Customer Owned, Customer Driven

ICBC Insurance Corporation of British Columbia

Annual Report 2003

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 product) to BC motorists. In addition, ICBC competes with other insurance companies in the sale of optional insurance products. ICBC is one of Canada's largest property and casualty insurers with over $2.9 billion in premiums written and $6.8 billion in assets, and employs approximately 4,750 people.

ICBC offers insurance products to more than 2.7 million motorists through a network of over 900 brokers and provides claims handling services at 41 locations throughout BC. In addition, ICBC provides vehicle and driver licensing services and vehicle registration services on behalf of the provincial government. ICBC invests in loss management and road safety programs to reduce crashes and automobile crime, which benefit customers by minimizing insurance premiums.

In 2003, the British Columbia Utilities Commission was appointed as the independent regulator for ICBC, with primary responsibility for approving basic insurance rates and to ensure that basic premiums do not subsidize optional insurance.

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. Our reputation will be as a dependable, fair, equitable and competitive service provider.

ICBC will accomplish this with our dedicated employees working in a performance based culture achieving operational excellence with the assistance of our independent broker force and other business partners.

Corporate Goals

In support of ICBC's mission, four corporate goals have been established for moving forward into 2004 to 2006:

- Become more competitive
- Be customer focused
- Be revenue driven and fiscally responsible
- Develop accountable, capable and engaged people.

Corporate Values

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

- Integrity
- Commitment
- Dedication to the Customer

Customer owned, customer driven

In 2003 ICBC conducted a corporate wide employee contest to select a new internal slogan which would capture in one memorable phrase what inspires and connects all ICBC employees. *Customer owned, customer driven* was chosen as the winner as it captures ICBC's mission and vision, and provides a strong internal identity for ICBC.

Table of Contents

March 31, 2004

Honourable Rich Coleman
Minister of Public Safety and Solicitor General
Minister Responsible for ICBC

Dear Minister:

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 (ICBC) for the year ended December 31, 2003, which has been prepared in accordance with the *Budget Transparency and Accountability Act.* I am accountable for the contents of this report, including the Report on Performance, which identifies the organization's success in obtaining its goals and objectives. Significant decisions, events and identified risks, as of December 31, 2003, have been considered in preparing the report.

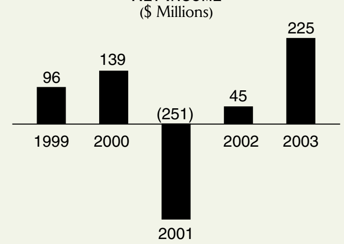
Sincerely,

T. RICHARD TURNER
CHAIR
BOARD OF DIRECTORS

Net Income

In 2003, ICBC recorded a net income of $225 million, which will stay in the Corporation to build retained earnings and enable a low and stable rate environment to prevail.

NET INCOME
($ Millions)

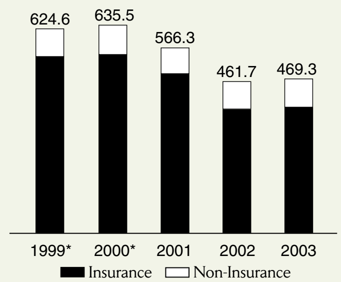


Controllable Costs

After more than 26% reduction in costs since 2000, ICBC's focus on fiscal restraint kept controllable cost increases to a minimum in 2003, despite ongoing upward pressures.

*These years have not been restated to conform to the financial allocation methodology developed in 2003 for the segregation of revenues and costs between the basic, optional and non-insurance businesses.

CONTROLLABLE COSTS
($ Millions)

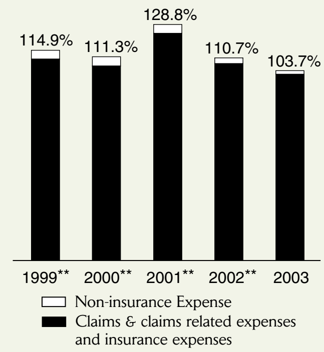


Combined Ratio

The combined ratio declined in 2003 due to good driving conditions throughout most of the year and continued focus on cost control and claims management. Premiums also increased in 2003. The combined ratio is a standard industry measure of profitability.

**Prior years' actual have been restated to conform to the revised method of calculation, which includes non-insurance operating costs.

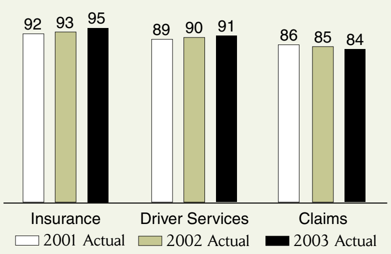
COMBINED RATIO



Customer Satisfaction

Customer satisfaction levels for insurance and driver services transactions improved in 2003. A slight decline occurred in claims customer satisfaction due in part to changes in the business and current labour negotiations.

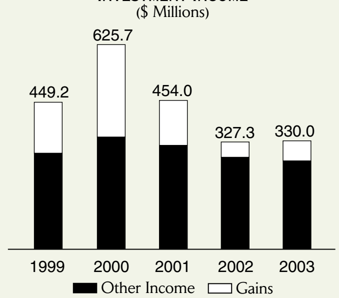
CUSTOMER SATISFACTION
(%)



Investment Income

ICBC's investment income was marginally higher in 2003 at $330 million resulting in an investment return of 5.3%. Portfolio unrealized gains are significantly higher at $370 million as at December 31, 2003, and investment performance exceeded the portfolio performance benchmark.

INVESTMENT INCOME
($ Millions)



Key Financial and Operating Comparatives

FIVE-YEAR COMPARISON
FOR THE YEARS ENDED DECEMBER 31

	2003	**2002**	2001	2000	1999
Premiums earned ($000)	**2,859,487**	**2,628,493**	2,447,066	2,387,031	2,382,411
Claims incurred during the year ($000)	**2,208,140**	**2,193,492**	2,126,250	2,006,151	2,080,270
Prior years' claims adjustments ($000) [1]	**10,392**	**(24,791)**	2,230	(266,336)	(238,200)
Claims services and operating costs ($000)	**382,763**	**377,810**	464,845	545,369	536,431
Insurance premium taxes and commissions ($000) [2]	**274,839**	**249,778**	301,758	264,830	256,492
Investment income ($000)	**329,936**	**327,269**	453,955	625,660	449,188
Net income (loss) for the year ($000)	**224,807**	**44,968**	(250,519)	138,740	95,723
Cash and investments at year end ($000)	**6,436,189**	**5,857,937**	5,548,362	5,853,669	5,609,405
Total assets ($000)	**6,810,145**	**6,166,390**	5,835,233	6,196,354	5,945,871
Retained earnings ($000)	**535,879**	**314,190**	269,222	519,741	381,001
Autoplan policies earned [3]	**2,750,000**	**2,705,000**	2,661,000	2,614,000	2,572,000
Average premium ($)[4]	**1,009**	**960**	888	882	888
Claims reported during year	**931,000**	**1,072,000**	1,105,000	1,026,000	1,029,000
Loss ratio:					
Current year (%)	**86.8**	**93.7**	99.8	98.0	101.3
Prior years' claims adjustments (%) [1]	**0.4**	**(0.9)**	0.1	(11.2)	(10.0)
Loss ratio (%)	**87.2**	**92.8**	99.9	86.8	91.3
Insurance expense ratio (%) [5]	**14.5**	**14.7**	16.4	19.4	18.7
Number of employees [6]	**4,754**	**5,100**	5,625	6,436	5,976

1 ( ) denotes a favourable adjustment, i.e. a reduction in expense.
2 Insurance premium taxes and commissions are net of Deferred Premium Acquisition Cost (DPAC) 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 Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs and non-recurring items).
6 Effective April 1st, 2003 Compliance Operations was transferred back to Government (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.

Message from the Chair

2003 has been a landmark year for the Insurance Corporation of BC (ICBC). The Corporation has enjoyed a successful year financially, achieved through the dedication and hard work of employees in cooperation with ICBC's key business partners.

The transformation, which began three years ago with significant cost reduction efforts, contributed to the successes of today and has prepared ICBC for the challenges ahead. The financial success of 2003 will serve customers well in the future as it contributes to the financial health and stability of the Corporation, and enables a low and stable rate environment to prevail in BC.

In 2003, a milestone was reached in ICBC's history with the British Columbia Utilities Commission becoming the independent regulator for ICBC's basic insurance business. The open and transparent regulatory process provides assurance to customers that basic insurance rates are fair, just and reasonable.

With recent legislative changes affecting BC's optional auto insurance market, ICBC is preparing to operate on a similar basis as its competitors. In this new environment, ICBC embraces the opportunity to be the insurer of choice in delivering value to customers at the lowest cost possible. Further changes are on the horizon to continue to build financial strength and move along the continuum to operate as a sustainable and performance driven organization. Ultimately, it will be the customer who will decide ICBC's future success in this market.

The past year can be characterized as one of considerable progress and improvement. The next few years hold much of the same as ICBC remains steadfast in its course to becoming the leading insurance company, operating competitively and valued by its customers.

T. RICHARD TURNER
CHAIR
BOARD OF DIRECTORS

Customer Owned,
Customer Driven…

…to be the leading insurance company
in all aspects of its business,
operating competitively and
valued by its customers

Message from the President & CEO

In 2003, ICBC made significant progress towards achieving the vision set for becoming the leading insurer and operating competitively. With the help of our employees, our customers and our business partners, progress was made to make ICBC financially stronger and more efficient, and enable the Corporation to deliver products and services that are superior, innovative and valued by customers.

ICBC recorded a net income of $225 million for the year as compared to $45 million for the prior year. ICBC's net income stays in the company to protect customers against unexpected events, and helps to keep rates as low and stable as possible in the future. It is particularly encouraging that the improved results for the year were achieved with a minimal increase in rates overall of 4.8% for 2003, of which 1.4%, less than inflation, relates to the increase in basic premiums for private passenger vehicles. ICBC needs to build its retained earnings as we move to a level playing field with our competitors. The positive performance came as a result of changes in the insurance product, improvements in claims experience, and a continued focus on cost control, while providing high levels of service to our customers. During 2003, operating costs were kept under control and the expense ratio for ICBC, before considering non-insurance expenses, declined further to 14.5% in 2003 as compared to 14.7% in 2002.

On the claims side, which always represents the most significant cost to an insurance company, there was a reduction in claims volumes for vehicle damage related claims, in part due to the favorable driving conditions experienced during most of 2003, and in part due to changes to insurance policies and other programs. However, bodily injury settlements remain a concern and continue to increase in both smaller and larger value claims. With the introduction of the enhanced Graduated Licensing Program, it is anticipated that there will be a further reduction in crashes and injuries to new drivers in the years to come.

This past year saw a number of changes implemented or under consideration, which will affect ICBC for many years to come. The objective of transitioning to a performance-based culture was further advanced within ICBC with the introduction of a new performance-based contract with the auto repair industry. In the summer, ICBC made its first presentation to the BC Utilities Commission, the new regulator for ICBC's basic insurance business, and obtained approval for basic rates in 2004. New legislation was also introduced in the BC Legislature, with the aim of providing for a more level playing field for optional insurance.

As a result of the successes in 2003, the financial picture of ICBC has improved for the future. With our dedicated employees and the many programs in place to reduce crashes and costs, we look forward to continuing to run like a business, for the benefit of customers, to provide the lowest rates possible.

NICK GEER
PRESIDENT AND CEO

Customer Driven…

…to work with a range
of business partners providing
specialized services

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 auto 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. As part of its mandate, ICBC also provides vehicle licensing and registration services on behalf of the province. In 1996, ICBC merged with the former Motor Vehicle Branch (MVB) assuming responsibility for driver licensing services, road safety programs, and commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspections). As a result of government's Core Services Review, the commercial vehicle compliance function was transferred back to the provincial government during 2003.

The *Insurance Corporation Act* and the *Insurance (Motor Vehicle) Act* govern the Corporation. To improve accountability for rate setting and transparency, the British Columbia Utilities Commission (BCUC) became the independent regulator for ICBC during 2003. As a crown corporation, ICBC is also subject to legislation 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, the Corporation has administrative and other duties and obligations under various motor vehicle related acts.

ICBC is currently one of BC's largest corporations, and one of Canada's largest property and casualty (P&C) insurers. ICBC receives in excess of $2.9 billion in insurance premiums from more than 2.7 million customers annually. Through a network of over 900 independent brokers located throughout the province, ICBC provides insurance products, vehicle registration and licensing services. ICBC's customers are those who pay premiums or fees, and consist of all licensed and insured motor vehicle owners and drivers in BC. ICBC also provides services to those involved in crashes or victims of auto crime. ICBC's business partners range from brokers, law enforcement agencies, members of the auto repair industry, and health service providers, to defense lawyers. These partners are involved in different aspects of the insurance and claims processes, such as the purchase of insurance, road safety programs, repair or replacement of damaged vehicles, the provision of medical and rehabilitation services, and the provision of legal services. The Corporation currently processes approximately 930,000 claims per year through a 24 hour telephone claims handling facility and a province-wide network of 41 claims centres. On behalf of the provincial government, ICBC provides vehicle and driver licensing services, vehicle registration, government debt collection and funding for commercial vehicle compliance operations.

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 insurance. Private passenger and commercial vehicle owners (excluding buses, taxis, limousines and extra-provincial trucking and transport vehicles which have higher mandatory liability levels) 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. In BC, the basic package is provided solely by ICBC. In addition to offering basic insurance, ICBC competes with other automobile insurance companies in a competitive market in the sale of extended third-party legal liability and other optional insurance coverages such as collision and comprehensive.

In late 2003, changes to legislation were introduced to provide a more level playing field for selling optional insurance. Previously, the *Insurance (Motor Vehicle) Act (IMVA)* defined basic mandatory and optional insurance products sold by ICBC, and the *Insurance Act (IA)* defined optional insurance products for the rest of the automobile insurance industry. The two acts were restructured and renamed the *Insurance (Vehicle) Act* to ensure that all optional automobile insurance policies are governed by the same legislative provisions. The amendments will implement government's direction to level the playing field in BC's optional insurance market while retaining ICBC as the sole provider of basic auto insurance.

The automobile insurance product in BC is based on a tort scheme. Under this system, injured parties are entitled to take the at-fault party to court and sue for the full amount of his or her damages. In contrast, in provinces with variants of no-fault automobile insurance, where compensation can be based on predetermined benefit schedules regardless of who is at fault, maximum amounts can be established for pain and suffering awards or awards can be subject to other deductibles. In these provinces, there may be limited or no ability to sue for further damages.

The difference between BC's tort-based insurance product and other provinces' no-fault or capped insurance products, makes inter-provincial comparisons quite difficult since the related products and services, and cost structures of each scheme are unique. Claims costs in a tort environment are primarily driven by litigation costs, claims settlement amounts, and legal precedents which add a level of uncertainty and unpredictability to costs. In a no-fault environment, costs are driven predominantly by wage replacement and no-fault medical and rehabilitation costs. Comparisons should only be made and interpreted with these differences in mind.

LOSS MANAGEMENT AND ROAD SAFETY

ICBC invests customers' premiums in road safety and loss management programs that provide a direct benefit through reduced claims costs. These programs help keep premiums at the lowest rates possible.

Enforcement Support

ICBC provides funding to the Ministry of Public Safety & Solicitor General for enhanced traffic law enforcement initiatives as outlined in agreements between the Corporation and government that came into effect

Auto Crime

Auto crime is a significant problem in British Columbia, resulting in claims costs of approximately $122 million in 2003. ICBC works with partners and volunteers to develop community solutions to auto crime. These tactics include continued support for the Vancouver Police Department's 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.

during 2003. These agreements improve the independence of enforcement bodies from ICBC. The Corporation provides funding that enables the police to devote additional resources to activities that reduce traffic injuries and deaths caused by impaired driving, aggressive driving and motorists not wearing seat belts. ICBC's funding also supports the Intersection Safety Camera program.

Fraud Prevention

ICBC has a zero tolerance policy for all types of fraud against the Corporation. ICBC's Fraud Prevention & Investigations (FPI) department focuses on combating specific types of fraud such as material damage and bodily injury fraud, staged accidents, vendor and premium fraud. In addition, the department undertakes data analysis and innovative fraud detection techniques, and investigates drivers' license and identity fraud.

Autoplan Broker Road Safety Program

This road safety partnership was renewed in 1998 between ICBC and its brokers, to work together on initiatives to make BC roads safer and reduce crashes. Many of the programs undertaken involve working with children and youth and their parents in local communities, helping to create strong community partnerships.

Road Improvement and Road Safety Planning

ICBC works with key partners, such as the Ministry of Transportation and municipalities, to make improvements to high-crash locations such as intersections, and to highlight safety issues during the development of new roads and communities. Through the Safer City program, ICBC, local government, police and community stakeholders also work together to develop road safety plans that address local problems.

Public Private Partnerships

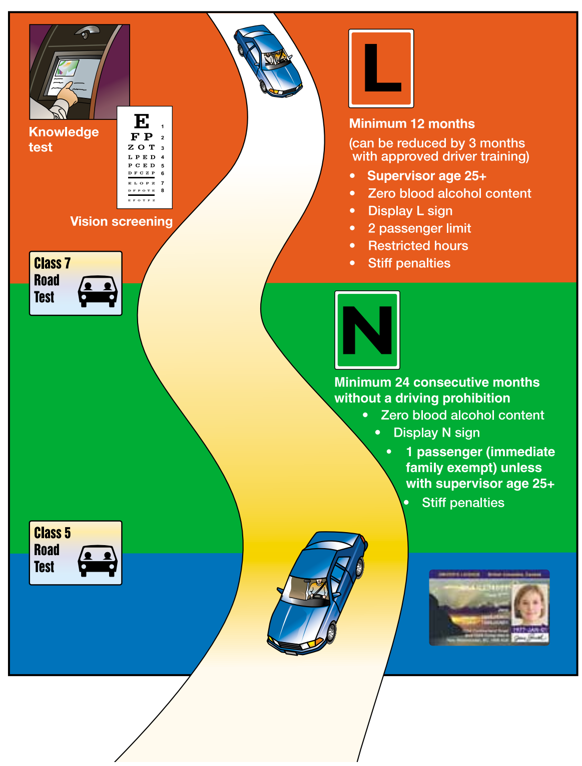
ICBC participates with communities and private sector organizations on innovative programs, such as the Road Anti-Icing Program, changeable road advisory message boards, and the development of a wildlife protection system. Advancements in vehicle design are also being made in partnership with vehicle manufacturers, and during 2003, ICBC participated in developing a dynamic test standard for head restraints that will begin to be used by vehicle manufacturers during 2004.

Non-Insurance Services

Unlike traditional property and casualty insurers, ICBC provides a number of non-insurance services on behalf of the provincial government. These services include vehicle and driver licensing services, vehicle registration, government debt collection and funding for commercial vehicle compliance. During 2003, a Service Agreement between the Government and ICBC was established to outline the provision of these services and the associated costs. The costs of these non-insurance expenses, for which ICBC receives no recovery, are funded through ICBC's basic insurance premiums, and amount to over $100 million annually or about $37 per basic insurance policy.

DRIVER LICENSING AND FINES COLLECTION

ICBC is responsible for the administration of the Graduated Licensing Program (GLP), which is designed to help new drivers develop safe driving behaviours and skills. Within the first two years of its inception, results have shown that the GLP has been successful in reducing the province's new driver crash rate by 26%. Although the program has been working, novice drivers continue to be over-represented in crashes. BC's Solicitor General and ICBC partnered together to develop enhancements for the GLP in response to high profile novice-stage driver crashes and recommendations from BC's traffic safety stakeholders. The changes announced in October 2003 included lengthening the learner's stage from 6 months to 12 months, lengthening the novice stage from 18 months to 24 months, the introduction of a safe driving requirement for novice drivers and new passenger restrictions during the novice stage.



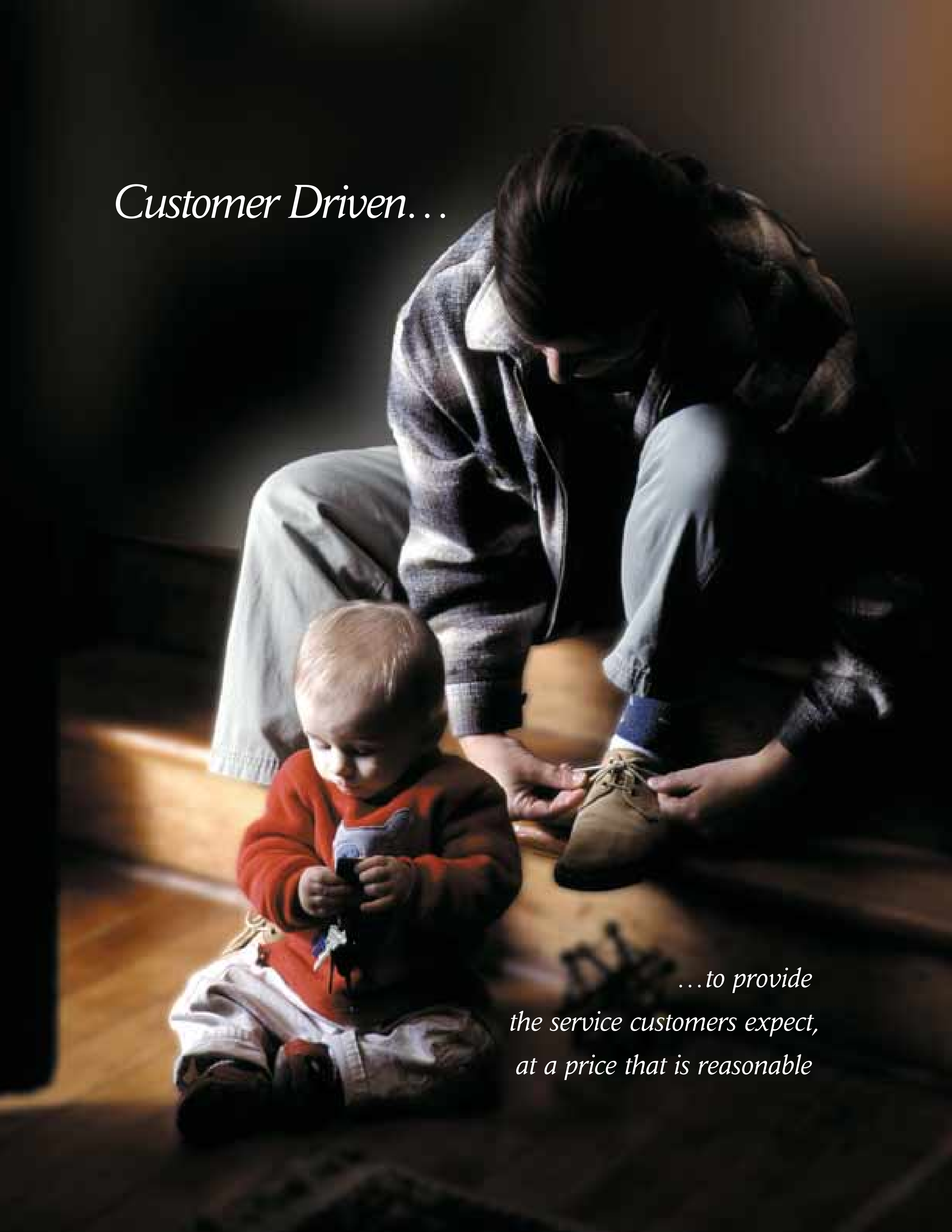
In addition to the GLP, ICBC works with driving schools to raise training standards, and continues to investigate better ways to test new drivers and improve safety on BC's roads. Driver licensing services are provided via 118 points-of-service including Driver Service Centres, Expressways, Appointed Agents and Government Agents' offices throughout BC. On an annual basis, ICBC processes approximately 900,000 driver licencing transactions and performs over 370,000 driver exams. On behalf of the provincial government, ICBC collected and remitted revenues of $420 million from driver and vehicle licenses, fees and fines in 2003. The Corporation also collects motor vehicle related debts on behalf of government.

VEHICLE REGISTRATION AND LICENSING

Since the mid 1970's, the Corporation has been collecting vehicle registration and licensing fees, and managing the issuance of vehicle license 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 the issuance 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 jurisdictions.

COMPLIANCE

As a result of government's Core Services Review, the commercial vehicle compliance and motor carrier functions were transferred back to the provincial government 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.


Customer Driven…
…to provide
the service customers expect,
at a price that is reasonable

Year in Review

2003 has been a transformational year for ICBC with significant progress made in preparing the Corporation for the competitive arena ahead. Early in the year, ICBC's new vision and mission were communicated province-wide setting direction for becoming the leading insurance company, operating competitively and valued by its customers. Supported by four corporate goals and seven key objectives, the new direction is now entrenched within the Corporation, and is gaining momentum. The internalization of these goals has helped the Corporation achieve the successes it has in 2003.

ICBC is in good financial health with net income of $225 million realized for 2003. These results have been made possible through the hard work and dedication of employees with only minor increases in premiums over the last few years. This year's results are in stark contrast to the significant financial loss recorded by the Corporation only two years earlier. The net income will stay in the company and will help ICBC restore its retained earnings base necessary to remain financially viable, and to provide a low and stable rate environment for customers in future years.

During the year, ICBC continued to focus on managing claims costs and operational efficiency. After the reductions undertaken in recent years, ICBC's continued emphasis on fiscal restraint and vigilance over operating costs has become the standard within the Corporation. On the investment front, ICBC recorded investment income of $330 million in 2003 and exceeded the portfolio performance benchmark. In 2003, the Telus property was sold at a small profit and the Central City development was completed. Throughout operations and support areas, changes were made to become more efficient, increase the value received by the Corporation and align ICBC's infrastructure with changing business needs.

In May 2003, the Honourable Rich Coleman was appointed as the Minister Responsible for ICBC. Late in the year, T. Richard Turner was appointed as Chair and was also appointed to ICBC's Board of Directors. Nick Geer, who was the previous Chair, continued in the role of President and CEO. This Board Chair change strengthens the governance structure within ICBC by ensuring the Board of Directors is independent of management.

With the outcomes of government's Core Services Review announced in late 2002, this past year can be characterized as a year of change as the environment in which ICBC will be operating in the future was being defined. In May, legislative changes were made to appoint the British Columbia Utilities Commission (BCUC) as the independent regulator for ICBC whose role is to review and approve ICBC's basic insurance rates, and to establish a more open and transparent process for the setting of rates. Under this new regulatory environment, ICBC submitted its first rate application to BCUC and underwent its first regulatory review process. Considerable work was required to develop the rate application, appear before BCUC and address the questions raised by BCUC and numerous intervenors. The process concluded with BCUC granting approval for a rate increase of 0.4% for the basic insurance product in 2004, to pass on an increase in premium tax effective January 1, 2004. A similar increase was also announced for ICBC's optional insurance product.

Another significant change in 2003 was the introduction of Bill 93, the *Insurance (Motor Vehicle) Amendment Act*. This Act implements government's commitment to increase competition in the auto insurance market in BC. These changes, which are expected to come into force in 2004, will require ICBC to issue a separate contract for optional insurance and, subject to regulations, require the Corporation to share certain aggregate insurance data with the industry. ICBC will continue to transition its business processes and systems to comply with these new requirements, and become more competitive.

In late 2003, the Minister of Public Safety and Solicitor General implemented enhancements to the Graduated Licensing Program to address the human and monetary costs associated with inexperienced new drivers. Changes to optional coverage deductibles were also made in 2003 to ensure that people who are making a significant number of claims are only eligible for higher deductibles.

ICBC's approach to customer interactions is based on its core values of integrity and dedication to the customer. The Corporation has formal processes in place to deal with issues around fairness, and ultimately, a customer has the ability to direct an issue to ICBC's Fairness Commissioner. The Commissioner provides an independent, arms length review of fairness concerns that have not been resolved through normal channels. In 2003, the Fairness Commissioner released its second annual report showing that the Corporation had fewer enquiries directed at the Commissioner in 2002 than it did in the previous year.

ICBC is recognized as a leader in the call centre industry and has introduced a number of initiatives in 2003 to improve the way in which customer contacts are managed, to capitalize on technology improvements and to realize efficiencies. During the year, ICBC piloted Online Claims reporting, which is a web application to enable customers to report, via icbc.com, claims which meet certain criteria. As part of the overall strategy for operations, an alternative business operating model was also piloted in 2003 for servicing bodily injury claims via the telephone.

Consistent with the desire to shift from a culture of entitlement to one of performance, ICBC introduced a performance management system for all management and confidential employees to align employees' efforts and priorities with the objectives of the Corporation in 2003. This same approach is also starting to be adopted in establishing relationships with outside business partners and vendors. As an example, in 2003 ICBC reached an agreement with the collision repair industry for a performance-based contract.

In 2003, ICBC also developed and began to execute a long term human resource strategy aimed at developing the workforce of today, and cultivating employees for a more competitive future. This strategy is paramount to ICBC achieving its goal of developing a workforce of accountable, capable and engaged people.

The collective agreement with the Office and Professional Employees International Union (OPEIU), which covers approximately 90% of the workforce, expired on June 30, 2003. The OPEIU and ICBC participated in a number of bargaining and mediation sessions in order to reach a new agreement. ICBC believes that changes to the collective agreement are essential to achieving its vision, and will continue to attempt to reach a new agreement that best positions ICBC to be successful over the long term and that is fair for employees.

LOOKING FORWARD

For 2004 and future years, ICBC will continue to pursue the goals and objectives to achieve its vision – to be the leading insurance company, operating competitively and valued by its customers. Details of ICBC's supporting strategies, plans, performance measures and targets are set out in ICBC's 2004-2006 Service Plan. The Service Plan also provides a description of the key strategic issues and risks facing the Corporation, and their potential impact on future performance. Key priorities for ICBC in 2004 will be to continue to invest in changes required to position ICBC to compete effectively, develop the internal capacity to effectively and efficiently meet regulatory requirements, and continue to achieve positive financial results and strengthen its retained earnings base. ICBC is customer owned and customer driven, and its future success is dependent upon the support of customers and the ability to provide the service they expect, at a price that is reasonable.

SUMMARY FINANCIAL PERFORMANCE AND OUTLOOK

The table below provides ICBC's performance and forecast of financial results for the next three years, as set out in the Service Plan, and forms the basis upon which the key performance targets are set. A discussion of ICBC's results in 2003 is provided in the Report on Performance, and Management Discussion and Analysis.

In 2003, ICBC's year-end net income of $225 million significantly exceeded its budget of $45 million. These results are attributable to a number of positive variances, which occurred during 2003. Premium revenue increased by over $50 million as compared to the budget resulting from an increase in the average premium per policy due to purchases of more coverages and to retention of the existing market share of ICBC. With an increase in premiums, premium taxes and commissions also increased. Claims incurred costs were lower than expected by over $40 million due to better driving conditions experienced during most of 2003, changes in deductibles and a continued focus on claims costs. Included in claims incurred cost is the net impact of a positive adjustment to prior years' claims for improvements in injury reserves offset by a negative adjustment for legal tariff related to current and prior years' claims. In addition, ICBC continued its vigilance over controllable costs resulting in savings of over $60 million for the year as compared to the estimate included in the budget. Changes in other areas included deferred premium acquisition costs and investment income, which accounted for a further improvement of over $25 million as compared to the budget.

The forecast for 2004 to 2006 shows a deterioration in financial results due to costs related to the implementation of transition changes resulting from changes in legislation, impacts to market share and profitability as competition is expected to increase in the BC market for optional insurance, and forecasted claims trends.

($ MILLIONS)	2003 (ACTUAL)	2003 (BUDGET)	2004 (OUTLOOK)	2005 (OUTLOOK)	2006 (OUTLOOK)
Premiums earned	$2,859	$2,808	$2,962	$3,083	$3,197
Investment income	330	335	330	335	345
Total Revenue	3,189	3,143	3,292	3,418	3,542
Claims incurred	2,217**	2,262	2,382	2,532	2,664
Claims service and loss management	274	293*	289	297	306
Insurance operations expenses	109	140*	129	135	140
Premium taxes and commissions	275***	302*	334	349	362
Non insurance expenses	103	112*	106	108	92
Total Expenses	2,978	3,109	3,240	3,421	3,564
Operating income (loss) before the undernoted	211	34	52	(3)	(22)
Gain on sale of property and equipment	14	11	-	-	-
Net Income (Loss)	$ 225	$ 45	$ 52	$ (3)	$ (22)

* *These numbers have been restated to conform with the current year's presentation and with the financial allocation methodology developed in 2003 to segregate revenues and costs between the basic, optional and non-insurance businesses.*

** *Claims incurred includes prior years' claims adjustments.*

*** *Premium taxes and commissions are net of Deferred Premium Acquisition Cost (DPAC) Adjustments.*


Customer Driven…
…to achieve
operational excellence

Report on Performance

In late 2002, ICBC set a strategic course to become the leading insurance company, operating competitively and valued by its customers. Underlying this overall strategy are four corporate goals:

• Become more competitive
• Be customer focused
• Be revenue driven and fiscally responsible
• Develop accountable, capable and engaged people.

ICBC's goals are aligned with government's strategic goals for a strong and vibrant provincial economy, a supportive social infrastructure, and for safe, healthy communities and a sustainable environment. This is discussed in more detail in ICBC's 2003-2005 Service Plan.

For each goal, objectives were established to guide the Corporation, and measures and targets were set for evaluating performance. To assess performance and gauge success, ICBC has selected both financial and non-financial measures. Relevant and reliable industry benchmarks, and historical information have also been provided where available.

Overall Performance

In 2003, a review of all critical standard industry performance measures reveals the successful year that has transpired. The Corporation's overall financial picture is strong, as shown in the key industry performance measures – return on equity, combined ratio, loss ratio, and expense ratios – all show improvement over 2002. During this past year, ICBC has continued its vigilance over operating costs resulting in a lower expense ratio relative to 2002 and the 2003 target. Potentially larger increases in claims costs were avoided, as a result of unusually favourable driving conditions experienced during most of the year, changes in the insurance product and continued focus on claims management. In 2003, ICBC achieved an investment return of 5.3%, and exceeded the portfolio performance benchmark.

During the year, ICBC exceeded its 2003 target and 2002 results for the Autoplan and Driver Services customer satisfaction measures. Claims customer satisfaction showed a marginal decline and did not achieve its 2003 target, due in part to business changes and current labour negotiations. Road safety results indicate a reduction in crash rates, most likely due to the favourable driving conditions experienced during most of 2003. There was also a decrease in the auto crime rate, other than theft, due mainly to changes in deductibles, which resulted in a decrease in smaller value auto crime related claims such as theft from vehicles and vandalism. The larger value auto theft crimes however still continue to be a concern.

The following sections provide a summary of ICBC's performance results relative to its Service Plan 2003-2005. A discussion of the 2003 outlook relative to future targets is contained in ICBC's 2004-2006 Service Plan.

GOAL: BECOME MORE COMPETITIVE

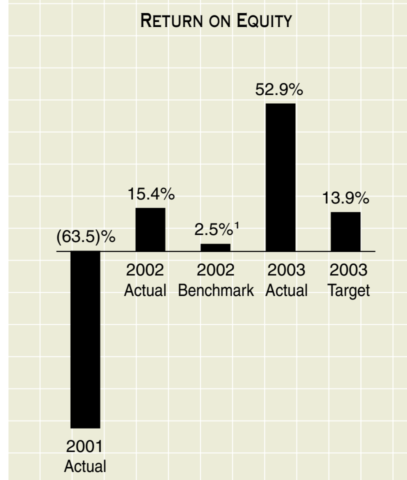
Objectives and Key Strategies

To become more competitive, products must be priced to reflect the risk they represent and appropriate premiums must be charged to each group of customers. ICBC will move towards industry standard capital requirements for the optional business, operate on a level similar to competitors, and develop the internal capabilities to compete more effectively.

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 enables ICBC to measure its progress towards becoming more competitive and allows the provincial government to measure the financial return from ICBC on an annual basis. Previously, the two year rolling average return on equity was included as one of ICBC's performance measures. During the year, this measure was eliminated as it does not provide additional informational value above the annual return on equity measure.



Source: ICBC Financial Systems. Prior year's actual and the 2003 target have been restated to conform with the new method of calculation. This measure is calculated as the ratio of net income over the average of the opening and ending retained earnings, and is consistent with industry benchmarks.

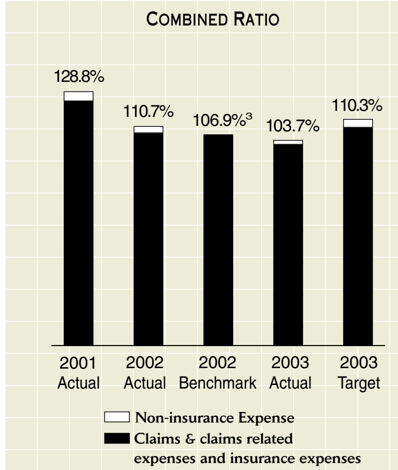
This past year has been a strong financial year with lower than expected claims and operating costs due mainly to effective cost control, insurance product changes, the unusually favourable driving conditions experienced during most of 2003 and the continued management of claims costs. Compared to 2002, controllable costs increased minimally, despite continual upward pressures. Premiums written increased due to recent rate increases and ICBC's retention of existing market share. The net income stays within the Corporation and enables ICBC to rebuild its retained earnings so that unusual events such as earthquakes or harsh weather changes can be absorbed and minimize the volatility and size of premium rate changes.

Currently, ICBC operates on a lower level of retained earnings relative to its volume of business when compared to the industry. In addition, changes in significant financial items such as premiums, claims and investments can result in major changes in the Corporation's financial performance. The combined effect of the lower retained earnings base and the significant net income for 2003 has resulted in an unusually high return on equity of 52.9% for ICBC. The Corporation's strategy will be to increase retained earnings for the optional business in the future. In 2002, the property and casualty industry return on equity was 2.5%[1]. Automobile insurance is

[1] Calculated from A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

the largest source of premium revenue within the property and casualty industry, representing 42% of total net premiums earned[2].

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 premium dollars earned. A ratio of below 100 percent indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.



Source: ICBC Financial Systems. Prior years' actual have been restated to conform to the revised method of calculation, which includes non-insurance operating costs.

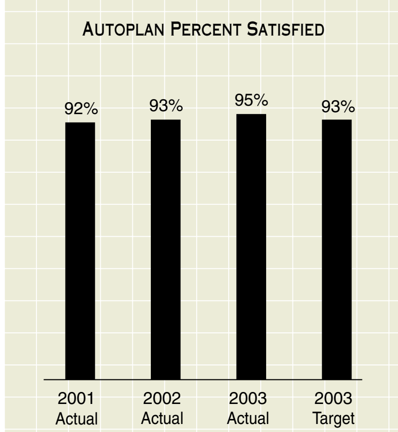
ICBC's performance improved over the year as seen in the decline in the combined ratio relative to 2002. This improvement can be attributed to effective cost management, changes in the insurance product and the favourable driving conditions that prevailed during most of 2003. Both claims costs and controllable costs were lower than originally forecasted, and premiums written were higher in the year, which are major contributors to the improvement in the actual results relative to the 2003 target. ICBC's results also compare well relative to the property and casualty industry despite additional costs borne by the Corporation for non-insurance services.

GOAL: CUSTOMER FOCUSED

Objectives and Key Strategies

ICBC will become a "listening" organization focused on meeting customer expectations and providing value wherever possible. ICBC will improve customer satisfaction and support by delivering services to its customers in a manner, which is fair and respectful.

The key customer service measure of performance for ICBC will be the percentage of satisfied customers. A separate measure is used for each major transaction type – broker, driver service and licensing, and claims transactions. An independent research firm is retained to conduct monthly surveys of customers for the purposes of monitoring satisfaction. The number of surveys completed is targeted to achieve a range of accuracy of results of between 0.5% to 3.0% at a 95% confidence level.



Source: Surveys conducted by independent firm.

Performance Measures, Targets and Results

Autoplan Percent Satisfied
Each year, ICBC's insurance brokers process approximately 2.7 million policies for customers. This measure represents the percentage of

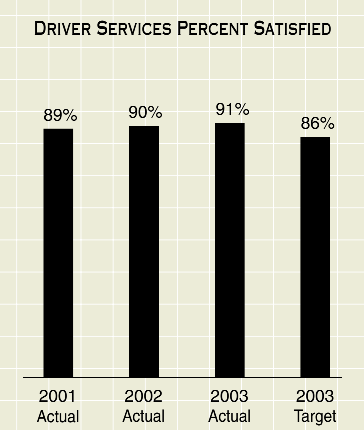
[2] Canadian Underwriter Statistical Issue, 2003.

[3] A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

customers satisfied with a recent insurance transaction with ICBC and will be based on surveys of close to 1,000 customers. For 2003, ICBC has outperformed the target and past performance. Historically, this percentage has been over 90% and is indicative of the positive relationship between customers and brokers.

Driver Services Percent Satisfied

On an annual basis, ICBC performs over 1.3 million transactions relating to the issuance of driver licenses and driver exams. This measure represents the percentage of customers satisfied with a recent driver licensing transaction with ICBC. The transaction could relate to renewing a license, taking a knowledge test or undergoing a road test. The measure is weighted by the number of transactions for each type of service.

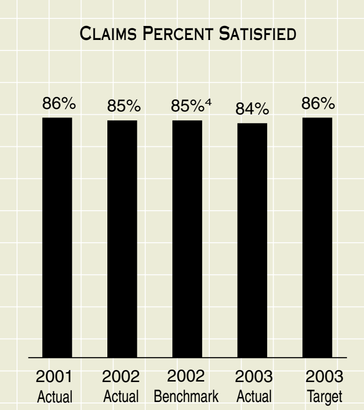


Source: Surveys conducted by independent firm.

In late 2003, the provincial government implemented changes to the Graduated Licensing Program (GLP), which were anticipated to have a dampening impact on the satisfaction levels of new drivers affected by the changes and was reflected in the 2003 target. The impact was somewhat minimized as the GLP enhanced program was implemented later than planned. ICBC's customer satisfaction for driver services was consistent with previous years and exceeded the 2003 target. A sample of approximately 4,000 customers is surveyed throughout the year for this measure.

Claims Percent Satisfied

This measure represents the percentage of customers satisfied with a recent claims transaction with ICBC and is based on a sample of over 9,500 claims customers. On an annual basis, ICBC processes approximately one million claims.



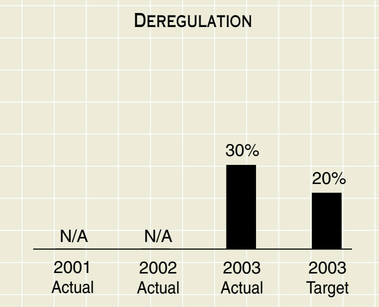
Source: Surveys conducted by independent firm.

Starting in 2003, changes were made in the sample selection and calculation of the measure to allow ICBC to benchmark its performance to P&C companies in Ontario. In 2003, ICBC's overall claims customer satisfaction was 84%, a small decline from past performance and the 2003 target. Positive results were noted in specific areas such as ICBC's Fairness, Accommodation of Needs and the Value & Respect felt by customers. However, lower levels of satisfaction were noted in some areas, due in part to changes in the business and current labour negotiations. In 2002, ICBC's performance at 85% was consistent with companies in Ontario where the average claims satisfaction was 85% in 2002.[4] 2003 benchmark data was not available at the time of publication.

[4] 2003 Auto Claims Satisfaction Survey (survey of claims closed in 2002), Financial Services Commission of Ontario.

Deregulation

In support of the provincial government's deregulation initiative, ICBC is working to achieve a one-third net reduction in the regulatory burden on customers, suppliers, and employees by June 2004. Measurement for this objective will be 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. A regulatory requirement is defined as a compulsion, demand or prohibition placed on an individual, entity or activity. Such requirements are found in statutes, regulations and policies and procedures administered by ICBC. ICBC has reduced regulatory requirements by 30% to the end of 2003 and anticipates being able to meet its government target of 33% in 2004.



Source: ICBC internal records of legislative and regulatory changes.

GOAL: REVENUE DRIVEN AND FISCALLY RESPONSIBLE

Objectives and Key Strategies

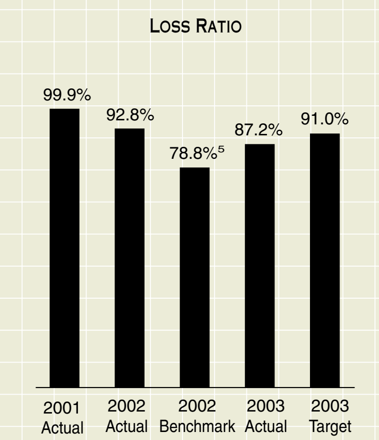
ICBC will continue to hold the line on costs, improve the value of goods and services received, and adopt a performance-based approach for employees, business partners and suppliers. ICBC will provide enhanced loss management activities, such as traffic law enforcement funding and continue with its policy of zero tolerance towards fraud in order to reduce crashes and crime.

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. The lower the percentage, the more profitable the product. 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 2003, ICBC has been successful in ending the year with a significantly lower loss ratio relative to the prior year and to the 2003 target. This positive performance is due to an increase in premiums written and relatively consistent claims costs. Claims costs increased less than 1% in 2003. While the average costs of claims increased for almost all coverages, this was offset by fewer reported claims due to favourable driving conditions for most of the year and the full impact of the changes in deductibles implemented in 2002. The combination of these factors contributed to a substantial improvement in ICBC's loss ratio, which improved over 2002 and outperformed the 2003 target.



Source: ICBC Financial Systems. 2002 actual and the 2003 target have been restated to conform with the financial allocation methodology developed in 2003 to segregate revenues and costs between the basic, optional and non-insurance businesses.

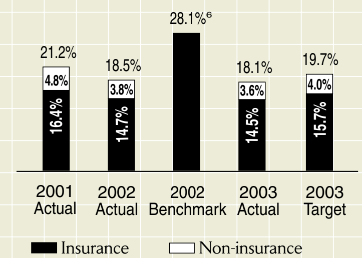
[5] A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

Despite this improvement in the loss ratio, ICBC's results continue to be higher relative to the P&C industry loss ratio. This is due to a lower expense ratio for ICBC, the benefits of which are passed on to policyholders through lower premiums. With lower premiums, ICBC's loss ratio will be higher. In addition unlike many other regions, ICBC is required to provide basic insurance coverage to virtually all drivers and owners of automobiles.

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. This ratio consists of two key components: the insurance expense ratio and the non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance business. Included in the insurance expense ratio is an offset in costs related to interest revenue and financing fees related to the premium financing plan.

EXPENSE RATIO



Source: ICBC Financial Systems. 2001 actual and the 2003 targets have been restated to conform with the financial allocation methodology developed in 2003 to segregate revenues and costs between the basic, optional and non-insurance businesses.

In recent years, the Corporation has focused on operational excellence and reduced its cost structure to an appropriate base. Significant reductions have been made since 2000 and ICBC has succeeded in effectively managing costs, ending the year with an expense ratio which is lower than 2002. ICBC was also successful in outperforming its 2003 target. This is attributed to a more stringent review of all expenditures and lower project costs.

ICBC's overall expense ratio for 2003 was 18.1% and is significantly lower than the industry benchmark. As the sole provider of the basic insurance product, ICBC has the ability to achieve certain economies of scale in areas such as product distribution where ICBC's commission costs are lower for the basic product than those of the private

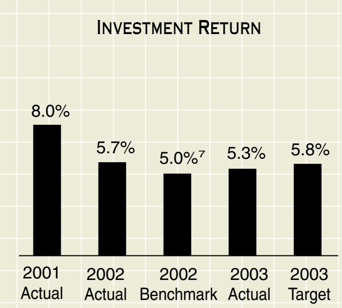
[6] A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

industry. The commissions for both the basic and optional businesses results in a lower overall cost of distribution than the rest of the industry. ICBC believes that the auto insurance expense ratio for the industry would be lower than the overall property and casualty expense ratio for 2002 of 28.1%[7]. ICBC believes that the difference between the Corporation's expense ratio and the industry average is due to ICBC's lower marketing, underwriting, and general administration costs. In addition, ICBC operates a single line of business in one geographic region, while other property and casualty insurers may offer multiple products in more than one region.

However, ICBC incurs costs that the rest of the industry does not. It pays non-insurance expenses for the provision of driver licensing, commercial vehicle services, vehicle registration and licensing, and fines collections. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to insurance premium dollars earned. Monitoring these costs ensures that ICBC continues to be an efficient provider of these services on behalf of government. The 2003 non-insurance ratio is lower than 2002 and the 2003 target due to management of costs and increased earned premiums.

Investment Return

ICBC manages an investment fund of over $6.4 billion (at cost) to generate investment income used to reduce premiums to the policyholder. ICBC holds a conservative portfolio with the majority of monies invested in high quality bonds. These assets are held to provide for unearned premiums and future claims payments. The investment return measure is calculated as the ratio of investment income over the average book value of the investments portfolio.



Source: ICBC Financial Systems

In 2003, ICBC's investment portfolio was transitioned to the target asset mix established as part of the 2002 investment policy review. During the 2002 review, the risk return profiles of major asset classes were evaluated in conjunction with expected interest rate trends and equity market performance. Revisions were then made to the policy to ensure ICBC maintains a balance between risk and the expected overall rate of return for the investment portfolio.

[7] A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

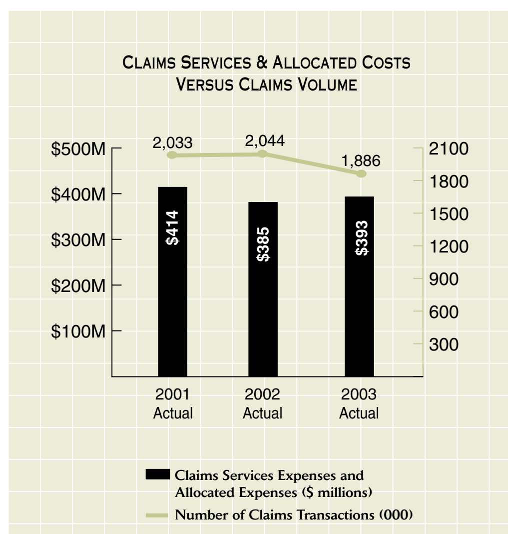
Under the new regulatory framework, changes were made to the investment standard which ICBC must follow. The investment portfolio is now governed by the prudent person standard as set out in section 492 of the *Insurance Companies Act (Canada)*. This standard requires ICBC to make investments for its insurance business in the manner that "a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return", and is the same standard required of federally regulated insurance companies. Previously, ICBC's investments were governed under Schedule III of the *Pension Benefits Standards Regulations 1985* made under the *Pension Benefits Standards Act (Canada)*.

From 2002 to 2003, ICBC's investment income increased from $327 million to $330 million, which equates to an investment return of 5.3%. In 2003, there was a marginal 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 gains on the sale of equity holdings. Investment return was marginally lower than the 2003 target due to the recognition of foreign exchange losses as global equity holdings were transitioned to a new management structure. In 2002, the P&C industry investment return was 5.0%[8].

To monitor performance, ICBC's investment results are measured against a benchmark, which incorporates market indices weighted according to ICBC's portfolio target mix. In 2003, ICBC exceeded the portfolio performance benchmark.

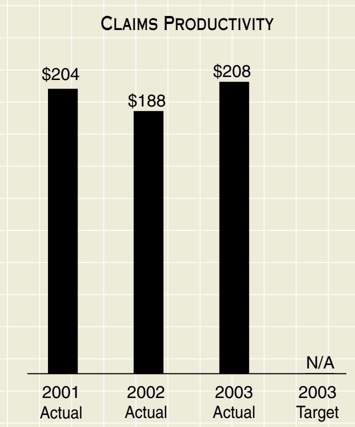
Claims Productivity

Employees involved in the handling of claims account for 56% of ICBC's workforce and 50% of operating costs. This is a new measure in 2003 and 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 include mainly outside legal counsel, medical reports, private investigators, independent adjusters and towing costs.



[8] A.M. Best 2003 Statement File – Canada CD. This source provides 2002 operating results for Canadian property and casualty companies. 2003 data was not available at the time of publication of this report.

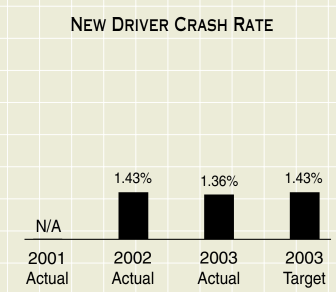
The insurance industry is inherently volatile and it is not unusual to experience short-term fluctuations from year to year in the number of claims and transactions. However, the infrastructure such as the costs to operate buildings and system costs is relatively fixed in the short-term with the result that any significant change in the volume of claims or transactions will cause volatility in this measure. In 2003, there was a reduction in claims volumes because of good driving conditions and the impact of increased deductibles which resulted in fewer lower value claims, such as windshield and comprehensive claims, being reported. This caused the claims cost per transaction to be higher relative to 2002. It is important to assess if the change in claims volumes is permanent or temporary before changes to the infrastructure can be made. If the change is determined to be permanent, there is also a lag time in actually reducing the infrastructure (such as selling buildings and property, modifying systems). ICBC uses the results of this measure and other information to continually reassess operational resourcing needs relative to business volumes, and to take appropriate action.



Source: ICBC Financial Systems. Prior years have been restated to conform with the financial allocation methodology developed in 2003 to segregate revenues and costs between the basic, optional and non-insurance businesses.

New Driver Crash Rate

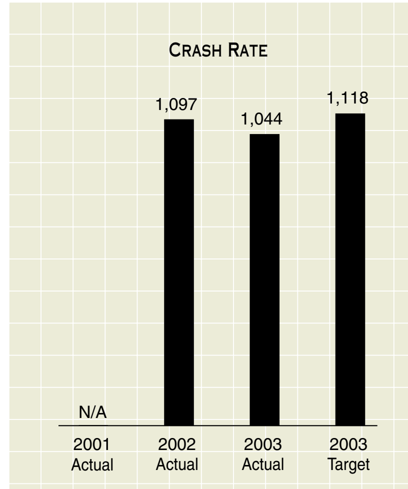
This measure was a new measure for 2003 and describes the crash rate for new drivers relative to the rate for more experienced drivers. In 2003, the new driver crash rate declined relative to 2002 and the 2003 target. While enhancements were made to the Graduated Licensing program, the changes were put in late in the year and are unlikely to have had a significant impact on the improved new driver crash rate. 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 Graduated Licencing program. The new drivers going through the enhanced program will be measured and monitored over time, to assess the effectiveness of the program changes and the program will be modified as necessary.



Source: ICBC Financial Systems

Crash Rate

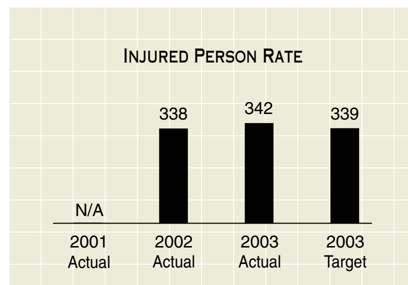
This measure is calculated as the number of crashes for every 10,000 annualized policy years. A crash is considered to have occurred when a financial reserve is established for a potential crash-related loss, irrespective of whether a payment is eventually made against the reserve. A policy year represents one year of insurance coverage. This was a new measure introduced for 2003 and will provide an indication of frequency of crashes. A change in the crash rate results from internal and external causes. Changes implemented through loss management and road safety programs, insurance product modifications (e.g. increased deductibles) and external factors, such as traffic enforcement, weather and the BC economy, have a combined effect on the crash rate. The crash rate for 2003 shows a reduction relative to 2002 and relative to the 2003 target, which may be attributed to the favourable driving conditions experienced during most of the year, the full impact of the increased deductibles introduced in 2002.



Source: ICBC Financial Systems

Injured Person Rate

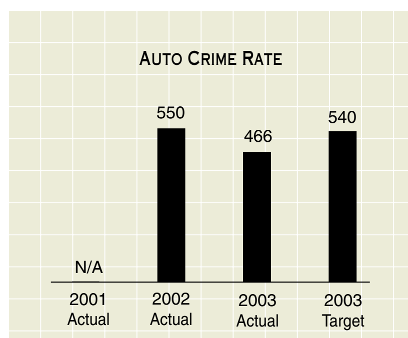
This measure calculates the number of injured persons for every 10,000 annualized policy years. An injury is considered to have occurred when a financial reserve is established for a potential injury related loss, irrespective of whether a payment is eventually made against the reserve. The 2003 results are consistent with prior year's results and in line with the 2003 target.



Source: ICBC Financial Systems. 2002 actual has been restated to conform to the new method of calculation, which excludes the count of trailers from the number of annualized policies.

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 crime rate for 2003 shows a significant decrease in the number of auto crime incidents, which can be attributable to an increase in deductibles for comprehensive coverages. With higher deductibles, there will be fewer claims as smaller value claims are no longer reported. The larger value auto theft crimes still continue to be an issue.



Source: ICBC Financial Systems

GOAL: PERSONALLY ACCOUNTABLE, CAPABLE AND ENGAGED PEOPLE

Objectives and Key Strategies

In order for ICBC to achieve its vision of becoming the leading insurer and operating competitively, the Corporation needs a workforce who is accountable, capable and engaged. The development of a culture of high performance, of involvement, and of learning and growth is paramount for ICBC to achieve its goals. During the year, ICBC began to execute a strategy aimed at developing the existing workforce and to cultivate employees for more competitive times ahead.

Performance Measures, Targets and Results

Employee Index

ICBC has developed an employee index to measure the accountability, capability, and engagement of the workforce. One of the main tools for this measurement is an employee survey. As a result of sensitivity to the collective bargaining process in 2003, ICBC did not conduct an employee survey. Instead, ICBC used a number of other human resource measures such as attrition and absenteeism to measure performance, and also reviewed its progress against its human resource strategy and addressing improvements identified from the employee survey in 2002.


Customer Driven…
…to provide valued service and support

Management Discussion and Analysis

FINANCIAL OVERVIEW

ICBC has posted a net income of $225 million for the year ended December 31, 2003. This performance can be attributable to a number of causes, all of which have had an impact on the year-end results.

- ICBC continued to operate as a business and managed costs responsibly, ending the year with controllable costs of $469 million, which are fairly consistent with 2002 and 26% lower than 2000.
- Claims costs at $2.2 billion were less than 1% higher when compared to costs in 2002 because of lower claims volumes. Increases in claims costs would normally occur with an increase in the number of policies sold and general inflationary pressures, which were experienced this year. While the average cost per claim increased, the lower volumes offset the cost increases to a large degree. The volumes were influenced by unusually good driving conditions experienced during most of the year, changes in deductibles and continued management of claims costs.
- Adjustments to prior years' claims resulted in an increase in claims costs of $10.4 million, which contrasts with the positive adjustment of $24.8 million in 2002 to decrease claims costs.
- In 2003, there was a significant increase in the premiums written of $211.7 million and a comparable increase in premiums earned of $231.0 million over 2002. This is due to changes made in 2002 for determining premiums based on declaration of principal operator, a 1.7% increase in the number of policies and an increase in the amount of optional coverages purchased. The impact of the rate increases in effect for 2002 and 2003 were also major contributors to the increase in premiums earned. As a result of the increase in premiums, there was an increase in premium taxes and commissions of $25.7 million in 2003.
- In 2003, the Corporation also disposed of a number of facilities resulting in a gain of $14.1 million.
- Investment income of $330 million realized in 2003 was consistent with 2002.

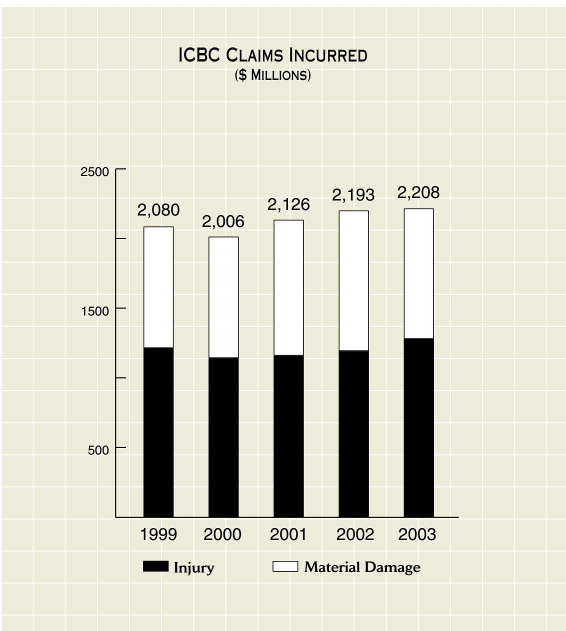
PREMIUMS

In 2002 and 2003, changes were made to the premiums charged to a policyholder to better reflect risk and requires the declaration of the principal operator, and changes were made in deductibles, especially in situations where a policyholder has had a significant number of claims. In 2003, there was a 1.7% increase in the number of policies due mainly to vehicle population growth, and an increase in policy years written, with a policy year written defined as twelve months of insurance coverage. In addition, rate changes in 2002 and for 2003 have had an impact on premiums for 2003 as the full impact of the 2002 rate increase is now reflected in 2003 and half the impact of the 2003 rate increase is reflected in 2003. In 2003, the overall rate increase was 4.8% and the increase in basic premiums for private passenger vehicles was 1.4%, less than inflation. Premiums written increased to $2.97 billion from $2.76 billion in 2002, and premiums earned increased to $2.86 billion from $2.63 billion in 2002.

CLAIMS

Changes in Claims Costs

Claims incurred costs are the most significant cost of ICBC, accounting for over 75% of 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 $45 million change in claims costs. Claims incurred costs are impacted by the number of claims reported in a year and the severity of claims. The number of claims reported is influenced by factors, which include speed, driving behaviour, driving experience and weather. Severity is influenced by factors such as inflation, settlement awards, legal costs, medical costs, repair cost of vehicles and independent adjusting costs.



Changes in the insurance product and the unusually favourable driving conditions during most of 2003 are the main reasons for the marginal increase in claims incurred costs of $14.6 million relative to 2002, which represents an increase of less than 1%. ICBC has continued to invest in loss management and road safety programs and to focus on the management of claims costs over the years. This has helped contain the growing claims costs.

For 2003, the increase in overall claims incurred costs is due to an increase in the severity of claims of 11.8% relative to 2002, specifically in the bodily injury type claims, while the number of claims reported declined overall.

One of the main drivers of increasing bodily injury claims costs is legal costs. They continue to increase in BC's tort environment, with a potential for a further increase related to the tariff of legal costs payable to successful litigants. The Supreme Court of BC Rules Revision Committee is currently considering an increase in the reimbursement of legal costs from 25-30% to 50%. For 2003 and all prior years, ICBC has recorded an increase of $119 million for this potential increase in costs. ICBC believes any changes in the tariff are likely to be implemented in 2004 and may affect unsettled claims for both 2003 and prior years.

BC has a tort system of auto insurance where injured claimants have the ability to sue for damages. For this reason, large judgement awards can have a significant impact on pending litigation cases. Although many of ICBC's injury claims involve litigation, less than 1% of these claims are resolved by trial. Class action cases can also have a significant financial impact for the Corporation. Across Canada, lawsuits have been launched alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. A class action was started in BC in 2002 and is in progress, however, ICBC has not been able to reasonably assess the likelihood of the success of this legal action. This class action suit has not been certified to date.

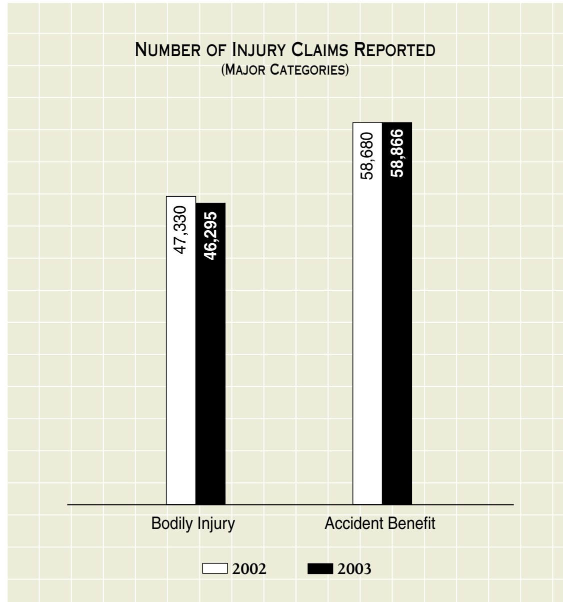
For material damage claims, changes in vehicle design such as airbags and other safety measures, and increases in inflation in the auto repair sector are key drivers of the increasing cost trend.

The number of claims reported has decreased substantially by 13.1% relative to 2002 due to the changes in insurance product, mainly increased deductibles, and the unusually good driving conditions experienced during most of the year. The most significant reductions in volumes were in the number of windshield, comprehensive and Roadstar claims.

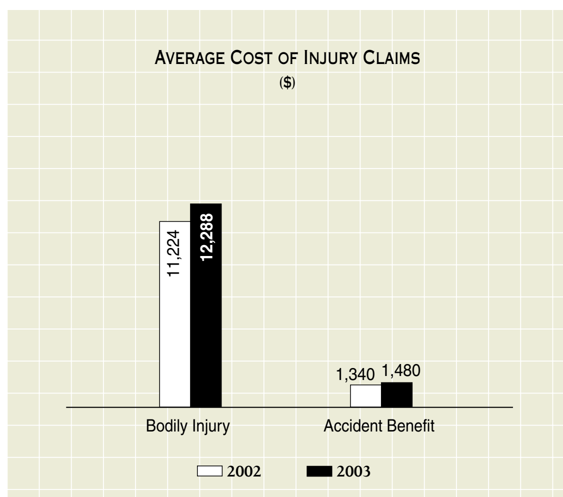
In the event of losses resulting from catastrophes, such as an earthquake, ICBC has financial protection through a reinsurance policy. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. In addition to protection against individual catastrophic 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. During 2003, ICBC went to the market for reinsurance. Since the last policy was negotiated in 1998, the market has hardened and reinsurance costs have been subject to upward pressure as a result of many changes in the marketplace. Despite the challenging market, ICBC was successful in securing increased catastrophic coverage over previous limits.

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 2003, the number of injury claims reported declined marginally by 0.4%. Within this category, bodily injury claims declined by 2.2% as shown in the following chart. This decline can be attributed to the favourable driving conditions experienced during most of 2003. Offsetting this was an increase in total injury severity of 8.6% for 2003, due to increased severity for both large and smaller value claims. These increases are due to adverse court awards for future care, and changes in the handling of low impact claims.



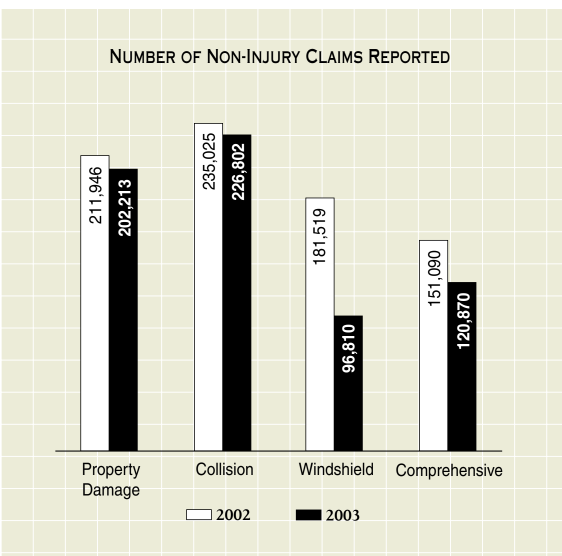
Legislative or government policy changes such as medical practitioner rates, hospital rates and other related costs, and changes in benefits in the provincial health care program can also result in an increase to ICBC's claims incurred costs. ICBC works with government to ensure that changes are anticipated and implemented effectively.



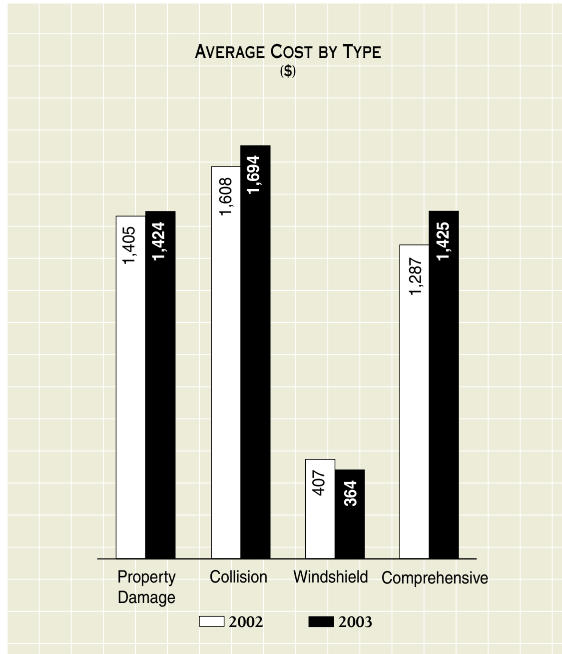
Based on costs recorded in the year.

Non-injury Claims

The main categories of non-injury or material damage claims are property damage, collision, comprehensive and windshield claims. In 2003, there was a significant reduction in the volume of comprehensive and windshield claims as a result of increases in minimum deductibles. The number of comprehensive and windshield claims reported decreased by 20.0% and 46.7%, respectively, relative to 2002. The increase in deductibles resulted in an increase in severity for comprehensive claims, which increased by 10.8% for 2003, as smaller claims which fall below the deductible limit are no longer reported. Windshield severity, on the other hand, decreased overall by 10.7%. The average cost of a windshield claim is typically above the minimum deductible amount. With an increase in the minimum deductible, there was a reduction in the amount paid for each claim by ICBC resulting in a decrease in severity.



During the year, the Corporation began to adopt performance based principles in its interactions with key business partners. In 2003, an agreement was reached with the collision repair industry to implement a performance-based contract whereby shops meeting or exceeding targets would be appropriately compensated. In the future, this agreement will have an impact on claims costs for non-injury type claims.



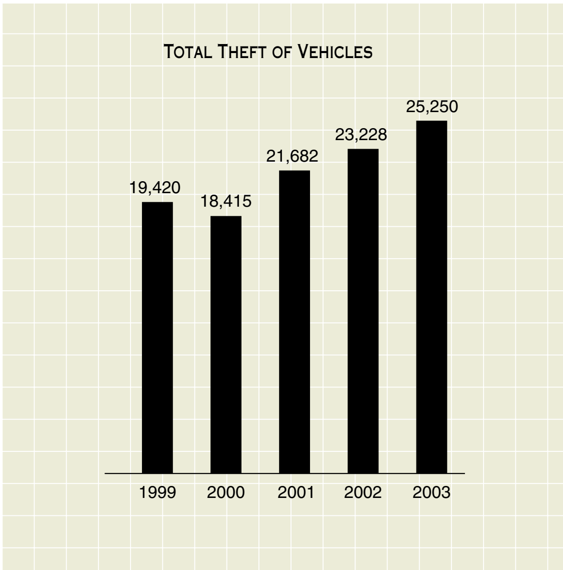
Based on costs recorded in the year.

Comprehensive and Windshield Claims

Comprehensive coverage includes loss or damage due to theft, fire, vandalism, and windshield chips and cracks. In order to control claims costs arising from policyholders who have had a significant number of comprehensive claims, ICBC implemented escalating deductibles for coverage purchased by these individuals in 2003. Based on a review of past claims experience, these individuals are limited to being able to purchase a higher deductible, as opposed to the minimum deductible of $300 for comprehensive and $200 for windshield, or unable to purchase comprehensive coverage.

Within comprehensive claims, auto crime claims continue to be a major problem for BC with costs totaling $122 million in 2003. BC has one of the highest auto theft rates in Canada with an average of 869 thefts per 100,000 population as compared to the Canadian average of 514 thefts.[9] In 2003, the number of auto theft claims increased by 8.7% as shown in the chart on the next page.

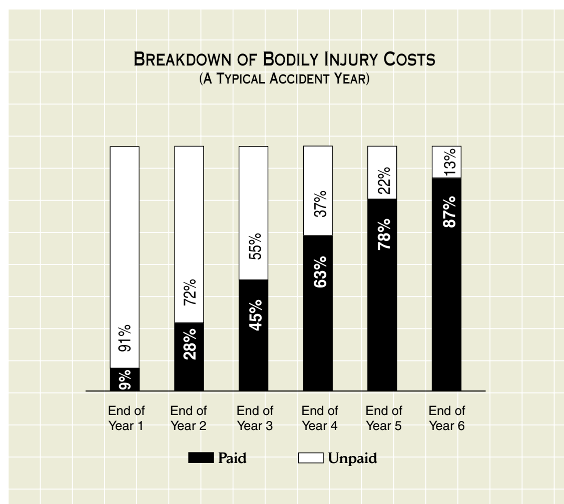
[9] Canadian Centre for Justice Statistics (part of Statistics Canada)



To address this problem, the Corporation has partnered with municipalities and law enforcement on various auto theft initiatives such as the Bait Car program. The program – a collaboration between the Vancouver Police Department (VPD), ICBC and E-Comm (Emergency Communications for Southwest British Columbia) – was launched in September 2002 to target the high number of vehicles being stolen in Vancouver. ICBC believes that the program has contributed to a decrease in auto theft claims in Vancouver, and a program expansion is planned for the Greater Vancouver Regional District.

Unpaid Claims and Prior Years' Claims Adjustments

Prior years' claims adjustments are a result of the re-estimate of future claims costs for claims in progress and those incurred but not reported with respect to prior years. The estimate of the unpaid claims reserve at the end of 2003 was approximately $4.5 billion. Estimates for these future claims costs can change significantly in some years 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 following chart, only a small percentage of injury claims costs are paid and known in the first year of the claim's occurrence with a greater proportion of the costs being an estimate of future claims costs. As time passes, more information becomes available and the estimate of the remaining future claims payments are refined and prior years' claims adjustments to the unpaid claims reserve are required to reflect the most current forecast of claims costs. 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 from the Corporation's appointed actuary. 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 reserve. A 1% adjustment in the unpaid claims reserve will have an impact of $45 million to claims incurred costs, and have a significant impact on net income.



During 2003, there were increases of $10.4 million to claims costs for 2002 and prior accident years as a result of changes to estimates previously made. By comparison, during 2002 there was a decrease of $24.8 million to the claims costs for 2001 and prior accident years. These prior years' claims adjustments reflect changes in claims emergence for all coverages; however, the chief cause of the increase for 2003 was the inclusion of a provision for the anticipated increase in legal costs arising from changes to court tariffs.

Loss Management and Road Safety

On an annual basis, ICBC invests in enforcement programs, road improvements, fraud prevention and regional loss prevention programs to manage claims costs and reduce crashes. For 2003, the Corporation invested $38.1 million in these programs, which is consistent with the expenditures in 2002.

An agreement was reached in 2003 with the Ministry of Public Safety and Solicitor General to continue ICBC's funding for traffic law enforcement activities. The terms and conditions of this agreement enhance the level of independence of traffic law enforcement activities undertaken by the Solicitor General. Funding in 2003 was $9.0 million and allows resources to be directed towards reducing injuries and deaths caused by impaired driving, aggressive driving and motorists not wearing seatbelts. In late 2003, enhancements to the Graduated Licensing Program were implemented, which extended the timeframe for obtaining a license, introduced passenger and nighttime restrictions, and reinforced a zero tolerance for alcohol.

Road improvement is another area of investment where ICBC works with key partners to make improvements to high crash locations such as intersections. In 2003, $9.9 million was invested in this program and is consistent with the expenditure in 2002.

ICBC has a policy of zero tolerance for fraud. For these initiatives, ICBC has a Fraud Prevention & Investigations (FPI) department who have a number of ongoing programs for the detection and prevention of fraud. These programs include Claims Investigation Teams (CIT) that pair up adjusters and Special Investigation Unit officers to combat material damage and bodily injury fraud. The Provincial Investigation Team (PIT) pro-actively identifies and investigates organized fraud throughout the province including staged accidents and vendor fraud. FPI also includes the Fraud Analysis Unit (FAU) which provides support to the CIT and PIT programs through data analysis and innovative fraud detection techniques, and the Licensing Investigation Unit which investigates driver's license and identity fraud. As a result of these efforts, ICBC was awarded damages in a number of civil litigation cases in 2003. For example, the BC Supreme Court awarded ICBC $4.5 million in punitive damages against two individuals operating a chop shop, an operation established to dismantle stolen vehicles for the resale of the parts. In other situations, the Corporation has been awarded damages for fraudulent activities involving staged accidents and stolen vehicles. In 2003, the programs generated claims savings estimated to be over $60 million and expenditures for these programs totaled $9.5 million.

At a provincial level, many activities were undertaken in partnership with communities to initiate programs such as Speed Watch, Autocrime and the Safer City program, with ICBC acting primarily as a catalyst for action. Expenditures in the regional loss prevention programs accounted for $9.7 million in 2003, and are slightly higher than the $8.3 million expended in 2002. In 2003, ICBC shared costs with Autoplan brokers who conducted over 1,000 road, driver, and pedestrian bike safety initiatives in schools and communities across B.C. These projects help to create strong community partnerships in regions throughout BC.

OPERATING COSTS

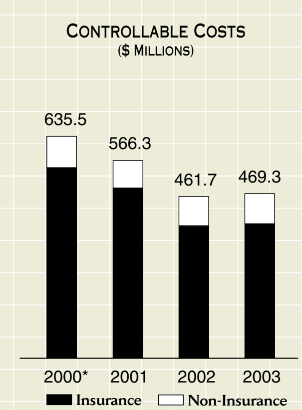
In 2003, the Corporation continued to operate ICBC like a business and managed costs responsibly, ending the year with controllable costs, which are consistent with prior year and more than 26% lower than 2000. Controllable costs are defined as costs (compensation, benefits and operating costs) required 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 for employee compensation and general inflationary increases, the majority of which were absorbed during 2003. These increases can be significant in any one year since employee compensation accounts for approximately 72% of controllable costs. A modified zero-based budgeting approach towards expenditures was introduced in 2003 resulting in more stringent requirements for project and other discretionary spending. A review of operational facilities requirements resulted in the consolidation of a number of claims centres, and the sale of redundant facilities. The Autoplan Extranet, a web based system to provide brokers with access to specific ICBC applications, has enabled the Corporation to more efficiently communicate with its broker partners.

Departments collaborated and were successful in reducing total costs paid to technology and administrative suppliers by revising business requirements and consolidating requirements to leverage purchasing power. During 2003, a comprehensive technology strategy was approved, and ICBC continues to examine new technology to identify opportunities for increasing efficiencies. Maintaining flexibility in ICBC's systems and infrastructure will help ICBC compete effectively and respond to changes in the market place. In 2003, ICBC incurred approximately $11 million in capital expenditures primarily for technology and facilities.

Non-insurance costs consist of the administrative costs for operating the licensing and compliance functions on behalf of government, and are funded from basic insurance premiums. These costs can be impacted by government policy changes and decisions arising from the regulatory review process. During 2003, a Service Agreement between ICBC and the Government was established to ensure the most effective delivery of non-insurance services. These costs totaled $103 million (non-insurance controllable costs plus commissions) in 2003 and represents 3.6% of premiums.

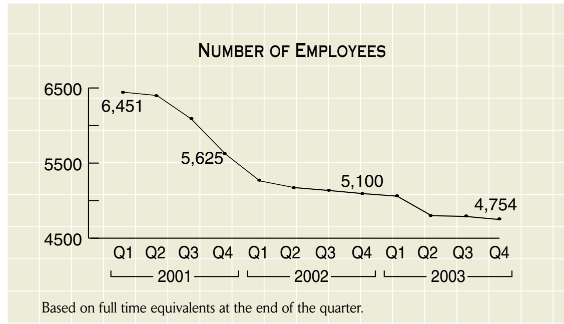
As a result of the Core Services Review, the compliance and motor carrier functions were transferred back to government in 2003. As part of the transfer, ICBC has agreed to provide $24.7 million to the provincial government annually for the operating costs of the compliance function up to and including March 31, 2006. In 2003, ICBC made a prorated payment of $16.9 million to the government under the transfer agreement for nine months of compliance function operating costs, with the remainder included as part of ICBC's other non-insurance operating costs.

As shown in the chart below, ICBC has been successful in maintaining its 2002 cost base with only a marginal increase in costs of $7.6 million or 1.6%, which is less than inflation.



* This year has not been restated to conform to the financial allocation methodology developed in 2003 for the segregation of revenues and costs between the basic, optional and non-insurance businesses.

From a staffing perspective, ICBC has also maintained reduced levels of staffing from the beginning of 2003, after the departure of over 1,300 employees in 2001 and 2002. The chart on the right shows the decline in employee levels since the beginning of 2001 to the end of 2003. The reduction between the first and second quarter of 2003 is due to the return of 286 employees associated with the Compliance function to government.



INVESTMENTS

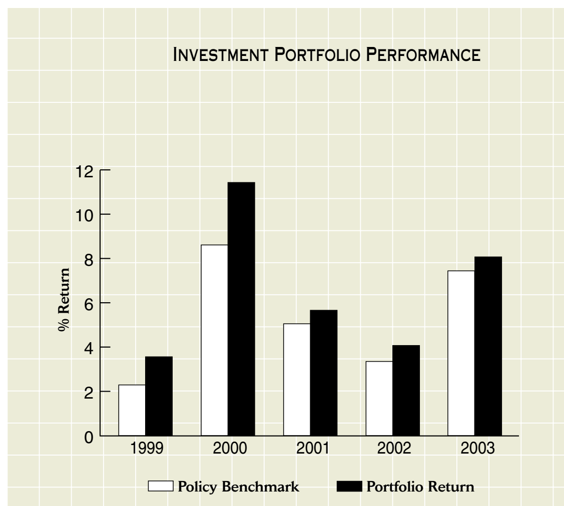
Funds available for investment purposes come primarily from the reserves set aside for unpaid claims, unearned premiums and retained earnings. At the end of 2003, ICBC's investment portfolio at cost totaled $6.4 billion and represents 95% of the Corporation's assets. ICBC has a conservative investment portfolio with significant holdings of highly rated bonds and money market instruments (71.5% of total portfolio holdings). Equity, mortgages and real estate comprise the remainder of the portfolio. ICBC's investment mix is consistent with its investment policy.

Market Return

In 2003, Canadian equity markets performed well as indicated in the S&P TSX index return of 26.7%, while US equity markets were hampered by the weakness in the US dollar and ended the year with a return of 5.3% (S&P 500 Index – translated to Canadian dollars). The bond markets performed marginally higher than the previous year posting a return of 6.7% (Scotia Capital Universe Index) for 2003.

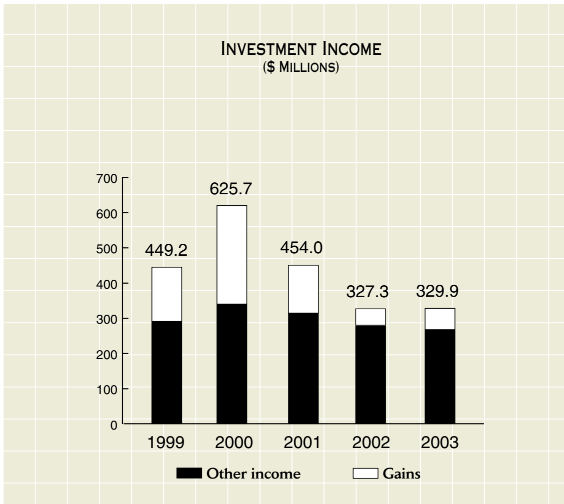
As a result of strong corporate cash flows and the performance of the equity markets, ICBC's investments have grown in market value to $6.8 billion at the end of 2003 as compared to a market value of $6.0 billion at the end of 2002. When compared to the carrying value of the portfolio, ICBC had unrealized gains of approximately $370 million as of December 31, 2003.

To monitor performance, ICBC's investment performance is measured against a benchmark, which incorporates market indices weighted according to ICBC's portfolio target mix. As shown in the chart below, ICBC has consistently performed better than its market-based benchmark.



Investment Income

From 2002 to 2003, ICBC's investment income increased marginally from $327 million to $330 million, which equates to an investment return of 5.3%. In 2003, there was a marginal 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 holdings. The following chart provides a breakdown of investment income over the last 5 years.

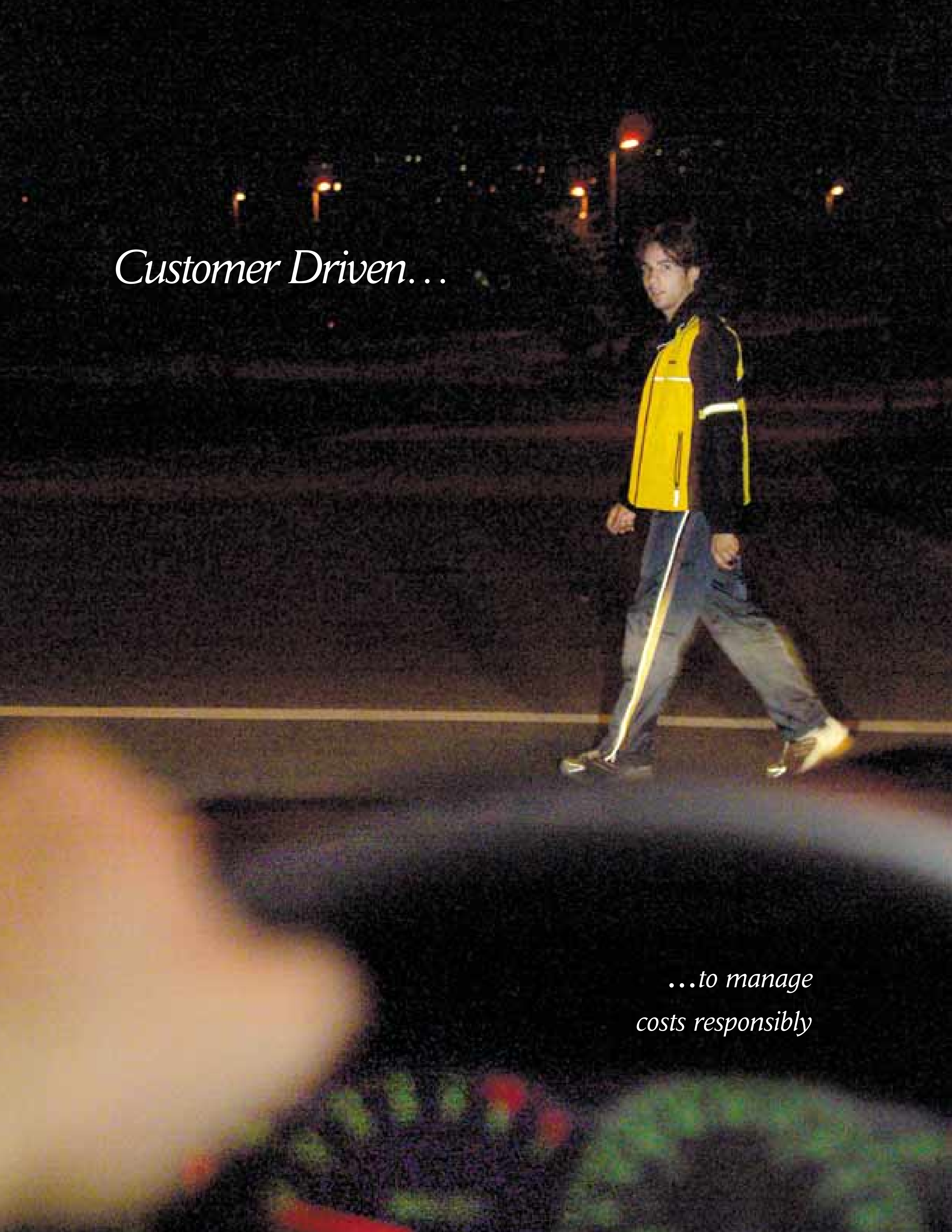


ICBC Properties Ltd. (IPL)

IPL is a wholly owned subsidiary of the Corporation responsible for the development of the Central City property and for managing other real estate holdings within the investment portfolio. The performance results for IPL and its wholly owned subsidiaries (Surrey City Centre Mall Ltd. and a numbered BC company) are included in the audited consolidated financial results for ICBC. Approximately $120.6 million is invested in four real estate projects with the major holding being Central City. Development of the Central City property was substantially completed in early 2003, and late in the year, a new lease was signed for approximately 130,000 square feet of space for the establishment of an international call centre. In March 2004, the provincial government announced the purchase of a portion of Central City by Simon Fraser University (SFU). With the sale of the space to SFU, approximately 60% of the building will now be leased and/or sold. These developments significantly enhance the value of the property and are expected to generate further economic activity within the vicinity. Marketing efforts to secure new tenants are ongoing. In 2003, the Corporation also sold the Telus property, held by a subsidiary of IPL, for a small profit. With this disposition, real estate income for 2003 was lower at $10.2 million than the $14.3 million earned in 2002.

RETAINED EARNINGS

With ICBC's strong financial performance in 2003 and a net income of $225 million, retained earnings increased to $536 million as at December 31, 2003. Retained earnings are required to provide the Corporation with the ability to absorb unexpected losses arising from unusual events and factors. In the private insurance industry, the adequacy of retained earnings or capital base is an important determinant of financial stability and is closely monitored by regulators. As a crown corporation with the provincial government's financial guarantee, ICBC has been able to operate on a lower level of retained earnings relative to industry capital requirements for the size of its business. With changes to legislation and government's direction to increase competition in the auto insurance market and have ICBC operate on a level playing field, ICBC needs to increase retained earnings for the optional business. Minor changes in significant financial items such as premiums, claims and investments can significantly impact ICBC's financial performance, and affect the level of retained earnings. ICBC's overall strategy has been and will continue to be to achieve positive financial results and strengthen its capital base so that unusual events such as earthquakes or harsh weather changes can be partially or wholly absorbed and minimize the volatility and size of premium rate changes for policyholders.



Customer Driven…

…to manage costs responsibly

Management's Responsibility for Financial Statements

SCOPE OF RESPONSIBILITY

Management prepares the accompanying 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 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 and results of operations and that the other information contained in the annual report is consistent with the 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 an annual 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 actuaries and external auditors 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 have 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 external appointed actuary and is responsible for carrying out an annual valuation of the Corporation's policy liabilities which include provision for claims and claim expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. In performing the 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 auditor.

Nick Geer
President and
Chief Executive Officer
February 13, 2004

Geri Prior
Chief Financial Officer
February 13, 2004

Auditors' Report

The Honourable Richard 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, 2003 and the consolidated statements of operations and retained earnings, and cash flow 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, 2003 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

VANCOUVER, BRITISH COLUMBIA
FEBRUARY 13, 2004
(EXCEPT FOR NOTE 18 WHICH IS AS OF MARCH 5, 2004)

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 31 December 2003 and their changes in its consolidated statement of operations and retained earnings for the year 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 (see 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 financial statements fairly present the results of the valuation.

William T. Weiland

WILLIAM T. WEILAND

FELLOW, CANADIAN INSTITUTE OF ACTUARIES
ECKLER PARTNERS LTD.

VANCOUVER, BRITISH COLUMBIA
FEBRUARY 13, 2004

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2003 AND 2002

($ THOUSANDS)	2003	2002
ASSETS		
Cash and investments (note 3)	$ 6,436,189	$ 5,857,937
Accrued interest	63,593	54,774
Amount recoverable from reinsurers (note 5)	27,090	19,441
Premiums and other receivables	47,895	46,224
Deferred premium acquisition costs and prepaids (note 9)	118,192	64,236
Accrued pension benefit (note 7)	31,135	27,148
Property and equipment (note 4)	86,051	96,630
	$ 6,810,145	$ 6,166,390
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 52,519	$ 39,393
Accounts payable and accrued charges	189,425	183,310
Accrued post-retirement benefits (note 7)	67,338	60,138
Premiums and fees received in advance	33,081	32,400
Unearned premiums	1,404,462	1,293,389
Unpaid claims (note 5)	4,527,441	4,243,570
	6,274,266	5,852,200
RETAINED EARNINGS	535,879	314,190
	$ 6,810,145	$ 6,166,390

Contingent liabilities and commitments (note 14)

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 YEARS ENDED DECEMBER 31, 2003 AND 2002

($ THOUSANDS)	2003	2002
PREMIUMS WRITTEN		
Vehicle	$ 2,955,000	$ 2,737,358
Driver	15,560	21,456
	$ 2,970,560	$ 2,758,814
PREMIUMS EARNED		
Vehicle	$ 2,841,259	$ 2,606,617
Driver	18,228	21,876
	2,859,487	2,628,493
CLAIMS AND OPERATING COSTS		
Claims incurred (note 5)	2,208,140	2,193,492
Claims services	235,614	233,713
Road safety and loss management services	38,086	38,306
	2,481,840	2,465,511
Operating costs - insurance (note 8)	109,063	105,791
Premium taxes and commissions (note 9)	274,839	249,778
	2,865,742	2,821,080
UNDERWRITING LOSS BEFORE PRIOR YEARS' CLAIMS ADJUSTMENTS	(6,255)	(192,587)
Prior years' claims adjustments (note 5)	(10,392)	24,791
UNDERWRITING LOSS	(16,647)	(167,796)
Investment income (note 3d)	329,936	327,269
INCOME - INSURANCE OPERATIONS	313,289	159,473
Licences and fines collected on behalf of the Province (note 12)	419,819	416,933
Licences and fines transferable to the Province (note 12)	419,819	416,933
Operating costs - non-insurance (note 8)	86,516	83,869
Commissions (note 9)	16,085	15,427
	522,420	516,229
LOSS - NON-INSURANCE OPERATIONS	(102,601)	(99,296)
INCOME BEFORE THE UNDERNOTED	210,688	60,177
Gain on sale of property and equipment	14,119	-
Restructuring costs (note 10)	-	(15,209)
Lease termination settlement (note 11)	-	41,100
Provision for diminution in value of investments (note 3c)	-	(41,100)
NET INCOME FOR THE YEAR	224,807	44,968
RETAINED EARNINGS		
Beginning of year	314,190	269,222
Contribution to the Province - Compliance Operations assets (note 1)	(3,118)	-
End of year	$ 535,879	$ 314,190

Consolidated Statement of Cash Flow
For the years ended December 31, 2003 and 2002

($ THOUSANDS)	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 3,167,162	$ 2,916,765
Licence fees	329,287	320,331
Social service taxes	65,655	64,677
	3,562,104	3,301,773
Collection for receivables, subrogation, and driver penalty point premiums	317,609	295,072
Salvage sales	53,122	51,744
Interest	245,333	259,637
Capital gains realized	33,922	34,997
Dividends and other investment income	41,797	35,631
Other	419	2,762
	4,254,306	3,981,616
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,021,281)	(2,097,321)
Province of BC for licence fees, fines, and social service taxes collected	(494,690)	(459,894)
Suppliers of goods and services	(227,056)	(209,019)
Employees for salaries and benefits	(344,929)	(358,429)
Agents for commissions	(219,122)	(191,422)
Policyholders for premium refunds	(240,017)	(214,220)
Province of BC for premium taxes	(124,652)	(94,318)
	(3,671,747)	(3,624,623)
Cash flow from operating activities	582,559	356,993
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Change in portfolio investments	(512,510)	(158,868)
Payments to vendors of property and equipment	(10,849)	(9,799)
Proceeds from sale of property and equipment	17,373	8,624
Cash flow used in investing activities	(505,986)	(160,043)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	76,573	196,950
Cash and cash equivalents, beginning of year	208,153	11,203
Cash and cash equivalents, end of year	$ 284,726	$ 208,153
REPRESENTED BY:		
Cash and money market securities (note 3)	$ 337,245	$ 247,546
Cheques outstanding	(52,519)	(39,393)
	$ 284,726	$ 208,153

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002

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 a plan of universal compulsory automobile insurance as established under the *Insurance (Motor Vehicle) Act,* and is also responsible for non-insurance services under the *Insurance Corporation and Motor Vehicle Acts.* The Corporation is also subject to regulation by the British Columbia Utilities Commission.

Universal compulsory automobile insurance coverage (Basic) includes the following: $200,000 third party legal liability protection (higher for some commercial vehicles), $150,000 in accident benefits to all licenced vehicle owners in B.C., $1,000,000 underinsured motorist protection, and protection against uninsured and unidentified motorists outside of the province. The Corporation also offers insurance coverage in a competitive environment (Optional), which includes the following: extended third party legal liability, comprehensive, collision, loss of use, and others. The Corporation's Basic and Optional 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 of British Columbia (note 14d).

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 company, ICBC Properties Ltd. and its subsidiaries. As required by the *Insurance Corporation Act,* the Corporation reports the revenues and expenses attributable to Optional insurance separately from the other operations of the Corporation (note 15).

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. Money market securities and equities are valued at cost. Income on interest-bearing securities is accrued daily. 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 3c). Dividends on equity investments are recognized as income on their payment dates. 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.

Derivative financial instruments are used to reduce interest rate and currency risk on the Corporation's obligations. The Corporation does not enter into derivative financial instruments for trading or speculative purposes.

All hedges are 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. Also there is a formal assessment at the inception of a 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.

Swap transactions involve the periodic exchange of cash flows between two parties based on a specific notional amount for a predetermined period. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount. Cross currency swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

In the event of early extinguishment of the obligation any realized or unrealized gain or loss from a swap would be recognized in the statement of operations at that time.

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.

Capital gains and losses on money market securities, bonds, equities and other investments are included in income in the period realized (see note 3).

Pensions and post-retirement benefits

Commencing in 2000, the Corporation prospectively adopted the standards for employee future benefits set out in Section 3461 of the CICA Handbook by accruing its obligations net of plan assets using the following rules:

- The cost of pensions and other 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, salary escalation, retirement ages of employees and expected healthcare costs.
- The expected return on plan assets is calculated using 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 benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. Defined contribution plan accounting is applied to the contribution to the BC Public Service Pension Plan.

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, and expensed where the potential future benefits are uncertain or not quantifiable.

Amortization is provided on a straight-line basis at the following rates: buildings 5 - 10%, furniture and equipment 10 - 33% and software 10 - 33%. Leasehold improvements are amortized over the term of each lease.

Unearned premiums

The Corporation earns vehicle and driver premiums evenly over the term of each vehicle policy or the driver's penalty point year, respectively. Unearned premiums are the portion of premiums related 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 policies. The method followed in determining the deferred premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, claims costs and adjustment expenses expected to be incurred as the premiums are earned.

Unpaid claims

The provision for unpaid claims includes an estimate for reported and unpaid claims and expenses as well as an estimate for claims incurred but not reported in the year. 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 so that the claims liabilities are not reduced 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 which 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 behavior of claims taking into consideration the consistency of the Corporation's claim 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 become. 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 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 (see note 14a).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims (see note 14c).

Reinsurance

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

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 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)	2003		2002	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and money market securities	$ 337,245	$ 337,245	$ 247,546	$ 247,546
Bonds				
Canada				
Federal	1,919,038	1,951,293	1,913,052	1,955,233
Bond repurchase obligation (note 2)	(326,551)	(326,551)	(233,883)	(233,883)
	1,592,487	1,624,742	1,679,169	1,721,350
Provincial	468,106	484,714	503,985	537,188
Municipal	338,730	358,262	415,188	446,572
Corporate	1,558,389	1,603,736	1,342,337	1,394,007
Global	308,517	292,914	216,514	219,787
	4,266,229	4,364,368	4,157,193	4,318,904
Mortgages	467,933	482,634	370,803	384,899
Equities				
Canada	596,520	798,157	565,727	623,603
United States	334,245	349,913	273,704	245,663
Other	313,453	351,498	43,428	39,526
	1,244,218	1,499,568	882,859	908,792
Real estate	261,664	122,330	340,636	188,244
Provision for diminution in value (note 3c)	(141,100)	-	(141,100)	-
	120,564	122,330	199,536	188,244
	$ 6,436,189	$ 6,806,145	$ 5,857,937	$ 6,048,385

The estimated fair value of money market securities is cost. The estimated fair value for bonds, mortgages and equities is based on market values. The estimated fair value of real estate is based on the most recent B.C. Assessment Authority values, except for the Central City development in Surrey whose estimated fair value for 2002 is based on the cost adjusted for a provision as described in (c) below.

The total notional amount of interest rate swaps outstanding at December 31, 2003 is $170.8 million (2002 - $143.6 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2003 is $69.5 million (2002 - $60.3 million).

At December 31, 2003, 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 (CDOR) plus 27.61 basis points (2002 - 23.91 basis points) and an average pay interest rate of 6.04% (2002 - 7.13%). The interest swaps had an estimated value of $0.1 million as at December 31, 2003 (2002 - negative $14.7 million). The 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

	2003		2002	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canada				
Federal	4.2	4.0	4.5	4.6
Provincial	5.3	7.7	6.6	7.6
Municipal	5.7	6.3	6.3	5.7
Corporate	5.1	3.7	5.9	3.5
Global	3.2	5.2	3.6	5.7
Total bonds	4.6	4.5	5.3	4.8
Mortgages	6.5	2.5	6.6	2.8
Total bonds and mortgages	4.8	4.4	5.4	4.6

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 with the investment portfolio.

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
2003				
Bonds				
Canada				
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
2002				
Bonds				
Canada				
Federal	$ 41,107	$ 1,265,396	$ 372,666	$ 1,679,169
Provincial	30,343	21,845	451,797	503,985
Municipal	-	80,489	334,699	415,188
Corporate	60,903	804,803	476,631	1,342,337
Global	-	120,065	96,449	216,514
	132,353	2,292,598	1,732,242	4,157,193
Mortgages	26,284	335,734	8,785	370,803
	$ 158,637	$ 2,628,332	$ 1,741,027	$ 4,527,996

c) Provision for diminution in value of real estate investments

In previous years, the Corporation recorded cumulative provisions totaling $141.1 million to reflect independent market appraisals of its investment in the Central City development. The impairment in value was determined to be other than temporary (note 2).

d) Investment income

($ THOUSANDS)	2003	2002
Interest		
Money market	$ 10,115	$ 6,809
Bonds	206,353	223,595
Mortgages	26,919	22,683
	243,387	253,087
Gains (losses) on the sale of investments		
Equities	18,139	6,255
Write-down of equities	-	(38,852)
Bonds	83,900	76,570
Foreign exchange	(40,698)	2,800
	61,341	46,773
Dividends and other income		
Equities	23,295	16,418
Real estate	10,238	14,325
Other	(8,325)	(3,334)
	25,208	27,409
Total Investment Income	$ 329,936	$ 327,269

e) 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 commissions on transactions as earned. At December 31, 2003 securities with an estimated fair value of $791 million (2002 - $368 million) have been loaned and securities with an estimated fair value of $846 million (2002 - $393 million) received as collateral.

4. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2003		2002	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 25,887	$ 25,887	$ 27,264	$ 27,264
Buildings	140,397	37,362	140,145	41,967
Furniture and equipment	107,495	17,044	136,744	17,985
Software	16,313	5,160	15,732	5,676
Leasehold improvements	7,125	598	10,190	3,738
	$ 297,217	$ 86,051	$ 330,075	$ 96,630

Amortization expense for the year ended December 31, 2003 amounted to $15.1 million (2002 - $23.6 million).

Properties held for disposal

In 2002, the Corporation decided to consolidate a number of operating facilities in order to streamline operations, vacating some facilities which are now held for disposal. In 2003 three of the facilities held for disposal were sold for a gain of $14.1 million. As at December 31, 2003 the net book value of surplus buildings and land held for disposal is $1.6 million (2002 - $3.5 million) and $1.4 million (2002 - $2.8 million) respectively.

5. UNPAID CLAIMS

The changes in unpaid claims recorded in the Consolidated Statement of Financial Position as at December 31, 2003 and 2002 and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2003	2002
Unpaid claims – beginning of year	$ 4,224,129	$ 4,044,312
Provision for claims occurring in the current year	2,208,140	2,193,492
Prior years' claims adjustments	10,392	(24,791)
Unpaid claims liabilities	6,442,661	6,213,013
Less:		
Payments on claims incurred in the current year	907,663	952,840
Payments on claims incurred in prior years	1,141,193	1,145,622
Recoveries on claims	(106,546)	(109,578)
Claims payments net of recoveries	1,942,310	1,988,884
Unpaid claims net – end of year	4,500,351	4,224,129
Recoverable from reinsurers	27,090	19,441
Unpaid claims gross – end of year	$ 4,527,441	$ 4,243,570
Unpaid claims – payable within one year	$ 1,442,495	$ 1,367,835
Unpaid claims – payable beyond one year	3,084,946	2,875,735
	$ 4,527,441	$ 4,243,570

Under accepted actuarial practice, the 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 unpaid claims balance would be approximately 2.5% (2002 - 3.3%) lower.

Unpaid claims as at December 31, 2003 includes an estimate of $119 million in anticipation of increases to the court tariff of 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.

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 claims totaling $6.7 million over the life of the current reinsurance contract. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency.

During the year 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 loss occurrences.

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 (see note 2), based on their length of service and highest five years' average earnings. The Pension Plans are funded through trust funds held by a corporate trustee separately from all other assets of the Corporation. 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.

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

	Pension Plans		**Post-retirement Benefits**	
($ THOUSANDS)	**2003**	**2002**	**2003**	**2002**
Plan assets				
Fair value at beginning of year	$ 564,260	$ 577,837	$ -	$ -
Actual return on plan assets	79,908	(15,151)	-	-
Employer contributions	13,263	9,139	1,453	591
Employees' contributions	15,985	11,073	-	-
Net transfers	1,342	-	-	-
Benefits paid	(17,946)	(18,638)	(1,453)	(591)
Fair value at end of year	656,812	564,260	-	-
Accrued benefit obligation				
Balance at beginning of year	533,990	445,605	63,307	45,483
Current service cost and employees' contributions	34,678	30,449	4,494	6,321
Net transfers	1,342	-	-	-
Plan adjustments	-	(4,530)	-	(2,412)
Interest cost	36,423	32,355	4,360	3,606
Actuarial losses	49,991	48,749	10,025	10,900
Benefits paid	(17,946)	(18,638)	(1,453)	(591)
Balance at end of year	638,478	533,990	80,733	63,307
Funded status – plan surplus (deficit)	18,334	30,270	(80,733)	(63,307)
Unamortized net actuarial losses	105,635	98,697	15,606	5,581
Unamortized plan adjustments	-	-	(2,211)	(2,412)
Unamortized transitional asset	(92,834)	(101,819)	-	-
Accrued benefit asset (liability)	$ 31,135	$ 27,148	$ (67,338)	$ (60,138)

The Pension Plans' assets consist of Canadian and foreign equities and government and corporate debt instruments.

Included in the above accrued benefit obligation are the following amounts in respect of plans that are not separately funded:

	Pension Plans		Post-retirement Benefits	
($ THOUSANDS)	2003	2002	2003	2002
Accrued benefit obligation and plan deficit	$ 7,299	$ 7,140	$ 80,733	$ 63,307

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

	Pension Plans		Post-retirement Benefits	
($ THOUSANDS)	2003	2002	2003	2002
Current service cost	$ 18,693[1]	$ 19,376[1]	$ 4,494	$ 6,321
Interest cost	36,423	32,355	4,360	3,606
Expected return on plan assets	(39,940)	(43,397)	-	-
Amortization of transition assets	(8,985)	(5,901)	-	-
Plan adjustments	-	(4,530)	(201)	-
Amortization of net actuarial (gain) loss	3,085	(319)	-	(70)
Net expense (recovery)	$ 9,276	$ (2,416)	$ 8,653	$ 9,857

[1] *net of employees' contributions of $15,985,000 (2002 - $11,073,000).*

The Corporation contributed $1.2 million in 2003 (2002 - $1.7 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		Post-retirement Benefits	
	2003	2002	2003	2002
Discount rate	6.1%	6.5%	6.1%	6.5%
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%

Extended healthcare trend rate is assumed to be a 65% increase in 2003, plus 10% per year for the next 10 years 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 for the years ending 2003 and 2002 are as follows:

($ THOUSANDS)	2003	2002
Operating costs - insurance		
Administrative and other expenses	$ 94,365	$ 84,615
Insurance services	41,207	41,267
Service fees for financing plans	(26,509)	(20,091)
	$ 109,063	$ 105,791
Operating costs - non-insurance		
Administrative and other expenses	$ 28,180	$ 27,023
Compliance operations (note 14d)	5,783	24,417
Payment to the Province for Compliance Operations (note 14d)	16,888	-
Driver services	35,665	32,429
	$ 86,516	$ 83,869

9. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAIDS

($ THOUSANDS)	2003	2002
Deferred premium acquisition costs	$ 111,000	$ 62,000
Prepaid expenses	7,192	2,236
	$ 118,192	$ 64,236

At year-end deferrable premium acquisition costs (commissions and premium taxes), which have been deferred over the period of the premiums to which they relate, are evaluated to determine if any of these costs are not expected to be recovered from unearned premiums. At year-end premium acquisition costs of $154 million (2002 - $146 million) are related to future periods. An actuarial evaluation determined that $111 million (2002 - $62 million) of this amount is allowable for deferral.

The commission and premium tax expenses reflected in the Consolidated Statement of Operations and Retained Earnings are as follows:

($ THOUSANDS)	Commissions	Premium Taxes	Total
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)
	$ 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
2002			
Amount payable	$ 199,774	$ 110,353	$ 310,127
Amortization of prior year deferred premium acquisition costs	12,096	4,982	17,078
Deferred premium acquisition costs	(40,184)	(21,816)	(62,000)
	$ 171,686	$ 93,519	$ 265,205
Represented as:			
Insurance	$ 156,259	$ 93,519	$ 249,778
Non-insurance	15,427	-	15,427
	$ 171,686	$ 93,519	$ 265,205

10. RESTRUCTURING COSTS

In 2002 the Corporation incurred costs to restructure its operations to improve efficiencies. These costs consisted mainly of severance arrangements, the cost of relinquishing leased premises and other costs of consolidating operations. As at December 31, 2002 accounts payable and accrued charges included $6.9 million, which were settled during 2003.

11. LEASE TERMINATION SETTLEMENT

The original plans for the Central City development included the Technical University of BC ("Tech BC") as one of the main anchor tenants. However, in early 2002 the provincial government revised its priorities and suspended operation of Tech BC, resulting in cancellation of the lease agreement. Tech BC paid $41.1 million to ICBC Properties Ltd. as compensation for terminating the lease.

12. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of Basic automobile insurance (see note 1) in British Columbia 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. 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 and retained earnings as operating costs, non-insurance (note 8).

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

13. FAIR VALUE

Fair value represents a year-end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than unpaid claims (note 2 and 5), investments (note 3), and post-retirement benefits (note 7), approximate their carrying value.

14. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports and past service history. The gross amount of these structured settlements at December 31, 2003 is approximately $594 million (2002 - $569 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 2003 the total amount financed was approximately $1.3 billion (2002 - $1.2 billion).

c) Across Canada, lawsuits have been launched alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. A class action lawsuit has been started against ICBC but has not yet been certified. There has been both success and failure of these class actions in other jurisdictions. The Corporation's management has determined that it is unable to reasonably assess the likelihood of the success of this legal action and therefore has not accrued for any potential lawsuit awards.

d) The Corporation has agreed to pay the Province $24.7 million a year 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)	
2004	$ 8,671
2005	6,273
2006	3,885
2007	2,735
2008	1,498
	$ 23,062

15. ALLOCATION OF REVENUES AND COSTS

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

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 Compliance Operations.

	Basic Coverage		Optional Coverage		Total	
($ THOUSANDS)	2003	2002	2003	2002	2003	2002
Premiums earned	$1,633,908	$ 1,546,777	$1,225,579	$ 1,081,716	$ 2,859,487	$ 2,628,493
Claims and operating costs						
Claims incurred and related costs	1,569,102	1,541,219	912,738	924,292	2,481,840	2,465,511
Operating expenses, premium taxes and commissions	163,324	152,740	220,578	202,829	383,902	355,569
	1,732,426	1,693,959	1,133,316	1,127,121	2,865,742	2,821,080
Prior years' claims adjustment	(8,853)	(10,752)	19,245	(14,039)	10,392	(24,791)
	1,723,573	1,683,207	1,152,561	1,113,082	2,876,134	2,796,289
Underwriting (loss) income	(89,665)	(136,430)	73,018	(31,366)	(16,647)	(167,796)
Investment income	228,844	233,146	101,092	94,123	329,936	327,269
Insurance operations income	139,179	96,716	174,110	62,757	313,289	159,473
Non-insurance costs	102,601	99,296	-	-	102,601	99,296
Income (loss) before the undernoted	36,578	(2,580)	174,110	62,757	210,688	60,177
Gain on sale of property and equipment	8,890	-	5,229	-	14,119	-
Restructuring costs	-	(10,110)	-	(5,099)	-	(15,209)
Net income (loss)	$ 45,468	$ (12,690)	$ 179,339	$ 57,658	$ 224,807	$ 44,968

16. ROLE OF THE ACTUARY AND AUDITORS

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with generally accepted actuarial practice and federal 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 and his report on 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.

17. COMPARATIVE FIGURES

Certain comparative figures in these statements have been reclassified to conform to the current year's presentation.

18. SUBSEQUENT EVENT

In March 2004, the Corporation reached an agreement to sell a portion of the Central City development to Simon Fraser University.

Customer Driven…

…to be accountable

Corporate Governance

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management. Governance of a crown corporation also requires that responsibility be clearly articulated for meeting public policy objectives. At the highest level, governance of a crown corporation is defined through legislation applicable to all crown corporations, such as the *Budget Transparency & 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.

ICBC AS A REGULATED CROWN ENTITY

The *Insurance Corporation Amendment Act* was enacted in August 2003, which appointed the British Columbia Utilities Commission (BCUC) as the independent regulator for ICBC. The primary responsibility of the BCUC will be to approve rates for basic insurance and to ensure that basic insurance premiums do not subsidize optional insurance.

In the provision of basic and optional insurance, and non-insurance services on behalf of government, ICBC is also required to adhere to requirements under provincial legislation, including the *Motor Vehicle Act and the Sales Tax Act* (of BC). During the year, changes were enacted to the legislation governing basic and optional insurance to establish a competitive environment that ICBC and all private insurance companies must operate within. The *Insurance Act* and the *Insurance Motor Vehicle Act* were restructured and renamed to the *Insurance (Vehicle) Act* setting out optional insurance provisions for both ICBC and private insurers.

ICBC BOARD GOVERNANCE

As a crown corporation, ICBC's board members are appointed by the Lieutenant-Governor-in-Council. In late 2003, a new Chair was appointed to ICBC's Board of Directors with the previous incumbent continuing in the role of President and CEO. The Board currently 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 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 form the basis upon which accountability and performance is evaluated. Performance against these goals and objectives is reviewed periodically and revised when necessary.

ICBC has in place a risk assessment framework which defines the corporate approach towards the effective assessment and management of risk. The main objectives are to identify risks and raise awareness throughout the Corporation, and to initiate action to mitigate significant risks. The framework was approved by the Board in February 2003, and is being used to monitor strategic risks and progress on mitigation strategies. Management and the Board review the framework and risks annually.

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. In 2003, changes were incorporated to reflect the new reporting structure with the BCUC. During the year, evaluations of the Board and Committees were undertaken, and a review of the Board's composition and Director criteria was completed.

The chart on the opposite page shows the members of ICBC's Board of Directors, Committees of the Board and mandates.

CORPORATE STRUCTURE

In 2003 ICBC had one wholly owned subsidiary, ICBC Properties Ltd. (IPL), which was created in 1999 to manage the real estate held within ICBC's investment portfolio, including real estate development. With the completion of the Central City development and realignment of investment objectives, IPL was dissolved in early 2004. Surrey City Center Mall Ltd., which was previously a subsidiary of IPL, will now be held by ICBC directly and will continue as a separate legal entity for the sole purpose of holding and operating Central City. Other properties previously held by IPL will be managed through ICBC's investment portfolio in accordance with the Corporation's investment policy and the associated framework governing ICBC's investments.

Board of Directors

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

Governance Committee

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

Bob Quart (Chair)
Lisa Pankratz
Terry Squire

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.

Bob Quart (Chair)
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.

Leslie G. Cliff (Chair)
Lisa Pankratz
Felix Ts'o
Diane Fulton*

Human Resources and Compensation Committee

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

Susan I. Paish (Chair)
Alice Downing
Ted Smith

IPL Board of Directors

Mandate: To build and manage a real estate investment portfolio in accordance with ICBC's investment policy.**

Nick Geer (Chair)
Bob Quart
Felix Ts'o

* *Ex officio member*
** *With the completion of the Central City development and realignment of investment objectives, IPL was dissolved in 2004.*

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 leadership 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.

ICBC Board of Directors and Executives

BACK ROW FROM LEFT:

Donnie Wing
Vice-President Investments & Corporate Development

Lisa Pankratz
Board Member

Keith Stewart
Vice-President Information Services

Ted Smith
Board Member

John Madden
Vice-President Human Resources & Corporate Law

Bob Quart
Board Vice-Chair

Geri Prior
Chief Financial Officer

Terry Squire
Board Member

FRONT ROW FROM LEFT:

Leslie Cliff
Board Member

Susan Paish
Board Member

Bill Goble
Chief Operating Officer

P. Nicholas (Nick) Geer
President & CEO

T. Richard Turner
Board Chair

Judy Maddocks
Senior Vice-President Insurance

Felix Ts'o
Board Member

Alice Downing
Board Member

Greater Vancouver	
Claim Centres	12
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Agents	308

Fraser Valley	
Claim Centres	6
Driver Services Centres	4
Government Agents	1
Appointed Agents	2
Agents	228

Vancouver Island	
Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	16
Agents	148

Southern Interior	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Agents	149

North/Central	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Agents	61

ICBC Points of Service

Greater Vancouver

Claim Centres
- Burnaby
- 5th and Cambie, Vancouver
- Capilano, North Vancouver
- Coquitlam
- East Vancouver
- Kingsway, Vancouver
- Lake City, Burnaby
- Maple Ridge
- New Westminster
- Sechelt Resident Office
- Squamish
- South Vancouver

Driver Services Centres
- Burnaby
- Coquitlam
- Coquitlam (Exp)
- Metrotown, Burnaby (Exp)
- North Vancouver
- Point Grey, Vancouver
- Robson Square, Vancouver
- Vancouver East

Government Agents
- Maple Ridge

Appointed Agents
- Gibsons
- Pemberton
- Sechelt
- Squamish
- Whistler

Fraser Valley

Claim Centres
- Abbotsford
- Chilliwack
- Langley
- Newton, Surrey
- Richmond
- Surrey

Driver Services Centres
- Abbotsford
- Langley
- Richmond
- Surrey

Government Agents
- Chilliwack

Appointed Agents
- Agassiz
- Hope

Vancouver Island

Claim Centres
- Campbell River
- Courtenay
- Duncan
- Nanaimo
- Port Alberni
- Powell River
- Victoria

Driver Services Centres
- Nanaimo
- Victoria McKenzie
- Victoria Wharf

Government Agents
- Campbell River
- Courtenay
- Duncan
- Nanaimo
- Port Alberni

Appointed Agents
- Alert Bay
- Chemainus
- 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

PI186J (032004)