under the *Offence Act* and this is remitted in full to the Province. Income from the issuance of drivers and other licences and permits, and from fines is recognized on an accrual basis. The costs associated with the licensing and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statement of operations as operating costs, non-insurance (note 10).

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

13. FAIR VALUE

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than investments (note 3), amount recoverable from reinsurers (note 6), provision for unpaid claims (notes 2 and 6), post-retirement benefits (note 9) and structured settlements (note 14a) approximate their carrying value.

14. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. 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 Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports, and past service history. The present value of these structured settlements at December 31, 2005 is approximately $842 million (2004 – $817 million). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) In the normal course of business, the Corporation has entered into significant finance contracts through a financial institution under its financing programs whereby policyholders finance their premiums for up to 12 months. The Corporation has provided guarantees to the financial institution for the total amount outstanding at any time. During June 2005, this arrangement with the financial institution entered into its wind down phase (note 8). At December 31, 2005, the total amount outstanding was $169.8 million (2004 – $747.2 million). In 2005 the total amount financed was approximately $850.9 million (2004 - $1.4 billion).

c) Within the past few years lawsuits have been commenced in a number of Canadian jurisdictions alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. The outcome of these cases has varied based on the wording of the regulations in effect in the various jurisdictions. (Notably, however, the Ontario Court of Appeal in a June 2005 decision overturned a 2001 ruling of that same court and found that the application of deductibles in total loss cases is permissible). Such a lawsuit was started against the Corporation in early 2002. There are two aspects to this litigation; the interpretation of the regulations and whether a class action should be certified. In 2004, the decision on the issue of the interpretation of the regulations was resolved in the Corporation's favour, and the claim was dismissed. The plaintiff has since filed a Notice of Appeal. The appeal is scheduled to be heard in mid June 2006. If the plaintiff is unable to persuade the Court of Appeal on the merits of the case, there would be no claim that could be certified as a class action. The Corporation's management has determined that it is unable to assess the likely outcome of this legal action and therefore has not accrued for potential damages payable.

d) 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 are as follows:

($ THOUSANDS)	
2006	$ 10,898
2007	9,589
2008	8,410
2009	5,638
2010	2,279
	$ 36,814

15. RATE REGULATION

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and service for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. It also ensures that the Corporation's capital available for the Basic insurance, Optional insurance and the total Corporation meets legislated targets.

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

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

It also requires the Corporation to file actuarial certificates attesting to the fact that capital available for Basic insurance, Optional insurance and the total Corporation meets legislated targets.

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 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 and 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, vehicle registration and funding for Compliance Operations.

($ THOUSANDS)	Basic Coverage 2005	Basic Coverage 2004 (Restated - note 5)	Optional Coverage 2005	Optional Coverage 2004 (Restated - note 5)	Total 2005	Total 2004 (Restated - note 5)
Revenues						
Premiums written	$ 1,761,668	$ 1,711,703	$ 1,385,604	$ 1,377,632	$ 3,147,272	$ 3,089,335
Premiums earned	$ 1,736,760	$ 1,692,314	$ 1,380,652	$ 1,334,167	$ 3,117,412	$ 3,026,481
Service fees	20,126	19,525	17,353	17,108	37,479	36,633
Total earned revenues	1,756,886	1,711,839	1,398,005	1,351,275	3,154,891	3,063,114
Claims and operating costs						
Net claims incurred during the year (note 6)	1,624,863	1,459,519	819,652	782,815	2,444,515	2,242,334
Prior years' claims adjustment (note 6)	126,428	9,167	(45,766)	(13,907)	80,662	(4,740)
Claim services, road safety and loss management services	187,624	187,759	96,767	92,932	284,391	280,691
	1,938,915	1,656,445	870,653	861,840	2,809,568	2,518,285
Operating costs – insurance (note 10)	70,961	70,507	68,639	68,152	139,600	138,659
Premium taxes and commissions (note 11)	225,857	100,235	252,619	222,949	478,476	323,184
	2,235,733	1,827,187	1,191,911	1,152,941	3,427,644	2,980,128
Underwriting (loss)/income	(478,847)	(115,348)	206,094	198,334	(272,753)	82,986
Investment income	378,740	260,254	200,696	135,065	579,436	395,319
Insurance operations (loss)/income	(100,107)	144,906	406,790	333,399	306,683	478,305
Non-insurance costs	108,759	105,346	-	-	108,759	105,346
Net (loss)/income (note 5)	$ (208,866)	$ 39,560	$ 406,790	$ 333,399	$ 197,924	$ 372,959
Retained earnings						
Beginning of year	$ 131,430	$ 25,000	$ 827,794	$ 510,879	$ 959,224	$ 535,879
Prior period adjustment (note 5)	-	66,870	-	(16,484)	-	50,386
Beginning of year, 2004 restated	$ 131,430	$ 91,870	$ 827,794	$ 494,395	$ 959,224	$ 586,265
Transfer of retained earnings	530,000	-	(530,000)	-	-	-
End of year, 2004 restated	$ 452,564	$ 131,430	$ 704,584	$ 827,794	$ 1,157,148	$ 959,224

A government directive in October 2005 directed the Corporation to transfer $530 million of its Optional insurance capital available to its Basic insurance business. The Corporation has complied with that government directive.

($ THOUSANDS)	Basic Coverage 2005	Basic Coverage 2004 (Restated - note 5)	Optional Coverage 2005	Optional Coverage 2004 (Restated - note 5)	Total 2005	Total 2004 (Restated - note 5)
Liabilities						
Unearned premiums	$ 829,438	$ 804,530	$ 667,738	$ 662,786	$ 1,497,176	$ 1,467,316
Provision for unpaid claims (note 5)	$ 3,888,600	$ 3,532,163	$ 1,164,508	$ 1,139,377	$ 5,053,108	$ 4,671,540

16. ROLE OF THE ACTUARY AND AUDITORS

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with accepted actuarial practice and regulatory requirements, and report thereon. In performing the valuation, 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 the Corporation 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 auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their 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 their audit, the auditors also make use of the work of the actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditors' report outlines the scope of their audit and their opinion.

Corporate Governance

ICBC's governance is defined through legislation applicable to all Crown corporations and legislation specific to the Corporation itself. ICBC continues to meet its accountability requirements and to contribute to an open and transparent governance process in order to meet public expectations.

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

At the highest level, governance of a Crown corporation is defined through legislation applicable to all Crown corporations, such as the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, the *Financial Information Act*, and the *Freedom of Information and Protection of Privacy Act*. Under this legislation, ICBC is accountable for making public its strategic plan (i.e. Service Plan) and performance against the plan (i.e. Annual Report), as well as providing financial and other information as the legislation requires.

Individual Crown entities are governed by legislation specific to each Crown corporation. In the provision of Basic and Optional insurance and non-insurance services provided on behalf of the provincial government, the specific legislation to which ICBC must adhere includes the *Insurance Corporation Act*, the *Insurance (Motor Vehicle) Act*, the *Motor Vehicle Act*, the *Motor Vehicle (All Terrain) Act*, and the *Commercial Transport Act*. In addition, the *Insurance Corporation Amendment Act* was enacted in 2003 and established the British Columbia Utilities Commission (BCUC) as the independent regulator for Basic insurance rates. Non-insurance services provided on behalf of the provincial government are set out in a Service Agreement between ICBC and the Province.

Individual Crown entities are also governed by the Shareholder's Letter of Expectations established between each Crown corporation and the Minister responsible. The Minister of Public Safety and Solicitor General is the Minister responsible for ICBC.

ICBC BOARD GOVERNANCE

The Board of Directors guides the Corporation in fulfilling its mandate and sets direction for ICBC. The Board and management approve the corporate vision, mission, values, and goals that guide the Corporation. The Board sets goals for corporate performance and these goals and associated objectives form the basis upon which accountability and performance is evaluated. Performance against these goals and objectives is reviewed and revisions made when necessary.

As a Crown corporation, ICBC's board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of nine 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 77 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. During 2005, ICBC reviewed and updated its Board Governance Manual and policies for making information publicly available. As a result, additional information on Board members and Board policies is now available on ICBC's website, www.icbc.com, and ICBC now fully complies with the provincial government's "Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations".

ICBC's Board of Directors has adopted the guiding principles included in the provincial government's "Governance Framework for Crown Corporations" that provided 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

BOARD GOVERNANCE STRUCTURE

Board of Directors

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

Chair: T. Richard Turner
Members: Neil de Gelder, Alice Downing, Diane Fulton, Kenneth Martin, Susan Paish, Lisa Pankratz, Bob Quart, Terry Squire

Governance Committee

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

Chair: Terry Squire
Members: Bob Quart, Neil de Gelder

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: Bob Quart
Members: Lisa Pankratz, Terry Squire

Investment Committee

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

Chair: Lisa Pankratz
Members: Diane Fulton, Kenneth Martin

Human Resources and Compensation Committee

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

Chair: Susan Paish
Members: Alice Downing, Kenneth Martin

SCCM Board of Directors

Purpose: To manage the Surrey Central City Mall project in accordance with guidelines established by ICBC's Board of Directors.

Chair: T. Richard Turner
Members: Bob Quart, Paul Taylor, Paul Reilly

OPERATING SUBSIDIARIES

ICBC Properties Ltd. (IPL) was created in 1999 as a wholly owned subsidiary of ICBC, with responsibility for managing ICBC's real estate investments. On January 1, 2004, all of the assets and liabilities of IPL were transferred to ICBC, leaving Surrey City Centre Mall Ltd. (SCCM) as the only active operating subsidiary of ICBC. All other holdings are nominee companies with no operations in their own right, and all financial information is included in ICBC's financial statements.

SCCM actively manages the Central City complex in Surrey, which includes a 25 storey class A office tower and galleria (the project) that was built over top of the existing retail development known as Central City Mall (formerly Surrey Place Mall) and was completed in 2003. SCCM is governed by a four-person Board of Directors, comprising two members of ICBC's Board of Directors, ICBC's President and Chief Executive Officer, and SCCM's President. SCCM's Board meets quarterly with its senior management and SCCM provides ICBC with monthly financial and performance information.

The financial results for SCCM are included in ICBC's financial statements and operations as shown in this annual report. In 2005, SCCM reported net income of $2.1 million, based on revenues of $14.7 million and expenses of $12.6 million. These results are an improvement over both the 2005 plan and 2005 outlook due to faster than expected lease up. As of December 31, 2005, the project is considered to be fully leased (any vacancies are considered in line with normal operations); however, the Central City Mall continues to have vacancies. In 2004, SCCM reported a net operating loss of $0.3 million, based on revenues of $11.2 million and expenses of $11.5 million; however, the operating loss was offset by a one-time gain of $7.5 million realized on the sale of a portion of the development.

SCCM incurred $19.4 million in capital expenditures in 2005 primarily for tenant improvements and inducements and other lease up costs. This compares to $10.6 million in capital expenditures incurred in 2004 for tenant improvements and inducements, other lease up costs and the acquisition of adjacent property.

ICBC Board of Directors and Executives

Front row from left:

Geri Prior
Chief Financial Officer

Donnie Wing
Senior Vice-President
Insurance, Marketing and Underwriting

Susan Paish
Board Member

Paul Taylor
President & CEO

T. Richard Turner
Board Chair

Bill Goble
Chief Operating Officer

Lisa Pankratz
Board Member

Terry Squire
Board Member

Back row from left:

Diane Fulton
Board Member

Bob Quart
Vice-Chair

Paul Reilly
President of Surrey Central City Mall Ltd.

Len Posyniak
Vice-President Human Resources and
Corporate Law

Neil de Gelder
Board Member

Keith Stewart
Vice-President
Information Services

Kenneth Martin
Board Member

Alice Downing
Board Member

ICBC Points of Service

Greater Vancouver

Claim Centres
Burnaby, Lake City
Burnaby, Wayburne
Coquitlam *
Maple Ridge
New Westminster
North Vancouver
Sechelt Resident Office
Squamish
Vancouver, 5th and Cambie *
Vancouver, Kingsway

Driver Services Centres
Burnaby *
Burnaby (Express) *
Coquitlam
Coquitlam (Express) *
North Vancouver
Vancouver East
Vancouver, Point Grey
Vancouver, Robson Square

Government Agents
Maple Ridge

Appointed Agents
Gibsons
Pemberton
Sechelt
Squamish
Whistler

Fraser Valley

Claim Centres
Abbotsford
Chilliwack
Langley
Richmond *
Surrey, Guildford *
Surrey, Newton

Driver Services Centres
Abbotsford
Langley
Richmond
Richmond (Express) *
Surrey *
Surrey, Cloverdale (Express) *
Surrey, Guildford (Express) *

Government Agents
Chilliwack

Appointed Agents
Agassiz
Hope

Vancouver Island

Claim Centres
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni
Powell River Resident Office
Victoria*

Driver Services Centres
Nanaimo
Victoria, McKenzie Ave *
Victoria, Wharf Street

Government Agents
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni

Appointed Agents
Alert Bay
Ganges
Gold River
Ladysmith
Lake Cowichan
Mill Bay
Parksville
Port Hardy
Port McNeill
Powell River
Qualicum Beach
Sidney
Sooke
Tofino
Ucluelet

Southern Interior

Claim Centres
Cranbrook
Kamloops
Kelowna *
Nelson
Penticton
Salmon Arm
Trail
Vernon

Driver Services Centres
Kamloops
Kelowna *

Government Agents
Cranbrook
Kamloops
Nelson
Penticton
Revelstoke
Salmon Arm
Trail
Vernon

Appointed Agents
Armstrong
Ashcroft
Barriere
Castlegar
Chase
Clearwater
Clinton
Creston
Elkford
Enderby
Fernie
Golden
Grand Forks
Greenwood
Invermere
Kaslo
Keremeos
Kimberley
Lillooet
Lumby
Merritt
Midway
Nakusp
New Denver
Oliver
Osoyoos
Princeton
Salmo
Sicamous
Slocan Park
Sparwood
Summerland

North/Central

Claim Centres
Dawson Creek
Fort St. John
Prince George
Prince Rupert
Quesnel
Smithers
Terrace
Williams Lake

Driver Services Centres
Prince George

Government Agents
Atlin
Chetwynd
Dawson Creek
Dease Lake
Fort Nelson
Fort St. John
Prince George
Prince Rupert
Queen Charlotte City
Quesnel
Smithers
Stewart
Terrace
Williams Lake

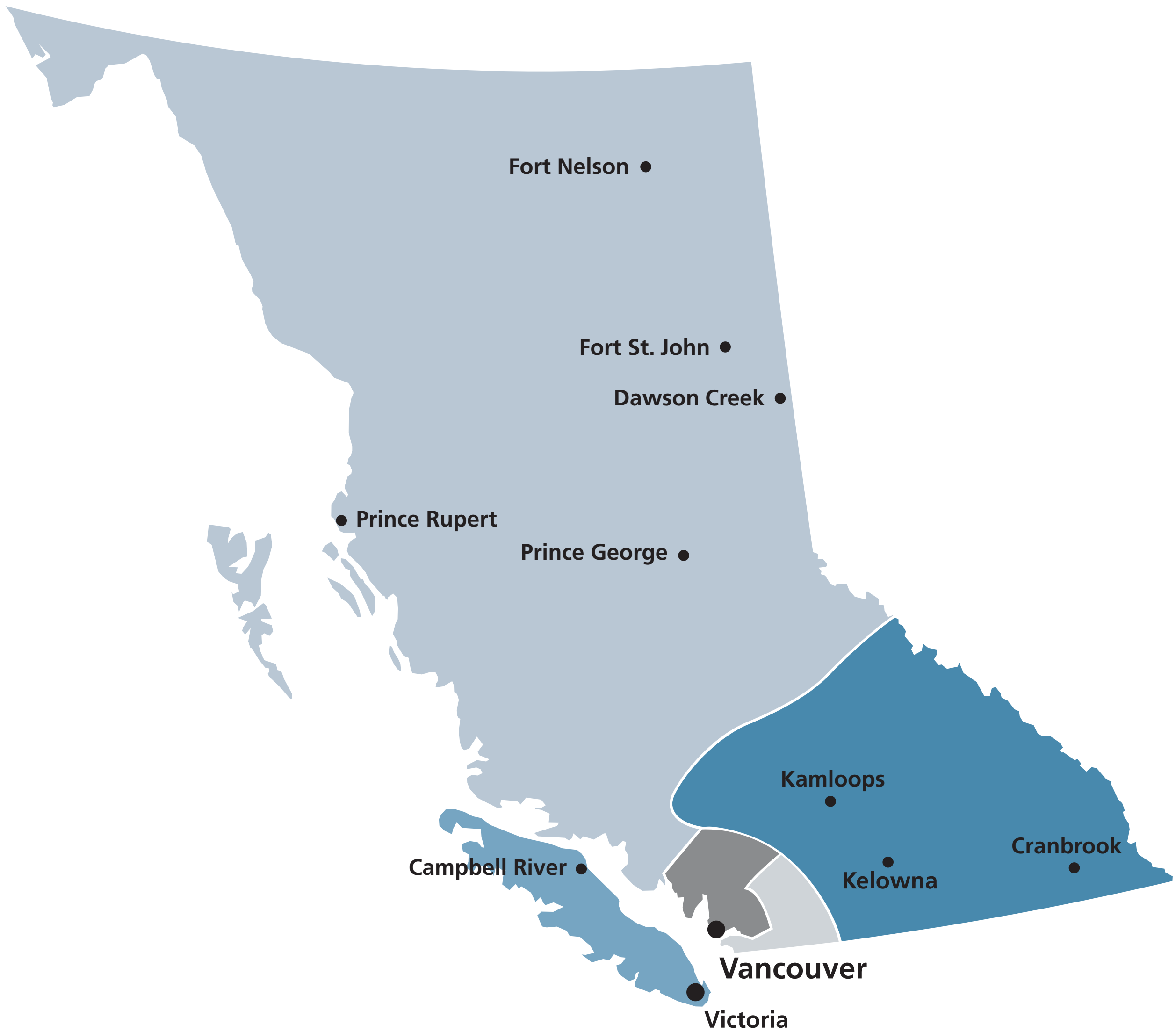
Appointed Agents
Bella Coola
Burns Lake
Fort St. James
Fraser Lake
Houston
Hudson's Hope
Kitimat
Mackenzie
Masset
McBride
New Hazelton
100 Mile House
Tumbler Ridge
Valemount
Vanderhoof

Other Points of Service

ICBC on-line Claim Report:
www.icbc.com/claims-repairs

24-hour Dial-a-claim:
604-520-8222 (Lower Mainland)
1-800-910-4222
(outside Lower Mainland & out of province)

* extended hours of operation



Greater Vancouver	
Claim Centres	10
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Brokers	299

Vancouver Island	
Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	15
Brokers	145

North/Central	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Brokers	66

Fraser Valley	
Claim Centres	6
Driver Services Centres	7
Government Agents	1
Appointed Agents	2
Brokers	235

Southern Interior	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Brokers	150

HEAD OFFICE

151 W. Esplanade
North Vancouver, BC
V7M 3H9

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

ADDITIONAL INFORMATION

Additional information about ICBC is available at **www.icbc.com**

PI186L (032006)