ANNUAL REPORT 2004

focused accountable committed

Insurance Corporation of British Columbia

Profile The Insurance Corporation of British Columbia (ICBC or the Corporation) is a provincial Crown corporation established in 1973 to provide universal compulsory automobile insurance (Basic insurance) to BC motorists. Basic insurance rates are regulated by the British Columbia Utilities Commission (BCUC). In addition, ICBC 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 $7.5 billion in assets, and employs almost 4,900 people (full time equivalents). ICBC offers automobile insurance products to more than 2.8 million policyholders through a network of over 900 independent brokers, government agents, and appointed agents, and provides claims handling services at 40 locations throughout BC. ICBC also invests in loss management and road safety programs to reduce crashes and automobile crime, which benefit customers by reducing claims costs and helping to keep rates low and stable. In addition, ICBC provides vehicle and driver licensing services and vehicle registration services on behalf of the provincial government.

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 Letter of Expectation established between the Corporation 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's mission is to 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.

Corporate Goals In support of ICBC's mission, four corporate goals were established for 2004 and future years:

- Become more competitive
- Customer focused
- Revenue driven and fiscally responsible
- Accountable, capable and engaged people.

Corporate Values In providing valued products and services, ICBC is guided by these 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

Corporate Values

In providing valued products and services, ICBC is guided by the corporate values of integrity, commitment, and dedication to the customer.

Letter of Transmittal

Honourable Rich Coleman
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia

Dear Minister:

The 2004 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of ICBC for the twelve months ended December 31, 2004. All significant decisions, events and identified risks as of December 31, 2004 have been considered in preparing the report. The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to ICBC's Service Plan.

2004 was a successful year as ICBC met or exceeded almost all of its performance targets as set out in its Service Plan. ICBC recorded a net income of $389 million which stays in the Corporation to help keep rates low and stable. ICBC continued to invest prudently in road safety and loss management strategies throughout the year, and continued to position itself to compete in the optional insurance market. Comprehensive information on ICBC's performance and outcomes in 2004, key developments and significant issues, and risks and uncertainties are provided in this report, along with summary information on ICBC's future outlook.

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, 2004.

Sincerely,

T. Richard Turner
Chair
Board of Directors

Key Financial and Operating Comparatives

Five Year Comparison
For the Years Ended December 31

	2004	2003	2002	2001	2000
For the year:					
Premiums earned ($000)	3,026,481	2,852,411	2,621,383	2,440,075	2,379,990
Claims incurred ($000)	2,267,521	2,208,140	2,193,492	2,126,250	2,006,151
Prior years' claims adjustments ($000)[1]	(46,263)	10,392	(24,791)	2,230	(266,336)
Claims services and operating costs ($000)	385,098	375,687	370,700	457,854	538,328
Insurance premium taxes and commissions ($000)[2]	323,184	274,839	249,778	301,758	264,830
Investment income ($000)	395,319	329,936	327,269	453,955	625,660
Net income (loss) for the year ($000)	389,295	224,807	44,968	(250,519)	138,740
At year end:					
Cash and investments ($000)	7,055,237	6,436,189	5,857,937	5,548,362	5,853,669
Total assets ($000)	7,466,983	6,810,145	6,166,390	5,835,233	6,196,354
Retained earnings ($000)	925,174	535,879	314,190	269,222	519,741
Autoplan policies earned[3]	2,818,000	2,750,000	2,705,000	2,661,000	2,614,000
Average premium[4] ($)	1,048	1,009	960	888	882
Claims reported during the year[5]	929,000	931,000	1,072,000	1,105,000	1,026,000
Loss ratio:					
Current year (%)	84.2	87.0	94.0	100.1	98.3
Prior years' claims adjustments[1] (%)	(1.5)	0.4	(0.9)	0.1	(11.2)
Loss ratio[6] (%)	82.7	87.4	93.1	100.2	87.1
Insurance expense ratio[7] (%)	14.8	14.3	14.5	16.2	19.1
Number of employees[8]	4,889	4,754	5,100	5,625	6,436

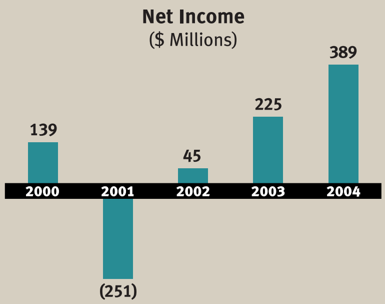
[1] ( ) denotes a favourable adjustment. i.e. a reduction in expense.
[2] Insurance premium taxes and commissions are net of deferred premium acquisition cost adjustments.
[3] Annualized values have been used for policies with a term of less than 12 months.
[4] Average premium is based on premiums earned.
[5] Claims reported represents the number of claims reported against purchased insurance coverages.
[6] Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
[7] Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs and other unusual items).
[8] Effective April 1, 2003 Compliance Operations transferred back to the Government of British Columbia (286 employees transferred). 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

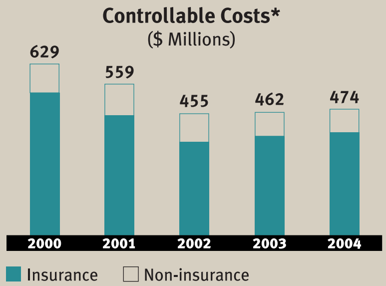
Net Income

In 2004, ICBC recorded net income of $389 million, which stays in the Corporation to help keep insurance rates low and stable. A number of factors contributed to the positive net income.



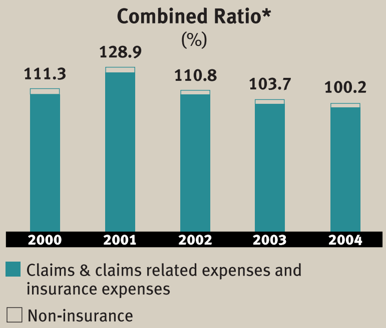
Controllable Costs

Continued focus on fiscal management throughout the Corporation kept controllable cost increases to a minimum in 2004, despite upward cost pressures. As a result, controllable costs remain 25% lower than in 2000.



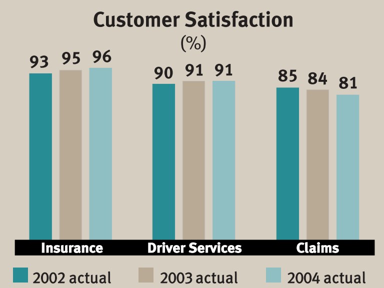
Combined Ratio

The combined ratio improved for the third straight year in 2004, due to continued focus on cost control and claims management, good driving conditions throughout most of the year, and increased premium revenue. The combined ratio includes non-insurance costs.



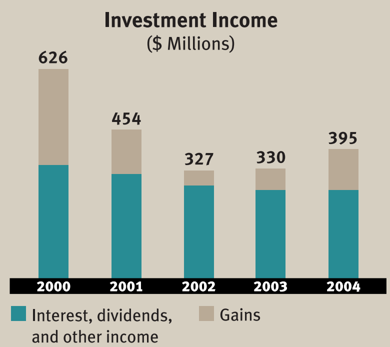
Customer Satisfaction

Customer satisfaction levels for insurance transactions improved in 2004, driver services transactions remained unchanged, and claims services customer satisfaction declined slightly.



Investment Income

Investment income increased to $395 million in 2004, resulting in an investment accounting return of 5.8%.



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

Building Success

ICBC's vision is to be the leading automobile insurance company in all aspects of our business by becoming a more responsive and competitive company, and meeting the needs of our customers. ICBC made significant progress in meeting its goals in 2004, and we will build on that work in 2005.

Message from the Chair and the President and CEO

Continuing to focus on the four goals that ICBC initially set out in 2003 was pivotal to ICBC's success in 2004. The four goals are to position the business to compete successfully; to build the company's financial strength through operational excellence; to enhance the overall customer experience; and to focus on employees as a key component of ICBC's success.

2004 was a successful year. ICBC recorded a net income of $389 million for the year, as compared to a plan amount of $52 million. This income stays in the company to help keep rates low and stable over the longer term, for the benefit of our customers. The strong financial performance in 2004 reflects a continued focus on controlling costs and the benefits of our investments in loss management and road safety initiatives, as well as a number of one time occurrences.

Our strong financial results over the last three years mean that our customers benefited as our insurance rates have remained virtually the same since 2003. While the number of claims recorded in 2004 was comparable to 2003, the average cost of claims continues to rise. To address this, ICBC continues to focus on managing costs and making investments in improving road engineering and combating auto crime and fraud.

Another success in 2004 was reaching a new collective agreement with the Canadian Office and Professional Employees Union Local 378, which remains in effect until mid-2006. ICBC will continue to move forward as a team, building on the contributions of our employees and working in partnership with a network of independent brokers to meet the needs of our customers.

Any successful company needs to constantly evolve to meet new realities and ICBC is no different. 2004 was a year of transition, as we continued to work in a new regulatory environment for our Basic insurance product and continued to position ICBC to compete in the Optional insurance market. We made an application to the British Columbia Utilities Commission (BCUC) in July 2004 regarding how costs and revenues are divided between our Basic and Optional insurance products. The BCUC's January 2005 decision accepted ICBC's pro-rata basis of cost allocation and identified further steps toward finalizing this financial allocation methodology.

With the efforts of our employees, we made significant progress in meeting our goals in 2004 and will build on that work in 2005. It is ICBC's vision to be the leading automobile insurance company in all aspects of our business by becoming a more responsive and competitive company, and meeting the needs of our customers.

T. Richard Turner
Chair, Board of Directors

Paul Taylor
President and CEO

Meeting the Needs of British Columbians

ICBC provides Basic and Optional insurance products, AS WELL AS DRIVER AND VEHICLE LICENSING AND REGISTRATION SERVICES THROUGH A NETWORK OF OVER 900 INDEPENDENT BROKERS, GOVERNMENT AGENTS, AND APPOINTED AGENTS ACROSS THE PROVINCE. ICBC ALSO WORKS WITH BUSINESSES AND ORGANIZATIONS ACROSS BC TO PROVIDE CLAIMS RELATED SERVICES, AS WELL AS ROAD SAFETY AND LOSS MANAGEMENT PROGRAMS.

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. Soon after inception, the legislation was amended to allow private insurance companies to compete for the Optional insurance business. Today, ICBC is the sole provider of Basic automobile insurance, for which the British Columbia Utilities Commission (BCUC) regulates rates, 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 registration services, government debt collection and funding for commercial vehicle compliance operations on behalf of the Province. As a result of government's Core Services Review, 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 more than 2.8 million annualized policies sold. ICBC's customers are those who pay premiums or fees, and consist of all insured and licensed motor vehicle owners and drivers in BC. Through a network of over 900 independent brokers, government agents, and appointed agents located throughout the province, ICBC provides insurance products, as well as driver and vehicle registration and licensing services. ICBC also provides services to those involved in crashes or victims of auto crime and processes approximately 930,000 claims per year through a 24-hour telephone claim handling facility and a province-wide network of 40 claim centres. In addition, ICBC partners with businesses and organizations in communities across 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 package of insurance is provided solely by ICBC. Private passenger and commercial vehicle owners are provided with $200,000 in third-party legal liability protection, $150,000 in no-fault 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 ICBC's Basic and Optional insurance products.

The automobile insurance product in BC is based on a tort system, which means that an injured party is entitled to take the at-fault party to court and sue for the full amount of his or her damages. In addition, the insured injured party has access to 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

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. 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 as outlined in agreements between the Corporation and government that came into effect in 2003. The Corporation provides funding that enables law enforcement agencies to devote additional resources to activities that reduce crashes caused by impaired driving, speed, and aggressive driving, as well as 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 accidents and claims, vendor and premium fraud and licensing and identity fraud, and 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.

The ICBC-sponsored Bait Car program has helped reduce auto theft numbers.

Services such as online road test booking are part of ICBC's commitment to creating products and services that are easy to access and use.

Through initiatives such as roundabouts and traffic circles, ICBC has made a major contribution to road safety planning.

Autoplan Broker Road Safety Program

The road safety partnership agreement 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, 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

Unlike traditional P&C insurers, ICBC provides a number of non-insurance services on behalf of the provincial government. These services include vehicle and driver licensing, vehicle registration, government debt collection and funding for commercial vehicle compliance. 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 expenses are funded through ICBC's Basic insurance premiums.

Driver Licensing and Fines Collection

Driver licensing services are provided through approximately 120 points of service, including driver services centres, expressways, and appointed agents' and government agents' offices throughout BC. ICBC processes approximately 900,000 driver licensing transactions and performs over 380,000 driver examinations annually. On behalf 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 1970's, 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. For this reason, ICBC believes the percentage of uninsured motorists in BC to be lower than most other jurisdictions.

Commercial Vehicle Compliance

The commercial vehicle compliance and motor carrier functions 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 $24.7 million to government for these functions up to and including March 31, 2006.

Driver Services Expressways have expanded ICBC's ability to offer superior customer service in convenient locations.

Service and Performance

ICBC made significant progress in meeting its goals in 2004. ICBC'S FOUR GOALS ARE: BECOME MORE COMPETITIVE; REVENUE DRIVEN AND FISCALLY RESPONSIBLE; CUSTOMER FOCUSED; AND PERSONALLY ACCOUNTABLE, CAPABLE AND ENGAGED PEOPLE.

Report on Performance

ICBC continues to be guided by 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.

The corporate vision and mission are supported by four corporate goals:

- Become More Competitive
- Revenue Driven and Fiscally Responsible
- Customer Focused
- Personally Accountable, Capable and Engaged People.

2004 was the second straight year of strong financial performance for ICBC, with net income of $389 million, which helps ICBC provide a stable rate environment for customers. Some of the factors that contributed to this are higher than anticipated insurance sales, continued focus on managing costs, higher than anticipated investment income, and good driving conditions. While the good driving conditions experienced in 2003 continued in 2004, it is too early to determine if the recent claims trends will continue in future years or whether there will be a return to more typical claims trends.

In 2004, the provincial government enacted Special Direction IC2 as part of the implementation of ICBC's regulatory framework. Special Direction IC2 sets out target levels of retained earnings for ICBC and the timeframes in which these must be achieved. With the strong financial performance of this past year, ICBC has made significant progress in meeting these targets.

ICBC's financial performance is consistent with the Canadian property and casualty (P&C) insurance industry. Based on information published by the Office of the Superintendent of Financial Institutions, a combination of premium growth, stabilizing reinsurance rates,[1] sustained returns in the investment market, and positive underwriting profits led to an after tax net income for the industry of $4.2 billion in 2004[2] , as compared to $2.5 billion in 2003.[3]

[1] Thompson's Daily Insurance News Service, "Canadian Reinsurance Rates Stabilize, Sometimes Decline," September 15, 2004.
[2] Insurance Bureau of Canada News Release, "IBC announces 2004 financial results for auto, home and business insurance companies," February 18, 2005.
[3] Insurance Bureau of Canada, *Facts of the Insurance Industry of Canada,* 2004.

ICBC's approach to customer service is based on its core values of integrity, commitment, and dedication. In 2004, ICBC's dedication was recognized when the Telephone Claims Division received awards from the Service Quality Management Group for highest customer satisfaction in a unionized call centre. This is a significant achievement as ICBC was benchmarked against over 150 call centres across Canada and the United States. To further improve customer service, ICBC opened two new expressways in Surrey in November 2004. Expressways operate with extended hours and offer all driver licensing services except road and knowledge tests. Conveniently located, these new facilities respond to customer needs by providing streamlined service in high demand areas.

ICBC has formal processes in place to deal with issues around fairness, and ultimately customers have the ability to direct issues to ICBC's Fairness Commissioner. In 2004, ICBC implemented a new initiative called FairClaim to provide customers with more information about decision-making in the claims process, the financial value of a claim, and factors used to determine fault in a crash.

2004 was an important year for loss management and road safety, with the expansion of the Bait Car program to municipalities throughout the Lower Mainland contributing to reductions in automobile thefts. Another major initiative in 2004 was the Community Crash Reduction Challenge, in which ICBC partnered with the provincial government, Autoplan brokers, and police to challenge British Columbians to help reduce the number of crashes in BC communities. Both individuals and 125 communities across the province registered their commitment to drive safely during the challenge period.

2004 also represents the second year of transformation for ICBC, following the provincial government announcement in late 2002 of changes to ICBC's operating environment. These changes included the 2003 appointment of the British Columbia Utilities Commission (BCUC) as the independent regulator to review and approve ICBC's Basic insurance rates and an operating environment that provides for increased competition on Optional insurance. ICBC operates as an integrated company, which benefits customers in terms of convenience and reduced costs. Under the current regulatory environment, ICBC is required to report the revenues and costs separately between its Basic and Optional insurance businesses. The July 2004 application provided the BCUC with the opportunity to review ICBC's financial allocation methodology. The BCUC's January 2005 decision accepted ICBC's pro-rata basis of allocation and identified further steps to be taken, leading to finalizing the financial allocation methodology.

ICBC continued to use its performance management system for management and confidential employees to better align employees' efforts and priorities with the goals and objectives of the Corporation. The performance management approach has also been implemented in certain relationships with outside business partners. For most external investment managers, a base fee plus a capped incentive fee structure has been implemented to provide compensation for strong results and to minimize management fees in the event of marginal portfolio performance. For brokers, ICBC conducts regular reviews of broker performance including customer surveys, random audits, exception reporting, and on-site visits. In addition, ICBC continues to work with the collision repair industry to develop a performance-based model that is fair to all parties, and encourages safe and quality repairs for customers.

ICBC's people, and their contributions, are one of its core strengths. In 2004, ICBC reached agreement with the Canadian Office and Professional Employees Union Local 378 (COPE Local 378) on a new collective agreement for the period from July 1, 2003 to June 30, 2006. COPE Local 378 represents approximately 90% of ICBC's workforce. 2004 also saw changes in the Corporation's leadership, with three new members appointed to the Board of Directors following the expiry of the terms of appointment for previous members, and the appointment of Paul Taylor as ICBC's new President and CEO. With these changes, ICBC continues to work towards its goals, with increased emphasis on employee engagement, customers, and customer service.

Looking forward, ICBC's key priorities will be to continue to invest in changes that:

- further the Corporation's ability to compete effectively;
- help develop the internal capacity to effectively and efficiently meet regulatory requirements; and
- allow the Corporation to continue to achieve positive financial results while strengthening its relationship with its customers and developing ICBC as a leading employer.

SUMMARY FINANCIAL PERFORMANCE AND OUTLOOK

The table below provides an overview of ICBC's 2004 financial performance and forecast of financial results for the next three years, as set out in the Service Plan, and forms the basis upon which key performance targets are set.

In 2004 ICBC's net income was $337 million higher than plan. Total revenues were $129 million higher than plan, total expenses were $206 million lower than plan, and there was a $2 million gain on the sale of property and equipment.

Premiums earned were $64 million higher than plan due to a higher than expected number of vehicles insured and better than expected Optional insurance sales. Investment income was $65 million higher than plan due to higher gains and interest income.

Under expenses, claims incurred were $161 million lower than plan due to fewer reported claims and an adjustment to the estimate of the costs for the anticipated increase in the court tariff for legal costs. Controllable operating costs were $35 million lower than the plan due to the continued management and control over operating costs, as well as lower than plan compensation costs. The remaining $10 million difference is due to lower than planned premium taxes and commissions.

($ MILLIONS)	2004 (Actual)	2004 (Plan)	2005 (Outlook)	2006 (Outlook)	2007 (Outlook)
Premiums earned	$ 3,026	$ 2,962	$ 3,035	$ 3,041	$ 3,073
Investment income	395	330	353	367	378
Total Revenues	3,421	3,292	3,388	3,408	3,451
Claims incurred*	2,221	2,382	2,343	2,427	2,466
Claims service and loss management	281	289	292	302	315
Insurance operations expenses	104	129	118	123	128
Premium taxes and commissions**	323	334	352	353	356
Non-insurance expenses	105	106	107	92	88
Total Expenses	3,034	3,240	3,212	3,297	3,353
Net income before the following	387	52	176	111	98
Gain on sale of property and equipment	2	–	–	–	–
Net Income	$ 389	$ 52	$ 176	$ 111	$ 98

* Claims incurred includes prior years' claims adjustments.
** Premium taxes and commissions are net of deferred premium acquisition cost adjustments.

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, and volatility in the investment markets. Further information on potential issues and risks can be found in the "Business Risks and Risk Management" section of this report.

The outlook for financial performance has been prepared based on ICBC's assessment of the above risks. The three-year outlook as presented in the 2005 – 2007 Service Plan includes a number of assumptions.

ICBC anticipates additional costs associated with its regulatory environment. Impacts to market share are expected from the emergence of competitors into the marketplace and claims costs are expected to return to more normal trends. The decision regarding tariff costs is outstanding and no increase has been included for 2005. Depending on when the increase in the court tariff is implemented, claims costs in 2005 could be negatively impacted by up to $24 million. Nominal changes are expected in operating costs which will continue to be managed prudently. Operating results are expected to stabilize in 2006 and 2007.

The following provides further information on ICBC's goals, objectives and key strategies, as well as its 2004 performance results relative to the measures and targets presented in its 2004 – 2006 Service Plan. 2005 measures and targets, as outlined in ICBC's 2005 – 2007 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 generally 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.

Goal: Become More Competitive

Becoming more competitive is about being a better business overall. ICBC has been given a target from the provincial government for capital requirements and is continuing to develop the internal capabilities to compete effectively. ICBC continues to make refinements to more effectively compete in the Optional insurance market, and to focus on performance and results.

In 2004, ICBC's net income of $389 million exceeded the $52 million plan included in the 2004 – 2006 Service Plan. Net income remains in the Corporation to build retained earnings, which helps keep insurance rates low and stable. ICBC also implemented initiatives to make it easier for brokers to do business with their customers and with ICBC, such as

BECOME MORE COMPETITIVE
Multi-year Objectives and Strategies | 2004 – 2006 Service Plan*

Objectives:

- Innovative, competitive and tailored Optional products and services
- Achieve planned financial results

Strategies:

- Build retained earnings to appropriate levels
- Serve customers well and do what is best for them
- Ensure appropriate Optional insurance rates
- Continue the performance management system
- Ensure capacity to respond to market conditions

* Revised objectives and strategies for 2005 and future years are reflected in ICBC's 2005 – 2007 Service Plan.

improvements to the method of processing Excess Underinsured Motorist Protection, re-design of the Broker Extranet to allow brokers to use existing Autoplan business applications and other services, and a new online tool to help brokers communicate more readily with ICBC. ICBC also implemented initiatives to improve the clarity and understanding of the performance management system and core competencies to help people better target elements of their performance plans.

Performance Measures, Targets and Results:

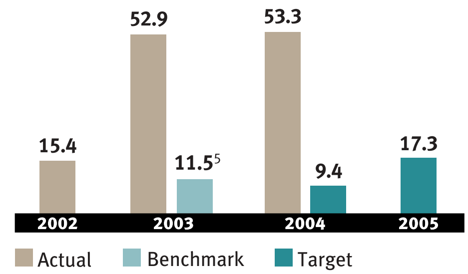
Return on Equity

This is a standard financial measure that indicates the change in value to a shareholder for investing in an organization. This measure is calculated as a ratio of net income to the average of the opening and closing retained earnings. This measure enables ICBC to measure its progress towards becoming more competitive and measures the financial return for ICBC on an annual basis.

This past year has been exceptional. Claims and operating costs were lower than expected mainly due to the continued management of claims costs and favourable driving conditions during most of 2004. Compared to 2003, controllable costs increased minimally, despite continual upward pressures. Premiums written increased due to a higher than expected increase in vehicles insured during the year, and higher sales of insurance products. In addition, there were one time factors which contributed to the success in 2004. In 2003, ICBC included a provision for an anticipated increase in legal costs arising from changes to court tariffs; however, the impact of a change in the court tariff was re-estimated in 2004, reducing the current year amount and provisions for prior years. Investment income was also higher than expected, with gains from strong investment markets and the transition of the portfolio to the target asset mix.

The significant net income for 2004 and ICBC's lower retained earnings has resulted in a high return on equity of 53.3%. As published by the Office of the Superintendent of Financial Institutions, it has been a good year for the Canadian P&C industry due to a combination of premium growth, stabilizing reinsurance rates[4], sustained returns in the investment market, and positive underwriting profits. In 2003, the property and casualty industry return on equity was 11.5%.[5]

Return on Equity
(%)



Source: ICBC Financial Systems.

For 2005, a combination of the higher equity base and the lower projected net income results in a lower return on equity target. The 2005 target also assumes more normal trends for claims costs and that ICBC's retained earnings move towards required levels. Retained earnings are used to manage future insurance rate volatility, helping to keep insurance rates low and stable. Within this context, ICBC is looking at reducing Optional insurance rates for better risk customers.

Combined Ratio

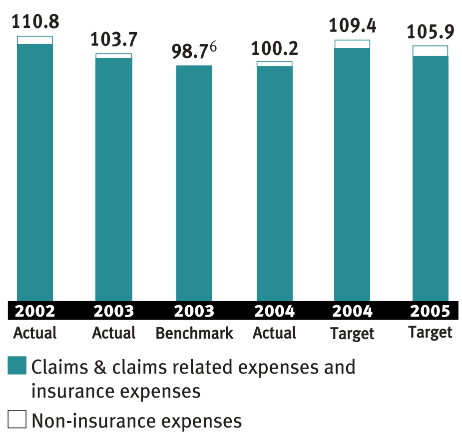
The combined ratio is a key measure within the insurance industry for overall profitability. This measure is calculated as the ratio of insurance costs (claims costs, claims related costs, insurance operating costs and non-insurance operating costs) to insurance premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e. premiums are sufficient to cover insurance costs) while a ratio above 100% indicates an underwriting loss (i.e. premiums are not sufficient to cover insurance costs).

ICBC's performance improved over the year as seen in the lower combined ratio relative to 2003. This improvement can be attributed to effective cost management, the one time change in claims estimates for legal costs, and favourable driving conditions in 2004. Both claims costs and controllable costs were

[4] Thompson's Daily Insurance News Service, "Canadian Reinsurance Rates Stabilize, Sometimes Decline," September 15, 2004.
[5] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2004. Total Canadian Property Casualty Industry (excluding ICBC).

lower than originally planned, and premiums written were higher in 2004, which contributed to the improved results relative to the 2004 target.

Combined Ratio
(%)



2002 and 2003 actuals have been restated to conform to the current year's presentation.

Source: ICBC Financial Systems.

2004 was an exceptional year with factors trending in the right direction to positively impact ICBC's performance. The 2005 target is higher than the 2004 actual results as it is based on the assumption that claims costs will return to levels of a typical year and that one time factors that affected 2004 results will not recur.

Goal: Revenue Driven and Fiscally Responsible

Being revenue driven and fiscally responsible provides the financial foundation for ICBC to meet its other goals. 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 savings through performance-based supplier arrangements and procurement opportunities that capitalize on economies of scale.

In 2004, controllable costs were $35 million below plan. Procurement initiatives were undertaken that resulted in better value received for goods and services. ICBC's ability to recover funds paid in cases of fraud also demonstrates fiscal responsibility. In 2004, 84 fraud-related criminal charges were laid against 56 people and other fraud cases were pursued through civil court. In addition, ICBC invested $43 million in road safety and loss management activities, including the new Community Crash Reduction Challenge, expansion of the Bait Car program, and continued funding and support for enhanced traffic law enforcement initiatives delivered in partnership with the Ministry of Public Safety and Solicitor General.

REVENUE DRIVEN AND FISCALLY RESPONSIBLE
Multi-year Objectives and Strategies | 2004 – 2006 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

Strategies:

- Continue to seek cost-saving opportunities for controllable expenses
- Adjust business processes to reduce costs and improve customer satisfaction
- Implement road safety and loss management programs
- Focus on preventing fraud – zero tolerance
- Continue to better match each customer's premiums and product offerings
- Pursue performance based relationships with suppliers and business partners

* Revised objectives and strategies for 2005 and future years are reflected in ICBC's 2005 – 2007 Service Plan.

[6] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2004. Total Canadian Property Casualty Industry (excluding ICBC).

Performance Measures, Targets and Results:

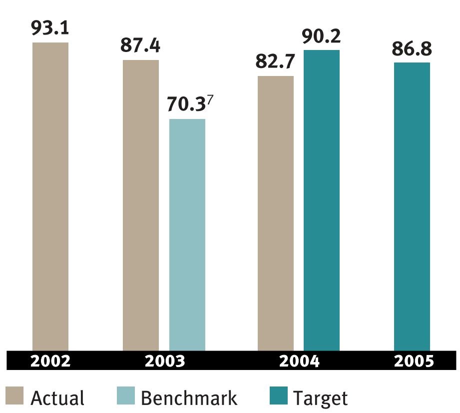
Loss Ratio

A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability (a lower percentage is better). This measure is calculated as the ratio of the total of claims and claims related costs including loss management and road safety costs, to insurance premium dollars earned.

In 2004, ICBC had a significantly lower loss ratio relative to the prior year and to the 2004 target. This positive performance is due to an increase in premiums earned and relatively consistent claims costs. While the average costs of claims increased for the main coverages, this was offset by stabilizing claims volumes as compared to 2003. In addition, there was a one time reduction in the estimated impact of a change in the tariff for legal costs, reducing the amount included in unpaid claims.

Despite this improvement in the loss ratio, ICBC's results continue to be high relative to the P&C industry loss ratio. This is due in part to a lower expense ratio (discussed below) for ICBC, the benefits of which are passed on to policyholders through lower premiums.

Loss Ratio
(%)



2002 and 2003 actuals have been restated to conform to the current year's presentation.

Source: ICBC Financial Systems.

With lower premiums, ICBC's loss ratio will be higher. In addition, unlike many other companies, ICBC is required to provide Basic insurance coverage to all drivers and owners of automobiles. In 2003, the P&C industry ratio was 70.3%.[7]

2004 was an exceptional year, with lower than expected claims incurred costs and higher than expected premiums earned. The 2005 target assumes more normal trends for claims costs and is therefore higher than the 2004 actual results.

Expense Ratio

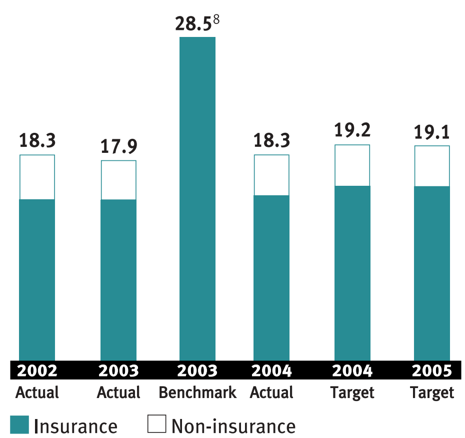
The expense ratio is a standard industry measure for assessing the operational efficiency of an organization. This measure is calculated as the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general 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 gains on sale of property and equipment. This ratio consists of two key components: the insurance expense ratio and the non-insurance expense ratio. Included in the insurance expense ratio is an offset to costs from service fees primarily related to the premium financing plan.

ICBC's overall expense ratio for 2004 was 18.3% and is significantly lower than the 2003 P&C industry benchmark of 28.5%.[7] ICBC has the ability to achieve certain economies of scale in areas such as product distribution where ICBC's commission costs are lower than those of the private industry. ICBC believes that the auto insurance expense ratio for the industry would be lower than the overall P&C expense ratio and that ICBC's expense ratio is lower than the industry average due to lower marketing, underwriting, and general administration costs.

[7] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2004. Total Canadian Property Casualty Industry (excluding ICBC).

Unlike the rest of the industry, ICBC incurs costs for non-insurance expenses such as driver licensing, commercial vehicle services, vehicle registration and licensing, and government fine collections. These costs are monitored separately to allow ICBC to measure its efficiency in providing non-insurance services on behalf of government.

Expense Ratio
(%)



2002 and 2003 actuals have been restated to conform to the current year's presentation.

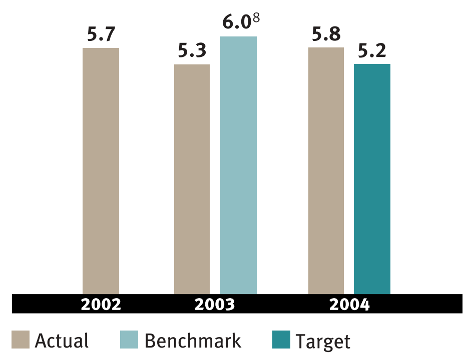
Source: ICBC Financial Systems.

The 2005 target reflects strong premium revenue and demonstrates ICBC's continued commitment to operating efficiently and managing costs prudently, despite upward pressures arising from potential regulatory changes, inflation, and increased competition.

Investment Return

ICBC manages an investment fund of over $7 billion (at cost) to generate investment income used to reduce premiums to the policyholder. ICBC holds a conservative portfolio with the majority of monies (approximately 70%) invested in high quality bonds. These assets are held to provide for future claims payments and to provide reserves for unforeseen events. The investment return measure is calculated as the ratio of investment income over the average book value of the investment portfolio.

Investment Return
(%)



Source: ICBC Financial Systems.

From 2003 to 2004, ICBC's investment income increased from $330 million to $395 million, which equates to a yield on investment portfolio, excluding unrealized investment gains and losses, of 5.8%. In 2004, realized investment net gains in both bond and equity portfolios were higher than expected and reflected stronger than anticipated market performance. In addition, gains were realized in the transition of investments to target portfolio profiles. There was also an increase in bond income associated with the growth in the size of the portfolio and the assets available for investment, and higher than expected yields. Compared to the P&C industry investment return of 6.0%[8] in 2003, ICBC's 2003 investment return is lower.

In 2004, ICBC changed its measure of reporting to one that compares investment portfolio return against a market-based benchmark, which incorporates market indices weighted according to ICBC's portfolio target mix. The portfolio return measure is the standard for monitoring investment performance, and takes into account realized and unrealized gains. Over a four year period, ICBC has established an added value objective to exceed the four year annualized market-based benchmark by 0.268%. Based on acceptable levels of risk as defined in ICBC's investment policy, the added value objective reflects the excess return over market that can be achieved with the asset mix of ICBC's investment portfolio and is consistent with historical investment performance over an investment cycle.

[8] MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2004. Total Canadian Property Casualty Industry (excluding ICBC).

For 2004, ICBC's four year annualized return exceeded the comparable market benchmark by 0.46%, well in excess of the added value objective of 0.268%. The 2005 target will continue to be a value added component of 0.268% over the benchmark on a four year annualized basis.

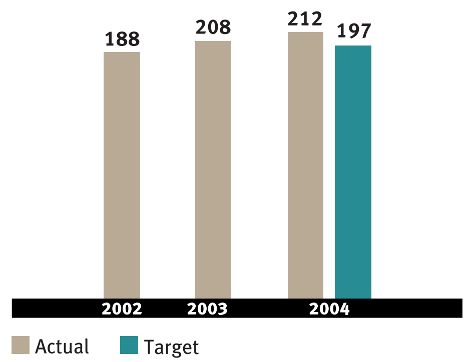
Claims Productivity

Employees involved in claims handling account for over 50% of ICBC's workforce and operating costs. This measure is defined as the per unit cost of handling claims. It is calculated as the sum of internal and external costs divided by the number of open and closed claims transactions. Internal costs consist primarily of salaries and benefits, and external costs mainly include outside legal counsel, medical reports, private investigators, independent adjusters, and towing costs.

The claims productivity measure is influenced by three factors: external costs, internal costs, and the number of claims transactions. Compared to 2003, the overall claims handling cost per unit has increased from $208 to $212, a $4 or 2% increase, due primarily to higher external costs such as external legal fees.

Compared to the 2004 plan, 2004 actual cost per unit was higher than expected. Most of the variance is attributed to lower than expected claims volumes, and to higher than expected external legal fees. Internal handling costs were less than planned.

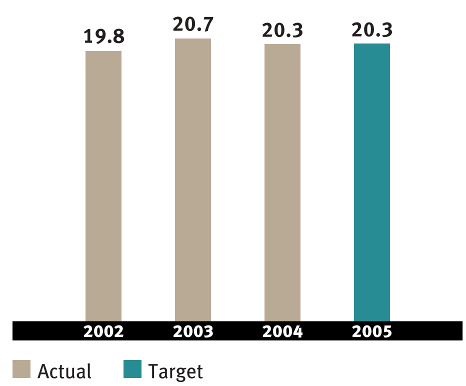
Claims Productivity
($)



Source: ICBC Financial Systems.

This measure has been replaced in the 2005 – 2007 Service Plan by the Claims Efficiency Ratio. The new measure improves upon the previous one by considering the inherent differences in the complexity and work effort of both injury and material damage claims, thereby providing a better link between claims and claims adjusting expenses. This measure is calculated as the ratio of claims handling costs over claims paid.

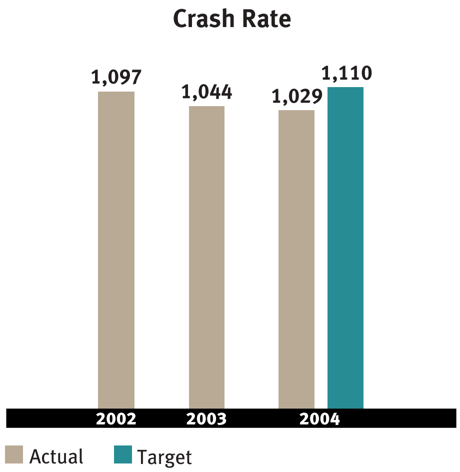
Claims Efficiency Ratio
(%)



Source: ICBC Financial Systems.

Crash Rate

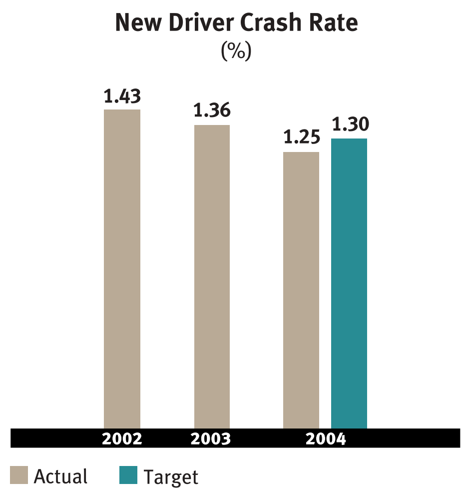
This measure is calculated as the number of crashes for every 10,000 annualized policy years. A crash is considered to have occurred when a financial reserve is established for a potential crash-related loss, irrespective of whether a payment is eventually made against the reserve. A policy year represents one year of insurance coverage. This measure provides an indication of the frequency of crashes. In 2004, the total number of crashes has increased slightly over 2003 but was offset by an increase in the number of policy years, which has resulted in a relatively consistent result between years. Compared to the 2004 target, the actual results show a more significant variance primarily due to continuation of loss management and road safety programs, better than anticipated driving conditions, and other factors.



Source: ICBC Financial Systems.

New Driver Crash Rate

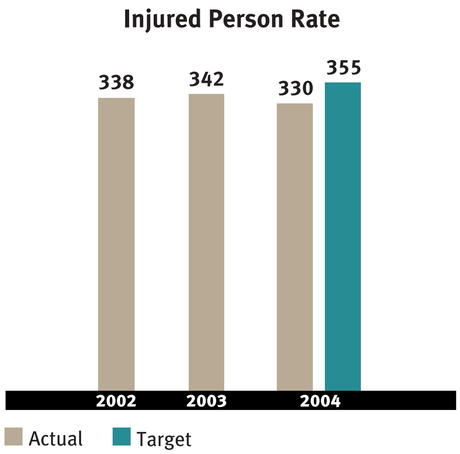
This measure describes the crash rate for new drivers relative to the rate for more experienced drivers. In 2004, the new driver crash rate declined relative to 2003 and the 2004 target. It is believed that the Graduated Licensing Program (GLP) and the 2003 enhancements have been effective in reducing the number of crashes caused by new drivers relative to experienced drivers. As the program evolves, it will take approximately three to four years to gather enough data to properly evaluate the effectiveness of the changes made to the GLP. The new drivers going through the enhanced program will be measured and monitored over time.



Source: ICBC Financial Systems.

Injured Person Rate

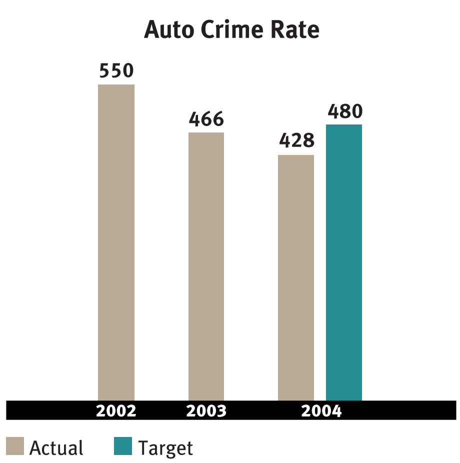
This measure calculates the number of injured persons for every 10,000 annualized policy years. An injury is considered to have occurred when a financial reserve is established for a potential injury related loss, irrespective of whether a payment is eventually made against the reserve. The 2004 results have improved over 2003 and the 2004 target. These declines can be attributed in part to ongoing loss management and road safety programs combined with better than anticipated driving conditions in 2004 and other factors.



Source: ICBC Financial Systems.

Auto Crime Rate

This measure calculates the number of auto crime incidents for every 10,000 annualized comprehensive or specified perils policy years. A crime is considered to have occurred when a financial reserve is established for a potential crime related loss, irrespective of whether a payment is eventually made against the reserve. The auto crime rate for 2004 shows a significant decrease from 2003 and from the 2004 target, mostly attributed to a decrease in theft related claims. Auto crime programs, such as the expansion of the Bait Car program in 2004 and other partnerships with municipalities and law enforcement, have contributed to a decrease in auto crime.



Source: ICBC Financial Systems.

During 2004, ICBC's Board of Directors approved changes to the Corporation's public performance measures. The New Driver Crash Rate, Crash Rate, Injured Person Rate, and Auto Crime Rate are indicators of claims trends; however, claims trends ultimately affect the loss ratio and combined ratio, which are already included as performance measures. While crash, injury and crime rates will no longer be used as corporate performance measures, these four directional indicators will continue to be used internally to monitor road safety and loss management programs. 2004 results are reported above to provide a comparison for the performance measures published in ICBC's 2004 – 2006 Service Plan.

Goal: Customer Focused

Being customer focused means understanding customers' needs and expectations. ICBC strives to improve customer satisfaction by delivering services to its customers in a fair and respectful manner, and by enhancing service delivery and interactions with key business partners, such as brokers and repair shops.

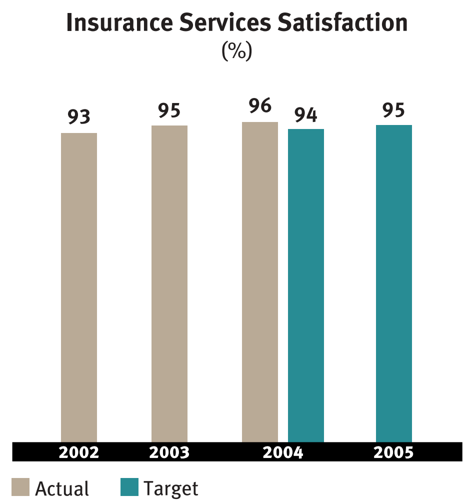
In response to feedback from customers and brokers on ICBC's insurance renewal notices, a new format was introduced in 2004 to provide personalized information to customers, along with information on ICBC's financial and service performance. ICBC also continued adapting its systems and processes, including modifying its point of sale process and other changes to the way Optional insurance transactions are handled. To improve customer understanding and satisfaction with the claims process, a new initiative called FairClaim was implemented to provide customers with more information about decision-making in the claims process, the financial value of a claim, and factors used to determine fault in a crash. In addition, two new expressway driver services centres opened in Surrey in 2004 to improve customer service.

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 claims transactions. An independent research firm conducts monthly customer surveys to monitor satisfaction. The number of surveys completed is targeted to achieve a range of accuracy of results between 0.5% to 3.0% at a 95% confidence level.

Insurance Services Satisfaction

Each year, ICBC and its insurance brokers process approximately 2.8 million annualized policies for customers. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance transaction and is based on surveys of close to 1,000 customers. For 2004, ICBC outperformed the target and past performance. Historically, this percentage has been over 90% and is evidence of the positive relationship between customers and brokers.



Source: Surveys conducted by independent firm.

The 2005 target for insurance services satisfaction is consistent with the actual results for 2003 and 2004.

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

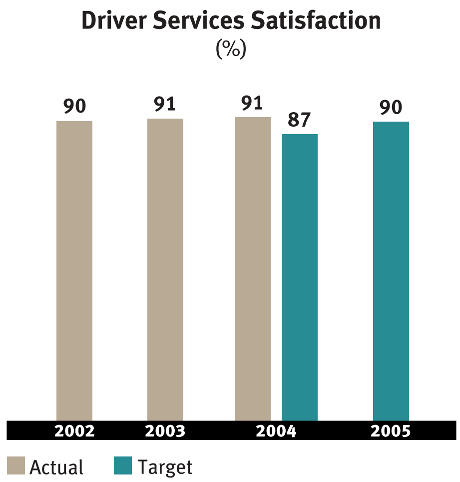
CUSTOMER FOCUSED
Multi-year Objectives and Strategies | 2004 – 2006 Service Plan*

Objectives:	Strategies:
• Increase customer understanding and approval of ICBC • Improve service, streamline processes, and reduce regulatory requirements	• Enhance ICBC's ability to listen, collect, and analyze feedback • Identify and implement product and service improvements • Work with brokers to align product and service development with customer needs • Evolve the claims process to better ensure customer satisfaction • Inform customers about ICBC and its value • Reduce the number of regulatory requirements

* Revised objectives and strategies for 2005 and future years are reflected in ICBC's 2005 – 2007 Service Plan.

recent driver transaction with ICBC. The transaction could relate to renewing a licence, taking a knowledge test or undergoing a road test. The measure is weighted by the number of transactions for each type of service. A sample of approximately 4,000 customers is surveyed throughout the year for this measure.

In late 2003, the provincial government announced changes to the GLP that were anticipated to have a dampening impact on the satisfaction levels of new drivers, which was reflected in the 2004 target. The impact was somewhat minimized as the GLP enhancements were implemented later than planned. ICBC's customer satisfaction for driver services was consistent with previous years and exceeded the 2004 target.



Source: Surveys conducted by independent firm.

The 2005 target for driver services satisfaction is slightly lower than the 2003 and 2004 actual results. This slight decline from current levels reflects ICBC's anticipation that the 2003 changes to the GLP will impact drivers exiting the program in 2005 and may result in lower overall satisfaction levels.

Claims Services Satisfaction

In an average year, almost one million claims are processed through ICBC's claims handling 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 nearly 8,000 claims customers.

In 2003, the latest year for which benchmark data is available, ICBC's performance at 84% was consistent with companies in Ontario, where the average claims satisfaction was also 84%.[9] In 2004, ICBC's actual results show a small decline from 2003 and are lower than the 2004 target. The decline reflects, in part, product changes that have altered the sample of customers surveyed for this measure. ICBC is using these satisfaction survey results to analyze and implement measures that address areas of customer concern in the claims process. For example, ICBC is looking at ways to manage high claims volume periods during the year and initiatives are underway to improve the claims settlement process.

Source: Surveys conducted by independent firm.

[9] Financial Services Commission of Ontario, 2003 Auto Claims Satisfaction Survey (survey of claims closed in 2002).

Customer Approval Index

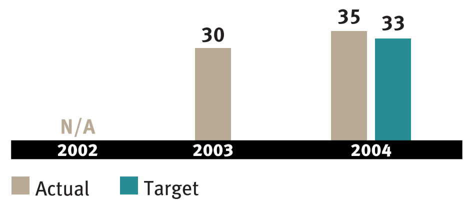
The customer service measures have been based on customer satisfaction on transactions in the areas of insurance services, driver services, and claims. These strictly transactional measures did not track overall attitudes or approval of ICBC from its customers. As a result, a Customer Approval Index (CAI) was developed to help ICBC understand and manage how customers perceive and approve of the company and includes customer perceptions related to service, rates, and road safety.

With only one year of data, it is difficult to develop reliable indicators. The 2004 results will be used to establish a baseline. ICBC will continue to track this measure in 2005 and use the additional data to phase in the use of the CAI as data is collected and analyzed.

Deregulation

In support of the provincial government's deregulation initiative, ICBC achieved a one-third net reduction in the regulatory burden on customers, suppliers, and employees by June 2004. Measurement for this objective is the percentage reduction in regulatory requirements within the Corporation's purview and is determined to be the percentage decrease from the start of the initiative in late 2002.

Deregulation
(%)



Source: ICBC internal records of legislative and regulatory changes.

Having achieved the target established for ICBC, the Corporation will no longer report on this measure, but will continue to support this initiative by maintaining the current level of regulatory requirements while looking for new ways to improve regulatory efficiency and effectiveness.

Personally Accountable, Capable and Engaged People

Personally accountable, capable and engaged people help position the company to succeed in all aspects of its business. ICBC continues to implement various elements of its people strategy, especially as they pertain to improving levels of engagement, recognition, involvement, performance, and leadership, along with ensuring that people have the skills and knowledge required to meet current and future business requirements.

PERSONALLY ACCOUNTABLE, CAPABLE AND ENGAGED PEOPLE
Multi-year Objectives and Strategies | 2004 – 2006 Service Plan*

Objectives:	Strategies:
• Develop a high performance work culture	• Improve the Performance Management System • Implement succession planning • Develop management and leadership skills • Further develop internal insurance expertise • Create opportunities for employees to identify issues and opportunities

* Revised objectives and strategies for 2005 and future years are reflected in ICBC's 2005 – 2007 Service Plan.

In 2004, ICBC implemented several long term planning initiatives focused on increasing workforce capabilities. These initiatives include corporate and divisional people plans, succession planning with critical positions and identification of individuals with potential for more senior roles in the organization, and corporate development strategies that include a coaching program and training for new managers. ICBC participated in the Hewitt Engagement Survey in 2004 to determine employee perspectives of the Corporation as an employer and results of the survey will be used to develop strategies to improve ICBC as a workplace. Another significant achievement in 2004 was the conclusion of a collective agreement with the Canadian Office and Professional Employees Union Local 378 for the period of July 1, 2003 to June 30, 2006.

Performance Measures, Targets and Results:

Employee Index

ICBC previously developed an employee index to measure the capability, accountability, and engagement of the workforce. In 2004, ICBC began transitioning to a new measure, "Employee Engagement", as discussed below, and continued to use internal measures such as attrition, absenteeism, and progress against its human resources strategy to monitor performance during the transition period.

Employee Engagement

This measure represents the overall level of engagement of employees at ICBC 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 apply to doing the best job possible.

This is a new measure for ICBC. In June 2004, ICBC participated in the Hewitt Engagement Survey to ask all employees how they feel about working at ICBC. ICBC's score of 47%, which represents the degree to which employees perceived their level of engagement at work, provides a baseline result for 2004 and is slightly below the average of organizations using this methodology. ICBC has set a target for a three percentage point improvement in 2005 and will use results from 2005 to assess trends against which future targets will be set. This measure will also be benchmarked against other organizations.

Consistent with this approach, the objective associated with this goal has been changed in ICBC's 2005 – 2007 Service Plan. The new objectives are:

- Increase the level of engagement of ICBC's employees; and
- Ensure that ICBC has a workforce that is capable of meeting the current and future requirements of the business.

SUMMARY OF GOALS AND PERFORMANCE

The table below provides a summary of ICBC's performance based on the goals, objectives and measures as outlined in ICBC's 2004 – 2006 Service Plan.

GOAL	OBJECTIVES – HIGH LEVEL	MEASURES	ACTUAL 2002	2003	2004
Become More Competitive	• Innovative, competitive, and tailored Optional products and services	Return on equity (annual basis)	15.4%	52.9%	53.3%
	• Achieve planned financial results	Combined ratio			
		• Claims & claims related expenses & insurance expenses	107.0 %	100.1%	96.7%
		• Non-insurance expenses	3.8%	3.6%	3.5%
		Total	110.8%	103.7%	100.2%
Revenue Driven and Fiscally Responsible	• Excel in operational effectiveness and efficiency	Loss ratio	93.1%	87.4%	82.7%
	• Minimize claims costs, severities, and frequencies	Expense ratio			
		• Insurance expense ratio*	14.5%	14.3%	14.8%
		• Non-insurance expense ratio	3.8%	3.6%	3.5%
	• Improve the value of goods and services purchased and the recovery of costs for services provided	**Total**	18.3%	17.9%	18.3%
		Investment return (accounting return)	5.7%	5.3%	5.8%
		Claims productivity	$188	$208	$212
		Claims efficiency ratio	19.8%	20.7%	20.3%
		Crash rate	1,097	1,044	1,029
		New driver crash rate	1.43	1.36	1.25
		Injured person rate	338	342	330
		Auto crime rate	550	466	428
Customer Focused	• Increase customer understanding and approval of ICBC	Insurance services satisfaction	93%	95%	96%
	• Improve service, streamline processes, and reduce regulatory requirements	Driver services satisfaction	90%	91%	91%
		Claims services satisfaction	85%	84%	81%
		Customer approval index	N/A	N/A	59.3%
		Deregulation	N/A	30%	35%
Personally Accountable, Capable and Engaged People	Develop a high performance work culture	Employee engagement	N/A	N/A	47%

* Excludes deferred premium acquisition cost adjustments and other unusual items.

ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

As a provincial Crown corporation, ICBC's strategic direction supports the provincial government in achieving its goals as set out in the British Columbia Government Strategic Plan. The table below shows the linkages between ICBC's strategic direction and the provincial goals.

BC GOVERNMENT STRATEGIC PLAN	ICBC'S STRATEGIC DIRECTION
BC Government Strategic Plan **A strong and vibrant provincial economy**	ICBC Alignment • ICBC is dedicated to providing affordable and accessible automobile insurance to British Columbians. The Corporation strives for excellence in service delivery, loss prevention, and operational efficiency. • ICBC's involvement in the regulatory process facilitates ongoing communication with stakeholders about automobile insurance in BC and about ICBC's operations.
A supportive social fabric	• ICBC invests in loss management and road safety programs that reduce the frequency and average cost of crashes, and works with individuals and communities to address issues such as auto crime, fraud, and safe driving. • ICBC provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently.
Safe, healthy communities and a sustainable environment	• ICBC is involved in promoting safe driving through joint initiatives with schools, industry associations, brokers, and municipalities. • ICBC works with provincial government ministries and the law enforcement community to curtail vehicle thefts. • ICBC, through its environmental policy, is committed to protecting the environment while delivering competitive automobile insurance products and services to customers.

Managing Risk

ICBC's risk management 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.

Business Risks and Risk Management

ICBC faces a number of risks and uncertainties that can affect the achievement of corporate goals and objectives. ICBC's risk management 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. Among other factors, capacity and resources are an essential consideration in the development of mitigating strategies. Key risks and their mitigating strategies include the following:

ECONOMIC ENVIRONMENT

Description of Sensitivities/Risks:

- ICBC manages an investment fund of over $7.0 billion in order to partially offset future claims costs and to provide reserves to mitigate future volatility in insurance rates. A 1% fluctuation in return means a $70 – $75 million change in investment income.
- In holding these assets, investment income is generated which helps minimize premiums to the policyholder. ICBC holds a conservative portfolio with the majority of monies invested in fixed income assets.
- ICBC's investment income is 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 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 and approved by the Investment Committee of 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.

COMPETITIVE ENVIRONMENT

Description of Sensitivities/Risks:

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

Mitigation Strategies:

- Work is underway for business process and systems modifications. To minimize the impact on the profitability of insurance products, 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 quickly to Optional insurance market changes.

IMPACT OF THE REGULATORY PROCESS

Description of Sensitivities/Risks:

- As a Crown Corporation, ICBC is governed under provincial legislation and is affected by government policy and legislative changes. These changes may require ICBC to adjust internal business processes and systems, or to shift corporate priorities in order to integrate new policies, programs, and other regulatory requirements.
- Legislative or government policy changes in other areas, such as medical practitioner rates, hospital rates or changes in benefits in the provincial health care program, can impact ICBC's ability to deliver services and associated costs. Policy changes in non-insurance services can also impact ICBC's operating costs as these services are provided on behalf of government and are funded from Basic insurance premiums.
- 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. The regulatory process itself is public and resource intensive, and an order from the BCUC on the issues under its purview could have significant implications for ICBC.

Mitigation Strategies:

- ICBC works with government to ensure that legislative or policy changes that either directly or indirectly impact ICBC are anticipated and implemented effectively. ICBC also works with stakeholders on an ongoing basis.
- Impacts on non-insurance services are managed through a Service Agreement between government and ICBC to ensure that these services continue to serve the best interests of ICBC's customers and the general public.
- During 2004, ICBC continued to focus on building capacity and refining internal processes to meet the requirements of the BCUC processes, and to continue to ensure an open and transparent process for Basic insurance rates.

CLAIMS COSTS

Description of Sensitivities/Risks:

- Automobile related crashes and crime present a significant social and economic cost to all British Columbians. Claims costs account for approximately 75% of ICBC's total expenditures. A 1% fluctuation in claims incurred means a $23-25 million change in net income, and a 1% fluctuation in the unpaid claims balance means approximately a $46-48 million change in claims costs.
- Factors affecting these costs include the frequency and average cost of crashes, costs for medical services and vehicle repairs, tendency to litigate, judgments arising from litigation, and fraudulent activities. Bodily injury claims costs continue to rise mainly due to higher injury settlements and the impact of inflation on claims settlement 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. ICBC also works closely with its many partners in industry to address these factors and costs on an ongoing basis.

SUCCESSION PLANNING

Description of Sensitivities/Risks:

- Retention of corporate talent and planning for the replacement of key positions are essential in meeting current and future business needs. Lack of succession planning can result in the loss of skills and knowledge that enable the achievement of corporate goals and objectives.

Mitigation Strategies:

- ICBC has minimized the potential impact of this risk through the implementation of a formal succession planning process and initiatives such as identifying and developing high potential talent.

BUSINESS INTERRUPTION

Description of Sensitivities/Risks:

- Business interruption arising from labour disputes, technology issues or natural disaster can potentially disrupt service levels for insurance, driver, and claims services.

Mitigation Strategies:

- A business continuity plan has been developed to enable the Corporation to provide critical services in the event of such an occurrence. During 2004, the formal transition of the plan to a Business Continuity Management program was implemented to further integrate the plan within the business areas. In addition, back-up copies of mainframe data are moved to off-site storage, and regular testing of mainframe system recovery through a remote site is undertaken.
- Contract negotiations between ICBC and the Canadian Office and Professional Employees Union Local 378 were completed in late 2004. The new collective agreement has a June 30, 2006 expiry.

ACCESS TO INFORMATION

Description of Sensitivities/Risks:

- As part of both insurance and non-insurance businesses, 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 around the access and appropriate use of corporate data. During 2004, the Corporation undertook the development of an Enterprise IT Security Strategy that will further enhance systems and procedures that protect ICBC's electronic information assets.

CUSTOMER SUPPORT

Description of Sensitivities/Risks:

- 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 measures customer service performance based on the percentage of satisfied customers for each major transaction type—insurance services, driver services, and claims services.

Mitigation Strategies:

- ICBC communicates with the public and stakeholder groups to raise awareness and inform the public about ICBC's products and the unique value received.
- ICBC has implemented policies and procedures to support the commitment to fairness in all its dealings with customers, including a new 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:

- Catastrophic loss can result from an earthquake or other major event.

Mitigation Strategies:

- In the event of losses resulting from catastrophes, such as an earthquake, 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 protection against individual catastrophic events, the reinsurance agreement protects the Corporation against an abnormal number of large losses by limiting the amount for which the Corporation is liable in any single year.

Low and Stable Rates

ICBC posted net income of $389 million in 2004. THIS INCOME STAYS IN THE CORPORATION TO HELP KEEP RATES LOW AND STABLE OVER THE LONGER TERM, FOR THE BENEFIT OF OUR CUSTOMERS.

Management Discussion and Analysis

FINANCIAL OVERVIEW

ICBC has posted the strongest net income to date of $389 million recorded for the year ended December 31, 2004. This performance can be attributed to several factors, including fiscal restraint, prudent claims management, increased insurance premiums from an increase in policies and Optional coverages sold, higher than anticipated investment income, an improvement in the estimated cost for unpaid claims, and good driving conditions, all of which have had an impact on the year-end results.

- In 2004, premiums earned increased by $174.1 million over 2003. 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 insurance premium tax rate also increased from 4.0% to 4.4% effective January 1, 2004. The increase in premiums earned, premium tax rate, and the net change in the adjustment for deferred premium acquisition costs resulted in an increase in premium taxes and commission of $49.2 million over 2003.

- At approximately $2.3 billion, 2004 claims costs were 2.7% higher than in 2003. Increases in claims costs normally occur with an increase in the number of policies sold and general inflationary pressures. While the average cost per claim increased, claims reported in 2004 were consistent with 2003, which partially offset the claims cost pressures. Claims volumes were influenced by insurance product changes from a prior year, continued management of claims costs, and good driving conditions.

- A positive adjustment to prior years' claims resulted in a decrease in claims costs of $46.3 million, which contrasts with the adjustment of $10.4 million in 2003 to increase claims costs. The positive adjustment in 2004 is primarily attributable to the availability of better information to re-estimate the impact of the change in the tariff for legal costs as it relates to outstanding claims.

- ICBC continued to manage operating costs responsibly, ending the year with controllable costs of $473.5 million, which were slightly higher than 2003 but remain 25% lower than 2000. The increase in 2004 over 2003 is mainly attributed to one time costs incurred.

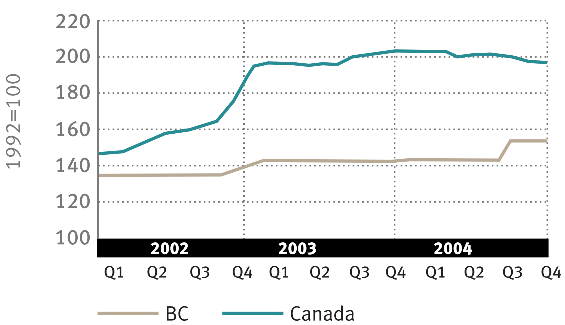
- Investment income of $395.3 million realized in 2004 was $65.4 million higher than in 2003. Realized gains recorded on both bond and equity investments were higher than expected due to strong markets and the transition of investments to the target portfolio profiles.

PREMIUMS

In 2004, premium rates increased minimally over 2003 to pass through the increase in the insurance premium tax from 4.0% to 4.4%. There was an increase in the number of policies sold mainly due to vehicle population growth of 2.9% in 2004 and an increase in policy years written, with a policy year written defined as twelve months of insurance coverage. In addition, sales of Optional insurance coverages, mainly for extended third party liability, collision, and comprehensive coverages were higher than 2003. With these factors, premiums earned increased slightly to $3.03 billion from $2.85 billion in 2003.

The following chart, prepared using information from Statistics Canada's Consumer Price Index[10], compares the change in the price of automobile insurance premiums for British Columbia and all of Canada at three month intervals from 2002 through 2004. Using 1992 as the base year, the information shows that the average rate of change in automobile insurance premiums in BC has been lower than all of Canada.

Automotive Insurance Premiums



Source: Statistics Canada Consumer Price Index 2002 – 2004.

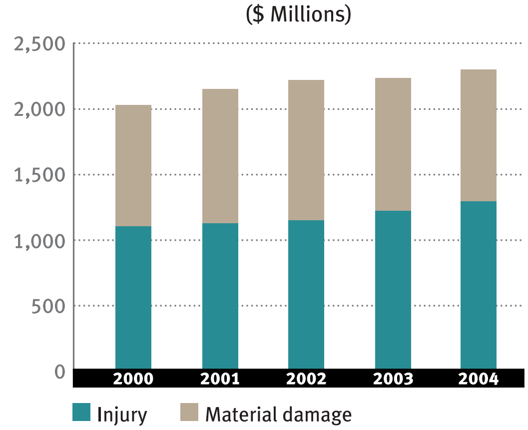
CLAIMS

Changes in Claims Costs

Claims incurred costs account for over 75% 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. 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. Average cost is influenced by factors such as inflation, settlement awards, legal costs, medical costs, vehicle repair costs, and independent adjusting costs. Overall, 2004 claims incurred costs were $2.3 billion, which is an increase of $59.4 million or 2.7% over 2003. Compared to the Canadian property and casualty (P&C) insurance industry, this increase is lower than the average annual increase of 10% experienced by the industry over the last five years.[11]

Overall, the number of claims reported in 2004 is consistent with 2003. The average cost of claims increased in 2004 over 2003, primarily due to an increase in injury claims costs of more than 5.0%.

Claims Incurred Costs
($ Millions)



[10] Statistics Canada, The Consumer Price Index, Catalogue No. 62-001-XIB.
[11] Office of the Superintendent of Financial Institutions, 2004 (http://www.osfi-bsif.gc.ca).

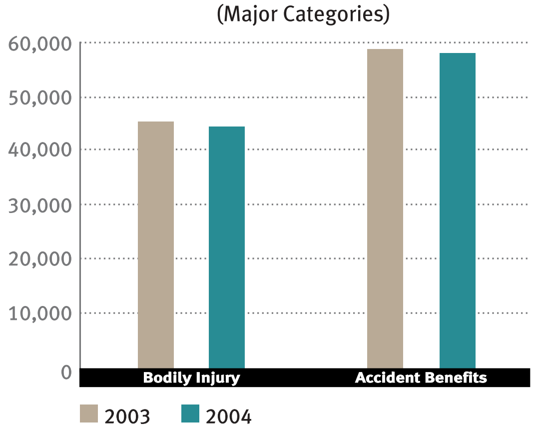
Injury Claims

Injury claims account for over 50% of claims incurred costs, and include amounts paid for pain and suffering, future care, past and future wage loss, accident benefits, and claims handling expenses. In 2004, the number of injury claims reported declined marginally by 1.3%. Within this category, bodily injury claims declined by 1.6%. The decline is attributed to the impact of various road safety programs and the favourable driving conditions experienced during most of 2004. Offsetting this was an increase in the average costs of injury claims by 5.3% over 2003, due to increased average costs for claims in excess of $100,000 as a result of higher court awards. Within BC's full tort system, both increases in legal fees and settlement awards can have a significant impact on injury claims costs.

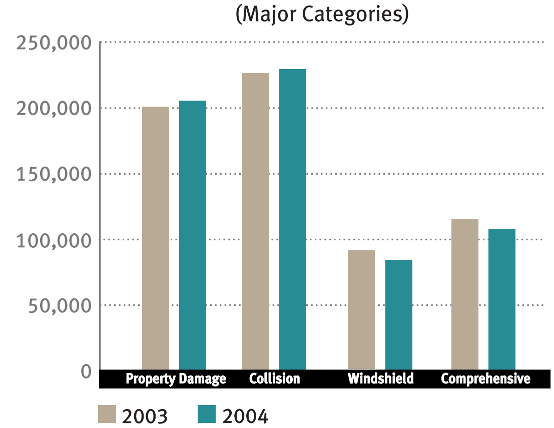
Non-injury Claims

The main categories of non-injury or material damage claims are property damage, collision, comprehensive, and windshield claims. In 2004, there was a reduction in the volume of comprehensive and windshield claims as a result of the increase in deductibles from a previous year, and contributions from loss management programs and initiatives. The number of comprehensive and windshield claims reported decreased by 5.8% and 6.5%, respectively, relative to 2003. This follows the significant reductions seen in 2003 as compared to 2002. Collision and property damage claims increased over 2003, consistent with the increase in the number of vehicles insured in the year.

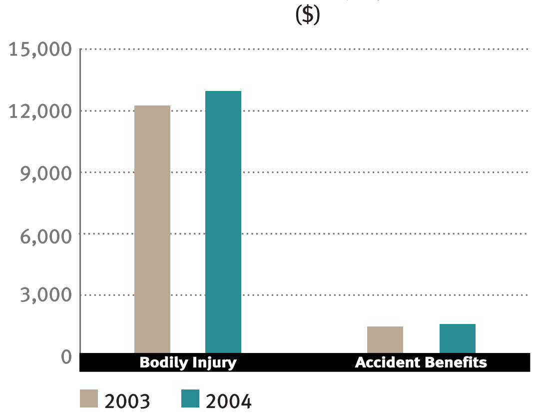
Number of Injury Claims Reported
(Major Categories)



Number of Non-Injury Claims Reported
(Major Categories)

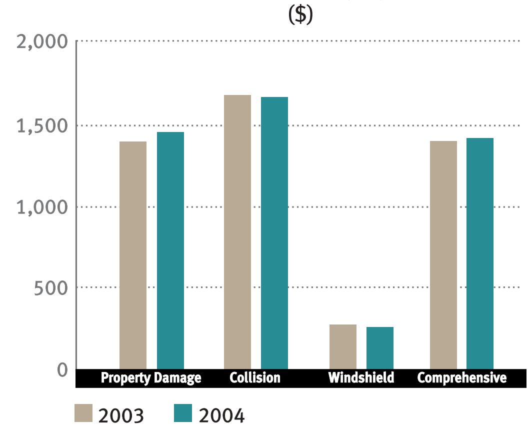


Average Cost of Injury Claims
($)



Based on costs recorded in the year.

Average Cost by Type
($)

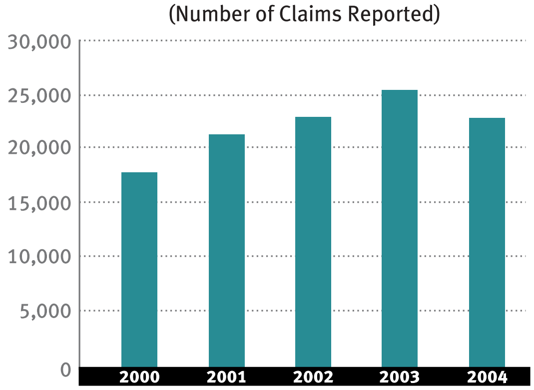


Based on costs recorded in the year.

The average cost of all material damage claims remained fairly consistent with 2003, increasing minimally (0.8%) 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 property damage claims is 4.1% higher and comprehensive claims are 1.6% higher than in 2003. Offsetting these increases was a reduction in the average cost of windshield claims.

Within comprehensive claims, claims costs associated with stolen vehicles total more than $100 million annually. In 2004, the number of auto theft claims decreased by 8.4% as shown in the following chart.

Total Theft of Vehicles
(Number of Claims Reported)

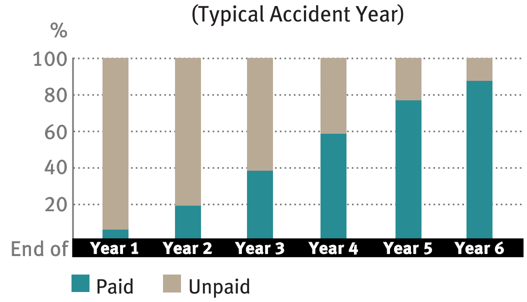


It is believed that the expansion of the Bait Car program was a significant contributor to the decline in auto thefts throughout the Lower Mainland in 2004.

Unpaid Claims and Prior Years' Claims Adjustments

Adjustments to the prior years' claims reserve are due to the re-estimate of future claims costs for claims in progress and those incurred in prior years but not reported. The unpaid claims reserve is money set aside in anticipation of future claims payments. The adequacy of this reserve is reviewed and adjusted periodically throughout the year based on revised actuarial estimates. 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 reserves.

Breakdown of Bodily Injury Costs
(Typical Accident Year)



The estimate of the unpaid claims reserve at the end of 2004 was approximately $4.7 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 generally take several years to settle. As illustrated in the chart above, 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 future claims costs. 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 2004, there was a decrease of $46.3 million to the estimated costs of settling claims for 2003 and prior years as a result of refinements to previous estimates. In 2003, ICBC had recorded a provision for the potential increase in the court tariff of legal costs anticipated to be implemented in 2004. The amount provided for was adjusted downward in 2004 as the expected increase has not yet been implemented and the estimate has been revised. However, this favourable adjustment to the unpaid claims was partially offset by increases in reserve amounts for other coverages where recent settlement amounts have been higher than originally provided for.

LOSS MANAGEMENT AND ROAD SAFETY

ICBC invests in programs that prevent crashes, auto crime, and fraud to help control claims costs. For 2004, the Corporation invested $43.1 million in these programs, which is $5.0 million more than 2003.

A highlight for ICBC's road safety efforts in 2004 was the Community Crash Reduction Challenge (CCRC), which took place in May. The goal of the CCRC was to increase awareness of the devastating effects of car crashes in communities across the province. With the participation of individuals and 125 communities across the province, the CCRC received extensive public involvement.

Road improvement is one of many initiatives where ICBC invests to reduce crashes. ICBC works with the Ministry of Transportation and civic engineering departments to improve road engineering at high-crash locations. For a roadway to be eligible for ICBC funding, the improvement must have the potential to reduce crashes and have a payback to ICBC policyholders of at least three-to-one over two years measured in terms of a reduction in crashes and claims costs at that roadway. In 2004, there were 250 road improvement projects with local authorities, with a total expenditure of $9.0 million, which is slightly lower than the $9.9 million spent in 2003.

The Ministry of Public Safety and Solicitor General and ICBC began a new five-year partnership in 2004. ICBC is providing funding to increase traffic law enforcement, which is a proven crash reduction strategy. ICBC also continued to be involved in community-based road safety activities through 2004. For example, volunteers with the Speed Watch program, which is a partnership involving citizens, police, and ICBC to reduce speed-related crashes in the province, devoted more than 39,000 hours to checking the speeds of approximately three million vehicles in local neighbourhoods.

Expenditures in the regional loss prevention programs accounted for $9.3 million in 2004, and are consistent with expenditures in 2003. In 2004, ICBC shared costs with Autoplan brokers who conducted hundreds of road, driver, and pedestrian bike safety initiatives in schools and communities across BC. These projects help to create strong community partnerships in regions throughout BC.

Fraud is not a victimless crime as it unnecessarily increases the costs of insurance for all customers. ICBC has a Fraud Prevention and Investigations department that administers a number of ongoing programs for the detection and prevention of fraud. These programs include Claims Investigation Teams that pair adjusters and fraud prevention officers to combat material damage and bodily injury fraud. ICBC also has a Provincial Investigation Team that proactively identifies and investigates organized fraud throughout the province, including staged accidents and vendor fraud. In addition, the Licensing Investigation Unit investigates driver's licence and identity fraud.

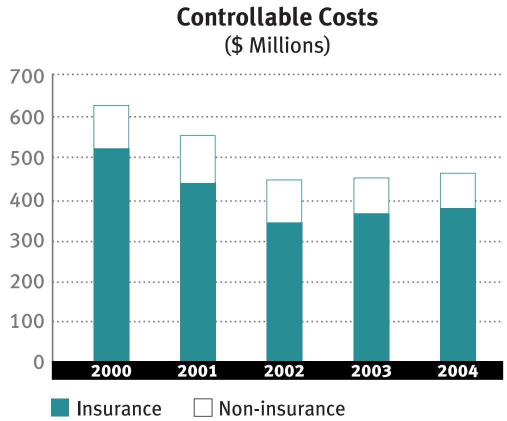
OPERATING COSTS

In 2004, ICBC continued to focus on managing operating costs, and ended the year with controllable costs of $473.5 million, which is 2.4% higher than in 2003 but remains 25% lower than 2000 levels. 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 working business relationships that are mutually beneficial.

Non-insurance costs are funded from Basic insurance premiums and consist of vehicle and driver licensing, vehicle registration, government debt collection, and funding for commercial vehicle compliance. Non-insurance costs totaled $105.3 million in 2004, $2.7 million more than in 2003, which represents 3.5% of total premiums.

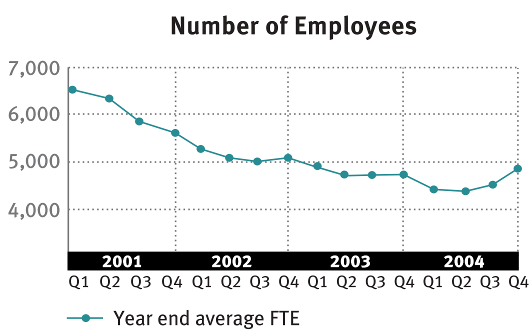
As a result of the Core Services Review, the compliance and motor carrier functions were transferred back to government in 2003. As part of the transfer, ICBC has agreed to provide up to $24.7 million to the provincial government annually for the operating costs of the compliance function up to and including March 31, 2006. In 2004, ICBC made payments totaling $23.4 million to the government under the transfer agreement for compliance function operating costs. The total funding amount was reduced by the costs of functions that have yet to be transferred back to the provincial government, the costs of which continue to be borne by ICBC.

Therefore, 100% of these functions were either funded or provided by ICBC.



Insurance expenses have been restated to conform to the current year's presentation.

As shown in the chart above, ICBC has been successful in maintaining its 2004 cost base with only a marginal increase in costs of $11.3 million over 2003. Most of this increase is attributable to costs associated with the write off of lease costs for facilities that are no longer used and costs related to certain legal matters during the year.



Based on full time equivalents at the end of the quarter.

ICBC also maintained its staffing levels in 2004. The chart above shows employee levels for 2001 through 2004. The reduction between the first and second quarter of 2003 is due to the transfer to government of 286 employees associated with the compliance function. Staff additions towards the end of 2004 were primarily in the areas of insurance services for business development enhancements and broker network relations, claims services for claims handling and the legal services areas, and administration for business changes.

In 2004, ICBC incurred $13.8 million in capital expenditures, primarily for technology.

INVESTMENTS

The investment portfolio has grown in market value to $7.5 billion at the end of 2004 compared with a market value of $6.8 billion at the end of 2003. The growth is attributed to strong corporate cash flow and the performance of Canadian equity assets held in the portfolio.

Funds available for investment come primarily from the reserves set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2004, ICBC's investment portfolio (at cost) totaled $7.1 billion and represents almost 95% 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 (77.6% of total portfolio holdings). Real estate and equities (1.9% and 20.5% of total portfolio holdings, respectively) comprise the remainder of the portfolio. ICBC's investment portfolio and activities are governed by its investment policy.

Market Return

In 2004 Canadian equity markets, fuelled by higher commodity prices, a stronger dollar, and a healthy domestic economy, posted a return of 14.48% (S&P/TSX), ranking it as one of the best performing markets globally. However, strength in the Canadian dollar dampened the performance of non-Canadian denominated assets. This was evident in the performance of US equity markets which returned a Canadian denominated return of 2.89% (S&P 500). The bond markets posted a return of 7.15% (Scotia Capital Universe Bond Index) for 2004, slightly better than the 6.70% return posted in 2003.

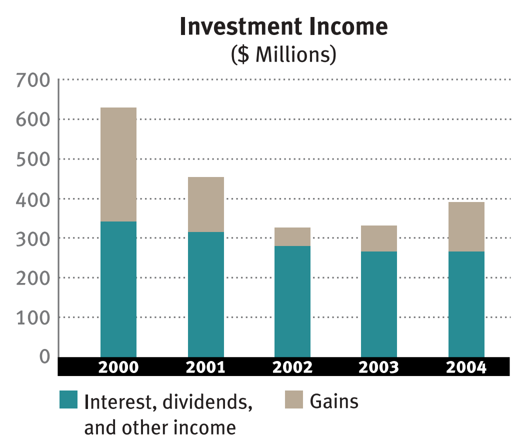
As of December 31, 2004, ICBC had unrealized gains of approximately $468 million compared to approximately $370 million at December 31, 2003.

ICBC investment returns continue to compare favourably to market returns. Over a four year period, ICBC has established an added value objective to exceed the four year annualized market-based benchmark by 0.268%. For the four year period ended December 31, 2004, ICBC's four year annualized return was 6.07%, and the comparable market benchmark was 5.61%.[12] The difference of 0.46% is well in excess of the added value objective of 0.268%.

Investment Income

In 2004, ICBC's investment income increased by $65.4 million over 2003, from $329.9 million to $395.3 million, which equates to an accounting investment return of 5.8%. In 2004, there was a decline in bond income associated with a decline 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 were stronger than expected due to strong investment markets and the transition of investment assets to the target asset mix.

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



Within the investment portfolio, $130.2 million is invested in several real estate properties, which are in addition to ICBC's investment in the Surrey Central City Mall. In 2004, the provincial government announced the purchase of a portion of Central City by Simon Fraser University (SFU) to create a new Surrey campus. With the sale of the space to SFU and other developments, over 70% of the building was either leased or sold by the end of 2004. ICBC is making every effort to lease up the remaining space.

RETAINED EARNINGS

With ICBC's strong financial performance in 2004 and a net income of $389.3 million, retained earnings increased to $925.2 million as at December 31, 2004. Retained earnings are required to provide the ability to absorb unexpected significant losses 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.

In 2004, Special Direction IC2, issued by government, was enacted as part of the implementation of ICBC's regulatory framework. This direction sets out target levels of retained earnings for ICBC and the timeframes in which these must be achieved. The common industry method used is a risk-based capital adequacy framework which assesses the riskiness of 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).

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 the Basic insurance business. For the Optional insurance business, ICBC is required to achieve by December 31, 2010, and maintain after that date, capital available equal to at least 200% of MCT.

ICBC will be reporting against these MCT targets starting in 2005. With the 2004 net income, ICBC has made significant progress in meeting these targets.

[12] Sources: Scotia Capital Debt Market Indices, S&P/TSX Composite Index, Morgan Stanley Capital International (MSCI), and Merrill Lynch Global Bond.

Managing Responsibly

ICBC's management prepares and is responsible FOR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED INFORMATION. A SYSTEM OF INTERNAL ACCOUNTING CONTROLS IS MAINTAINED AND POLICIES THAT REQUIRE EMPLOYEES TO MAINTAIN THE HIGHEST ETHICAL STANDARDS ARE IN PLACE.

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 acquisitions. 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 4, 2005

Geri Prior
Chief Financial Officer

February 4, 2005

Auditors' Report

The Honourable Rich Coleman
Minister of Public Safety and Solicitor General
Province of British Columbia

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2004 and the consolidated statements of operations and 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, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
February 4, 2005

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, 2004 and their changes in its consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. It is the accounting policy of the Corporation to not reflect the time value of money when stating certain policy liabilities. My valuation is consistent with that policy (note 2).

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

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
February 4, 2005

Consolidated Statement of Financial Position

As at December 31, 2004

($ THOUSANDS)	2004	2003
ASSETS		
Cash and investments (note 3)	$ 7,055,237	$ 6,436,189
Accrued interest	55,378	63,593
Amount recoverable from reinsurers (note 5)	34,375	27,090
Premiums and other receivables	47,832	47,895
Deferred premium acquisition costs and prepaid expenses (note 9)	154,474	118,192
Accrued pension benefit (note 7)	36,243	31,135
Property and equipment (note 4)	83,444	86,051
	$ 7,466,983	$ 6,810,145
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 32,416	$ 52,519
Accounts payable and accrued charges	216,776	189,425
Accrued post-retirement benefits (note 7)	76,703	67,338
Premiums and fees received in advance	37,980	33,081
Unearned premiums	1,467,316	1,404,462
Provision for unpaid claims (note 5)	4,710,618	4,527,441
	6,541,809	6,274,266
RETAINED EARNINGS	925,174	535,879
	$ 7,466,983	$ 6,810,145

Contingent liabilities and commitments (note 12)

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 and Retained Earnings

For the year ended December 31, 2004

($ THOUSANDS)	2004	2003
NET PREMIUMS WRITTEN		
Vehicle	$ 3,077,043	$ 2,947,924
Driver	12,292	15,560
	$ 3,089,335	$ 2,963,484
NET PREMIUMS EARNED		
Vehicle	$ 3,013,049	$ 2,834,183
Driver	13,432	18,228
	3,026,481	2,852,411
CLAIMS AND OPERATING COSTS		
Net claims incurred during the year (note 5)	2,267,521	2,208,140
Prior years' claims adjustments (note 5)	(46,263)	10,392
Net claims incurred	2,221,258	2,218,532
Claims services	237,605	235,614
Road safety and loss management services	43,086	38,086
	2,501,949	2,492,232
Operating costs – insurance (note 8)	104,407	101,987
Premium taxes and commissions (note 9)	323,184	274,839
	2,929,540	2,869,058
UNDERWRITING INCOME (LOSS)	96,941	(16,647)
Investment income (note 3c)	395,319	329,936
INCOME – INSURANCE OPERATIONS	492,260	313,289
Licences and fines collected on behalf of the Province (note 10)	450,446	419,819
Licences and fines transferable to the Province (note 10)	450,446	419,819
Operating costs – non-insurance (note 8)	88,402	86,516
Commissions (note 9)	16,944	16,085
	555,792	522,420
LOSS – NON-INSURANCE OPERATIONS	(105,346)	(102,601)
INCOME BEFORE THE UNDERNOTED	386,914	210,688
Gain on sale of property and equipment	2,381	14,119
NET INCOME FOR THE YEAR	389,295	224,807
RETAINED EARNINGS		
Beginning of year	535,879	314,190
Contribution to the Province – Compliance operations assets (note 1)	–	(3,118)
End of year	$ 925,174	$ 535,879

Consolidated Statement of Cash Flows

For the year ended December 31, 2004

($ THOUSANDS)	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 3,259,098	$ 3,124,001
Licence fees	444,161	411,364
Social service taxes	91,717	82,069
	3,794,976	3,617,434
Collection for receivables, subrogation, and driver penalty point premiums	277,873	278,123
Salvage sales	56,723	53,122
Interest	299,078	273,591
Capital gains realized	82,646	33,922
Dividends and other investment income	30,279	13,539
Other	528	419
	4,542,103	4,270,150
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,148,807)	(2,021,281)
Province of BC for licence fees, fines, and social service taxes collected	(555,455)	(523,785)
Suppliers of goods and services	(209,251)	(197,961)
Employees for salaries and benefits	(341,250)	(344,929)
Agents for commissions	(237,941)	(219,122)
Policyholders for premium refunds	(276,632)	(255,861)
Province of BC for premium taxes	(125,175)	(124,652)
	(3,894,511)	(3,687,591)
Cash flow from operating activities	647,592	582,559
CASH FLOW USED IN INVESTING ACTIVITIES		
Change in portfolio investments	(730,912)	(512,510)
Payments to vendors of property and equipment	(14,335)	(10,849)
Proceeds from sale of property and equipment	6,832	17,373
Cash flow used in investing activities	(738,415)	(505,986)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(90,823)	76,573
Cash and cash equivalents, beginning of year	284,726	208,153
Cash and cash equivalents, end of year	$ 193,903	$ 284,726
REPRESENTED BY:		
Cash and money market securities (note 3)	$ 226,319	$ 337,245
Cheques outstanding	(32,416)	(52,519)
	$ 193,903	$ 284,726

Notes to Consolidated Financial Statements

For the year ended December 31, 2004

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation) 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*. 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 service.

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 underinsured 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 through over 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.

Non-insurance services include vehicle licensing, registration, and issuance of driver licences. Until March 31, 2003, the Corporation was also responsible for the non-insurance services of Compliance Operations which constituted vehicle standards and inspections, commercial transport regulation, weigh scale operations, enforcement of vehicle weights and dimensions, motor carrier licensing support, road inspections, and enforcement and compliance audits. On April 1, 2003, Compliance Operations was transferred back to the Province (note 12d).

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 13).

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

Premiums earned
The Corporation earns vehicle and driver premiums evenly over the term of each vehicle policy written or the driver's penalty point year, respectively. Unearned premiums are the portion of premiums relating to the unexpired term.

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.

Provision for unpaid claims
The provision for unpaid claims includes an estimate for the reported and unpaid claims, an estimate for claims incurred but not reported in the year, and an estimate for unpaid claims expenses. These are determined based on the claims settlement experience of the Corporation, current trends, and a detailed regular review and update. This provision is carried on a non-discounted basis and therefore the claims liabilities are not reduced for the time value of money as a result of the delay between the time the claims were established and the date of the final settlement.

The provision for unpaid claims is an estimate subject to variability and, as with any insurance company, could be material in the near term. 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 difficult 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 12a).

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 12c) and other liabilities.

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 and retained earnings on a net basis to indicate the results of its retention of premiums written.

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 diminution in value (note 3). During 2004 the Corporation changed its method of amortizing real estate held for investment from the sinking fund method to the straight-line method. This change has been applied prospectively.

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 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).

Hedging and derivative instruments
The Corporation uses derivative financial instruments to hedge floating rate interest liabilities denominated in Canadian and United States currencies. A derivative financial instrument derives its value from the value of other financial instruments. The only derivative instruments used by the Corporation are interest rate swaps to create a hedge to match a liability. The interest rate swap may contain a cross-currency component if necessary. 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 does not enter into derivative financial instruments for trading or speculative purposes.

All 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 (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.

A transitional asset arose in 2000 as a result of the Corporation adopting CICA Handbook Section 3461 prospectively. The transitional asset is the unrecognized amount determined as the fair value of plan assets less the accrued benefit obligation, less any accrued benefit asset or plus any accrued benefit liability. The transitional asset is being 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 defined contribution 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 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)	2004		2003	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Cash and money market securities	$ 226,319	$ 226,319	$ 337,245	$ 337,245
Bonds				
Canadian				
Federal	2,131,406	2,161,348	1,919,038	1,951,293
Bond repurchase obligations (note 2)	(227,864)	(227,864)	(326,551)	(326,551)
	1,903,542	1,933,484	1,592,487	1,624,742
Provincial	648,741	680,937	468,106	484,714
Municipal	264,837	284,498	338,730	358,262
Corporate	1,563,386	1,607,991	1,558,389	1,603,736
Global	382,907	364,505	308,517	292,914
	4,763,413	4,871,415	4,266,229	4,364,368
Mortgages	486,662	497,539	467,933	482,634
Equities				
Canadian	754,778	1,020,644	596,520	798,157
United States	342,579	361,480	334,245	349,913
Other	351,296	390,119	313,453	351,498
	1,448,653	1,772,243	1,244,218	1,499,568
Real estate, net of provision	130,190	155,716	120,564	122,330
	$ 7,055,237	$ 7,523,232	$ 6,436,189	$ 6,806,145

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 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 BC Assessment Authority values, except for the Central City development in Surrey whose estimated fair value is based upon independent market appraisals prepared in prior years which resulted in a provision of $141.1 million for impairment in value that was determined to be other than temporary. During the year ended December 31, 2004, a portion of the Surrey Central City development was sold. The provision for diminution in value was reduced by $37.4 million, which represents the share of the provision relating to the portion of the development sold.

The total notional amount of interest rate swaps outstanding at December 31, 2004 is $136.2 million (2003 - $170.8 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2004 is $55.5 million (2003 - $69.5 million). At December 31, 2004, these swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three-month Canadian Deposit Overnight Rate plus 31.7 basis points (2003 - 27.61 basis points) and an average pay interest rate of 5.80% (2003 - 6.04%). The interest swaps had an estimated fair value of $7.0 million as at December 31, 2004 (2003 - $0.1 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.

a) Fixed income – interest rate risk

	2004		2003	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Canadian				
Federal	4.0	3.6	4.2	4.0
Provincial	4.9	6.7	5.3	7.7
Municipal	5.8	5.6	5.7	6.3
Corporate	4.6	3.2	5.1	3.7
Global	3.4	5.3	3.2	5.2
Total bonds	4.3	4.1	4.6	4.5
Mortgages	6.7	2.5	6.5	2.5
Total bonds and mortgages	4.5	4.0	4.8	4.4

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
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
	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
2003				
Bonds				
Canadian				
Federal	$ 11,549	$ 1,245,745	$ 335,193	$ 1,592,487
Provincial	–	162,066	306,040	468,106
Municipal	–	28,192	310,538	338,730
Corporate	97,138	1,243,317	217,934	1,558,389
Global	–	161,764	146,753	308,517
	108,687	2,841,084	1,316,458	4,266,229
Mortgages	47,304	326,232	94,397	467,933
	$ 155,991	$ 3,167,316	$ 1,410,855	$ 4,734,162

c) Investment income

($ THOUSANDS)	2004	2003
Interest		
Money market	$ 10,232	$ 10,115
Bonds	196,496	206,353
Mortgages	32,006	26,919
	238,734	243,387
Gains (losses) on the sale of investments		
Equities	86,976	18,139
Bonds	41,964	83,900
Real estate	7,449	–
Foreign exchange	(9,802)	(40,698)
	126,587	61,341
Dividend and other income		
Equities	28,756	23,295
Real estate	3,551	10,238
Other	(2,309)	(8,325)
	29,998	25,208
Total investment income	$ 395,319	$ 329,936

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, 2004 securities with an estimated fair value of $1,383 million (2003 - $791 million) have been loaned and securities with an estimated fair value of $1,485 million (2003 - $846 million) have been received as collateral.

4. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2004		2003	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 23,939	$ 23,939	$ 25,887	$ 25,887
Buildings	137,412	33,069	140,397	37,362
Furniture and equipment	99,396	17,793	107,495	17,044
Software	20,162	8,093	16,313	5,160
Leasehold improvements	7,426	550	7,125	598
	$ 288,335	$ 83,444	$ 297,217	$ 86,051

Amortization expense for the year ended December 31, 2004 amounted to $11.7 million (2003 - $15.1 million).

5. 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)	2004	2003
Unpaid claims net - beginning of year	$ 4,500,351	$ 4,224,129
Provision for claims occurring in the current year	2,267,521	2,208,140
Prior years' claims adjustments	(46,263)	10,392
	6,721,609	6,442,661
Less:		
Payments on claims incurred in the current year	932,890	907,663
Payments on claims incurred in prior years	1,224,261	1,141,193
Recoveries on claims	(111,785)	(106,546)
	2,045,366	1,942,310
Unpaid claims net – end of year	4,676,243	4,500,351
Recoverable from reinsurers	34,375	27,090
Unpaid claims gross – end of year	$ 4,710,618	$ 4,527,441
Unpaid claims–payable within one year	$ 1,492,118	$ 1,442,495
Unpaid claims–payable beyond one year	3,218,500	3,084,946
	$ 4,710,618	$ 4,527,441

Under accepted actuarial practice, the provision for unpaid claims balances should reflect the time value of money and include a provision for adverse deviations. It is the Corporation's accounting policy not to reflect the time value of money when stating unpaid claims balances. If the Corporation followed accepted actuarial practice, the gross provision for unpaid claims balance at December 31, 2004 would be approximately 2.1% (2003 - 2.5%) lower.

The provision for unpaid claims at December 31, 2004 includes an estimate of $71 million (2003 - $119 million) in anticipation of increases to the court tariff costs used to compute legal costs for indemnification of successful litigants.

6. REINSURANCE

The Corporation maintains casualty and catastrophe reinsurance to protect against significant losses. The five year contract expired on December 31, 2003, and while in force had terms as follows:

a) up to $100 million in excess of $25 million annually for catastrophic occurrences;
b) up to $75 million in excess of $72 million annually for aggregate pool coverage comprised of the excess over $1 million on individual loss occurrences, subject to limits in (c); and
c) up to $12 million in excess of $3.5 million for individual loss occurrences.

The Corporation entered into a one year casualty and catastrophe reinsurance contract 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. Of the claims recorded as recoverable from reinsurers, the Corporation has made no claims over the life of the current reinsurance contract. The Corporation made claims totaling $7.7 million (2003 - $6.7 million) over the life of the five year contract which expired on December 31, 2003. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

7. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation maintains contributory, defined benefit pension plans (the Pension Plans) that provide retirement benefits for regular employees, other than the employees of the former Motor Vehicle Branch (note 2), based on their length of service and highest five years' average earnings. The Pension Plans' assets are held in trust by a custodian. 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 bargaining unit staff.

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined benefit plans were $18.9 million (2003 - $15.9 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 plan had an actuarial valuation as of December 31, 2001 which was extrapolated to December 31, 2004. The management plan will be actuarially valued in early 2005 for funding purposes for the December 31, 2004 valuation date. The bargaining unit staff plan had an actuarial valuation as of December 31, 2002 which was extrapolated to December 31, 2004.

Information regarding the Pension Plans and post-retirement benefits is as follows:

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	**2004**	**2003**	**2004**	**2003**
Plan assets				
Fair value at beginning of year	$ 656,812	$ 564,260	$ –	$ –
Actual return on plan assets	74,177	79,908	–	–
Employer contributions	16,397	13,263	1,588	1,453
Employees' contributions	16,229	15,985	–	–
Net transfers	813	1,342	–	–
Benefits paid	(21,047)	(17,946)	(1,588)	(1,453)
Fair value at end of year	743,381	656,812	–	–
Accrued benefit obligation				
Balance at beginning of year	638,478	533,990	80,733	63,307
Current service cost and employees' contributions	39,295	34,678	5,325	4,494
Net transfers	813	1,342	–	–
Interest cost	40,727	36,423	5,201	4,360
Actuarial losses	35,033	49,991	7,921	10,025
Benefits paid	(21,047)	(17,946)	(1,588)	(1,453)
Balance at end of year	733,299	638,478	97,592	80,733
Funded status - plan surplus (deficit)	10,082	18,334	(97,592)	(80,733)
Unamortized net actuarial losses	110,010	105,635	22,899	15,606
Unamortized plan adjustments	–	–	(2,010)	(2,211)
Unamortized transitional asset	(83,849)	(92,834)	–	–
Accrued benefit asset (liability)	$ 36,243	$ 31,135	$ (76,703)	$ (67,338)

The Pension Plans' assets consist of:

	Percentage of Plan Assets 2004	2003
Cash and accrued interest	3%	3%
Equities		
Canadian	29%	35%
Foreign	21%	22%
Fixed Income		
Government	30%	25%
Corporate	6%	6%
Pooled fixed income funds	4%	6%
Mortgages	4%	3%
Real estate	3%	0%
	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)	**2004**	**2003**	**2004**	**2003**
Accrued benefit obligation and plan deficit	$ 8,028	$ 7,299	$ 97,592	$ 80,733

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

($ THOUSANDS)	Pension Plans 2004	Pension Plans 2003	Post-Retirement Benefits 2004	Post-Retirement Benefits 2003
Current service cost	$ 23,066[1]	$ 18,693[1]	$ 5,325	$ 4,494
Interest cost	40,727	36,423	5,201	4,360
Expected return on plan assets	(46,410)	(39,940)	–	–
Amortization of transition assets	(8,985)	(8,985)	–	–
Plan adjustments	–	–	(201)	(201)
Amortization of net actuarial loss	2,891	3,085	628	–
Net expense	$ 11,289	$ 9,276	$ 10,953	$ 8,653

[1] *Net of employees' contributions of $16,229 (2003 - $15,985)*

The Corporation contributed $0.9 million in 2004 (2003 - $1.2 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 2004	Pension Plans 2003	Post-Retirement Benefits 2004	Post-Retirement Benefits 2003
Discount rate	5.85%	6.1%	5.85%	6.1%
Expected long-term rate of return on plan assets	7.0%	7.0%	n/a	n/a
General rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services plan trend rate	n/a	n/a	0.0%	0.0%
Dental trend rate	n/a	n/a	3.0%	3.0%

In 2004 the extended healthcare trend rate is assumed to be 10% per year until 2012 and 6% per year thereafter. In 2003 the extended healthcare trend rate was assumed to be a 65% increase, plus 10% per year until 2012 and 6% per year thereafter.

8. 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)	2004	2003
Operating costs - insurance		
Administrative and other expenses	$ 100,888	$ 94,365
Insurance services	40,152	41,207
Service fees	(36,633)	(33,585)
	$ 104,407	$ 101,987
Operating costs - non-insurance		
Administrative and other expenses	$ 29,365	$ 28,195
Compliance operations (note 12d)	–	5,783
Payment to the Province for compliance operations (note 12d)	23,359	16,888
Driver services	35,678	35,650
	$ 88,402	$ 86,516

9. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

($ THOUSANDS)	2004	2003
Deferred premium acquisition costs	$ 146,100	$ 111,000
Prepaid expenses	8,374	7,192
	$ 154,474	$ 118,192

As at December 31, 2004 there were premium acquisition costs of $168.3 million (2003 - $154.0 million) related to future periods. An actuarial valuation determined that $146.1 million (2003 - $111.0 million) of this amount is allowable for deferral.

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
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
2003			
Amount payable	$ 221,102	$ 118,822	$ 339,924
Amortization of prior year deferred premium acquisition costs	40,184	21,816	62,000
Deferred premium acquisition costs	(71,546)	(39,454)	(111,000)
Premium taxes and commission expense	$ 189,740	$ 101,184	$ 290,924
Represented as:			
Insurance	$ 173,655	$ 101,184	$ 274,839
Non-insurance	16,085	–	16,085
	$ 189,740	$ 101,184	$ 290,924

10. 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 *Offense 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 8).

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

11. 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 5), provision for unpaid claims (notes 2 and 5), post-retirement benefits (note 7) and structured settlements (note 12a) approximate their carrying value.

12. 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, 2004 is approximately $817 million (2003 - $777 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. In 2004 the total amount financed was approximately $1.4 billion (2003 - $1.3 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. One such 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. 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 agreed to pay the Province $24.7 million a year, in cash or in kind, for three years commencing April 1, 2003 to fund Compliance Operations, which were transferred to the Province.

e) 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)	
2005	$ 10,052
2006	7,738
2007	6,310
2008	4,902
2009	2,395
	$ 31,397

13. 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 or Optional, a pro-rata method of allocation has been used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality, and any BCUC directives. The 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.

	Basic Coverage		Optional Coverage		Total	
($ THOUSANDS)	2004	2003	2004	2003	2004	2003
Premiums written	$1,711,703	$1,665,336	$1,377,632	$1,298,148	$3,089,335	$2,963,484
Premiums earned	1,692,314	1,629,888	1,334,167	1,222,523	3,026,481	2,852,411
Claims and operating costs						
Claims incurred and related costs	1,671,874	1,569,102	876,338	912,738	2,548,212	2,481,840
Prior years' claims adjustment	(26,505)	(8,853)	(19,758)	19,245	(46,263)	10,392
Net claims incurred and related costs	1,645,369	1,560,249	856,580	931,983	2,501,949	2,492,232
Operating expenses, premium taxes and commissions	152,693	159,304	274,898	217,522	427,591	376,826
	1,798,062	1,719,553	1,131,478	1,149,505	2,929,540	2,869,058
Underwriting (loss) income	(105,748)	(89,665)	202,689	73,018	96,941	(16,647)
Investment income	260,254	228,844	135,065	101,092	395,319	329,936
Insurance operations income	154,506	139,179	337,754	174,110	492,260	313,289
Non-insurance costs	105,346	102,601	–	–	105,346	102,601
Income before the undernoted	49,160	36,578	337,754	174,110	386,914	210,688
Gain on sale of property and equipment	1,474	8,890	907	5,229	2,381	14,119
Net income	$ 50,634	$ 45,468	$ 338,661	$ 179,339	$ 389,295	$ 224,807

	Basic Coverage		Optional Coverage		Total	
($ THOUSANDS)	2004	2003	2004	2003	2004	2003
Liabilities						
Unearned premiums	$ 804,530	$ 787,811	$ 662,786	$ 616,651	$1,467,316	$1,404,462
Provision for unpaid claims	$3,590,474	$3,388,082	$1,120,144	$1,139,359	$4,710,618	$4,527,441
Retained earnings	$ 75,634	$ 25,000	$ 849,540	$ 510,879	$ 925,174	$ 535,879

14. 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 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.

Roles and Responsibilities

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 for meeting public policy objectives be clearly articulated.

Corporate Governance

The Board of Directors and management approve the corporate vision, mission, values and goals to guide the Corporation. The Board sets goals for corporate performance. These goals and associated objectives are the basis upon which accountability and performance are evaluated.

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 Information Act,* the *Financial Administration Act* and the *Freedom of Information and Protection of Privacy Act.* In addition, individual Crown entities are governed by legislation specific to the Crown corporation and through the Shareholder Letter of Expectation established between a Crown corporation and the Minister responsible. The Minister of Public Safety and Solicitor General is the Minister responsible for ICBC.

In the provision of Basic and Optional insurance, and non-insurance services provided on behalf of government, ICBC follows provincial legislation, including the *Insurance Corporation Act,* the *Insurance (Motor Vehicle) Act,* the *Motor Vehicle Act,* the *Motor Vehicle (All Terrain) Act,* the *Commercial Transport Act,* and the *Sales Tax Act (of BC)*. 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.

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 to guide the Corporation. The Board sets goals for corporate performance, and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and periodically revised 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 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 by the Governance Committee as required. The chart on page 73 shows the members of the Board of Directors, Committees of the Board, and mandates.

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, including Surrey City Centre Mall Ltd. (SCCM). SCCM is ICBC's only active operating subsidiary; 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 project in Surrey, a 25 storey class A office tower and Galleria, built over top of the existing retail development known as Central City Mall (formerly Surrey Place Mall). It is governed by a four person Board of Directors, comprising two members of ICBC's Board of Directors, ICBC's President, and SCCM's President. SCCM's Board meets quarterly with its senior management and SCCM provides ICBC with monthly financial and performance information.

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, this was offset by a one time gain on the sale of real estate of $7.5 million. The 2005 outlook shows a net loss of $0.9 million, based on revenues of $13.3 million and expenses of $14.2 million. These losses are attributable to the development not yet being fully leased. The financial results for SCCM are included in ICBC's financial statements and operations as shown in this annual report.

Completed in 2003, the net leasable area of the new development is 862,000 square feet. The existing retail mall is 626,000 square feet, of which SCCM owns 496,000 square feet. In late 2003, a new lease was signed with a private sector company to open an international call centre in the development. In 2004, Simon Fraser University purchased net leasable space of 305,000 square feet in the Central City development to create a new Surrey campus. In total, approximately 70% of the new development was either leased or sold as of December 31, 2004, while efforts to find new leasing opportunities are continuing.

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

Mandate: To actively 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

ICBC Board of Directors and Executives

ICBC Board of Directors and Executives

FROM LEFT TO RIGHT

Top row:

- Kenneth Martin,
  Board Member
- Lisa Pankratz,
  Board Member
- Paul Reilly,
  President of Surrey City Centre Mall Ltd.
- Keith Stewart,
  Vice-President of Information Services
- Neil de Gelder,
  Board Member
- John Madden,
  Vice-President of Human Resources and Corporate Law
- Bob Quart,
  Vice-Chair
- Geri Prior,
  Chief Financial Officer
- Terry Squire,
  Board Member

Bottom row:

- Alice Downing,
  Board Member
- Susan Paish,
  Board Member
- Paul Taylor,
  President and CEO
- T. Richard Turner,
  Chair
- Bill Goble,
  Chief Operating Officer
- Diane Fulton,
  Board Member
- Donnie Wing,
  Senior Vice President of Insurance, Marketing and Underwriting

ICBC Points of Service

GREATER VANCOUVER

Claim Centres

Burnaby, Lake City
Burnaby, Wayburne
Coquitlam,
  Blue Mountain St.
Maple Ridge
New Westminster
North Vancouver
Sechelt Resident Office
Squamish
Vancouver,
  5th and Cambie
Vancouver, Kingsway
Vancouver South

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 Avenue
Victoria, Wharf Street
  (Express)

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

ICBC Regions in British Columbia

GREATER VANCOUVER	
Claim Centres	11
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Brokers	304

FRASER VALLEY	
Claim Centres	6
Driver Services Centres	7
Government Agents	1
Appointed Agents	2
Brokers	230

VANCOUVER ISLAND	
Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	15
Brokers	132

SOUTHERN INTERIOR	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Brokers	117

NORTH/CENTRAL	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Brokers	49

HEAD OFFICE

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North Vancouver, BC
V7M 3H9

ADDITIONAL INFORMATION

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

PI186K (052005)