Financial Report

Discussion of Results

Financial Resource Summary Table

This report contains statements regarding the business of the company. The table below provides an overview of ICBC's 2015 financial performance relative to its 2015 – 2017 Service Plan

($ millions)[1]	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Budget	2015 Actual	2015 Variance	2014/15 Variance
Premiums earned [2]	3,674	3,811	3,928	4,159	4,371	4,448	77	289
Service fees and other	50	54	56	88	91	94	3	6
Total earned revenues	**3,724**	**3,865**	**3,984**	**4,247**	**4,462**	**4,542**	80	295
Provision for claims occurring in the current year	2,880	3,022	3,167	3,379	3,454	3,798	(344)	(419)
Change in estimates for losses occurring in prior years [3]	(14)	(69)	(54)	181	(8)	244	(252)	(63)
Net claims incurred	**2,866**	**2,953**	**3,113**	**3,560**	**3,446**	**4,042**	(596)	(482)
Claims service and loss management [4]	320	323	321	335	337	321	16	14
Insurance operations expenses [4]	189	181	173	218	226	217	9	1
Transformation Program [4]	20	13	23	24	29	27	2	(3)
Premium taxes and commissions [4, 5]	517	463	541	468	508	601	(93)	(133)
Total expenses	**3,912**	**3,933**	**4,171**	**4,605**	**4,546**	**5,208**	(662)	(603)
Underwriting loss	**(188)**	**(68)**	**(187)**	**(358)**	**(84)**	**(666)**	(582)	(308)
Investment income	441	443	671	852	425	920	495	68
Restructuring [3]	-	25	(3)	-	-	-	-	-
Income - insurance operations	**253**	**350**	**487**	**494**	**341**	**254**	(87)	(240)
Non-insurance operations expenses [4]	87	93	91	99	106	100	6	(1)
Non-insurance commissions [4]	26	28	28	28	30	30	-	(2)
Non-insurance - other income	-	-	-	(5)	(5)	(7)	2	2
Net income	**140**	**229**	**368**	**372**	**210**	**131**	(79)	(241)
Excess Optional capital transfer to the Province of British Columbia	101	-	237	139	160	138		
At year end:								
Long-term debt	Nil	Nil	Nil	Nil	Nil	Nil		
Total liabilities	10,002	10,608	11,507	12,267	12,850	13,552		
Equity:								
- Retained earnings	2,654	3,014	3,146	3,380	3,439	3,372		
- Other components of equity	272	233	497	236	243	(262)		
- Non-controlling interest	-	-	-	-	-	36		
Total equity	**2,926**	**3,247**	**3,643**	**3,616**	**3,682**	**3,146**		
Capital Expenditures								
Transformation Program	34	56	62	50	55	54		
Non-Transformation Program	52	18	17	31	60	40		
Total Capital Expenditures	86	74	79	81	115	94		
Autoplan policies earned [6]	3,321,000	3,372,000	3,429,000	3,493,000		3,596,000		
Average premium ($) [7]	1,079	1,100	1,130	1,153		1,196		
Claims reported during the year [8]	900,000	915,000	917,000	900,000		858,000		

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). The 2012 numbers were restated for comparative purposes to reflect the adoption of IAS 19 (Amendment) Employee Benefits and other adjustments in 2013. The 2014 numbers reflect revenue and expense reclassifications, which had no impact on net income.

[2] Premiums earned are net of mid-term changes and cancellation refunds.

[3] ( ) denotes a favourable adjustment, i.e., a reduction in expense.

[4] See Note 17 of the consolidated financial statements for details of Operating Costs by Nature.

[5] Premium taxes and commissions include deferred premium acquisition cost adjustments.

[6] Annualized values have been used for policies with a term of less than 12 months.

[7] Average premium is based on premiums earned.

[8] Claims reported represent the number of claims reported against purchased insurance coverages.

Our 2015 net income of $131 million was $241 million lower than the 2014 net income of $372 million and $79 million lower than plan. These decreases are primarily due to higher claims costs partially offset by higher investment income and higher premiums earned.

Premiums earned
Premiums earned increased to $4,448 million in 2015 from $4,159 million in 2014, and increased by $77 million over plan. This is due to the impact of the Basic rate increase of 5.2%, effective November 1, 2014 and a greater than expected growth in the number of insured vehicles.

Service fees and other
Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period. In 2015, service fees increased by $6 million from 2014 mainly due to higher premiums earned. Service fees and other in 2015 were consistent with plan.

Claims costs
Cost of claims incurred account for approximately three-quarters of our total expenditures. They are comprised of the expected costs to settle claims for all crashes that have occurred during the calendar year, regardless of when the crash is reported to us, and the change in estimates for losses occurring in prior years. Claims incurred costs include payments made to settle claims, case adjusters' reserves, actuarial estimates of the additional costs that will be paid out on known claims and claims not yet reported.

Claims incurred costs are affected by the growth in the number of policies, the chance of having a claim (frequency) and the average expected costs to settle those claims (severity). Frequency is influenced by factors that include driving and claimant behaviour, driver experience, weather and the effectiveness of road safety and loss management programs. Severity is influenced by factors that include settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

In 2015, ICBC has observed higher-than-expected claims frequency and a continuing trend of more injury claims per crash. More of these claims are being represented by legal counsel and there has also been a shift in claims mix towards more complex claims, which increases total claims costs and severity. An increase in material damage repair costs has also been observed.

Overall 2015 net claims incurred costs of $4,042 million were $482 million higher compared to 2014. This increase was driven by current year claims costs increasing by $419 million, and an unfavourable adjustment of $63 million to the estimation of prior years' claims costs compared to 2014. The increases in net claims incurred costs are primarily due to increasing bodily injury costs as discussed above.

Net claims incurred costs in 2015 were $596 million higher than plan, with an increase of $344 million in current year claims costs and $252 million in prior years' adjustments.

ICBC's management has been working with government to develop strategies including various claims and financial mitigation initiatives that will assist in keeping Basic rate changes as low as possible.

The overall average cost of current year claims that occurred in 2015 increased by approximately 7% over 2014 from the increases in both average costs of injury and material damage claims.

($ millions)	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
Net Claims Incurred Costs	**2,866**	**2,953**	**3,113**	**3,560**	**4,042**
Injury	1,823	1,944	2,039	2,438	2,748
Material Damage and Other	1,043	1,009	1,074	1,122	1,294

Data Source: ICBC financial systems

Injury claims
Current year injury claims account for over 65% of current year claims incurred costs in 2015, and include bodily injury claims and accident and death benefit claims. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses and external claims handling expenses.

Overall, the total cost of current year injury claims increased by 12% in 2015 compared to 2014. This reflects an increased frequency of injury claims as well as higher severity for bodily injury costs as discussed above.

Bodily injury claims costs accounted for over 90% of all injury claims costs and increased by $250 million to $2,380 million in 2015 compared to 2014.

($ millions)	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
Current Year Injury Claims Incurred (major categories)	**1,817**	**2,001**	**2,089**	**2,295**	**2,563**
Bodily Injury	1,692	1,857	1,930	2,130	2,380
Accident & Death Benefits	125	144	159	165	183

Data Source: ICBC financial systems

Material damage (non-injury) claims
Material damage claims can mostly be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current year material damage claims increased approximately 11% in 2015 compared to 2014. This reflects an increase of 7% in the average cost of material damage claims, and increased claims frequency.

($ millions)	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual
Current Year Material Damage Claims Incurred (major categories)	**972**	**967**	**980**	**1,038**	**1,156**
Property damage	381	370	382	401	433
Collision	406	403	416	427	491
Comprehensive	133	138	126	150	166
Windshield	52	56	56	60	66

Data Source: ICBC financial systems

Change in estimates for losses occurring in prior years
Adjustments to the prior years' claims reserves are due to the re-estimation of future payments

for claims incurred in prior years that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined.

In 2015, the change in estimates for losses occurring in prior years was unfavourable as compared to 2014. This is a result of a shift towards more complex injury claims, as discussed previously. Complex claims take longer to settle and, in general, cost more; therefore, additional reserves have been set aside to reflect this shift. Material damage claims from prior years have also cost more than anticipated.

Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the year based on revised actuarial estimates, which include a provision for adverse deviation (see note 2d of the consolidated financial statements).

The provision for unpaid claims at the end of 2015 was $9,093 million; however, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury claims accounts for approximately 90% of total unpaid claims costs. As illustrated in the following table, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater portion of the costs being an estimate of claims costs payable in future years.

	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	End of Year 6
Breakdown of Bodily Injury Costs (%) (typical accident year)	**100**	**100**	**100**	**100**	**100**	**100**
Paid	4	14	28	45	65	81
Unpaid	96	86	72	55	35	19

Data Source: ICBC financial systems

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

We earn investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims are ultimately paid. In accordance with accepted actuarial practice in Canada, we report our provision for unpaid claims on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims. The discount rate is based on the expected return of our current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. In 2015, the discount rate decreased by 13 basis points from prior year, which increased the balance in unpaid claims.

Road safety and loss management

In 2015, ICBC invested $50 million in road safety initiatives and loss management programs,

which include auto crime and fraud prevention, investigation and detection to help reduce claims costs, giving customers the best insurance coverage for the lowest possible costs.

Using a safe systems approach, we target our road safety investments on the major risks that impact customers and costs in our business, including distractions, high-risk driving, vulnerable road users and commercial vehicle safety. We work with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

This year, ICBC completed an evaluation of our Road Improvement Program which examined over 100 locations that were subjected to road safety engineering improvements over a two year period. The results indicated that there were significant crash reductions after the implementation of the road improvements. ICBC's partnership in road improvement projects has led to a 24 per cent reduction, on average, in severe crashes – those resulting in serious injuries and fatalities – and a 15 per cent reduction in property damage claims after an improvement is completed.

ICBC renewed its Memorandum of Understanding with the Ministry of Justice and Attorney General for another two years. The Memorandum of Understanding supports the Enhanced Traffic and Road Safety Enforcement Program, which includes allowing additional traffic enforcement officers to be hired to focus on reducing the risk on the road. This typically includes distracted driving, speed, impaired driving and intersection behavior.

Distracted driving related crashes continue be one of the leading causes of car crash fatalities in B.C. In 2015, we continued our partnerships with law enforcement and government to raise awareness of the consequences and penalties associated with distracted driving to reduce injury and death on B.C. roads. In 2015, ICBC supported the Ministry of Transportation and Infrastructure and the Ministry of Justice and Attorney General in developing recommendations for additional fines and penalty points for distracted driving offences.

We continued to invest in auto crime programs like Bait Car, Stolen Auto Recovery, Auto Crime Enforcement Month, and community partnerships that work towards reducing auto crime in B.C. Initiatives such as Lock Out Auto Crime notices and awareness signage help educate vehicle owners on ways to prevent auto crime.

ICBC has been fighting fraud for decades and is taking steps to detect and deter even more cases of fraud. ICBC’s Cyber Unit leverages the internet and social media to combat exaggerated and fraudulent claims. As the number of social networking sites has expanded in recent years, so has ICBC’s use of them as a means to combat fraud. In 2015, ICBC’s Special Investigations Unit opened approximately 5,000 claims investigations.

Operating costs

Operating costs include compensation and other costs required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes.

In 2015, ICBC continued to focus on managing operating costs prudently. Insurance operating costs of $538 million were lower than the 2014 operating costs, primarily due to lower compensation costs from the continued effort to manage workload and resources. Insurance operating costs in 2015 were $25 million lower than plan.

The Transformation Program is a multi-year initiative where 2015 project operating expenses totaled $27 million including operational costs and depreciation expenses. The spending levels in

2015 were within plan.

Included in total operating costs are non-insurance costs of $100 million, which consist of costs for administering driver licensing, vehicle registration and licensing and government fines collection. Non-insurance costs are funded from Basic insurance premiums.

($ millions)	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual
Operating Costs	**616**	**635**	**606**	**676**	**698**	**665**
Insurance	509	504	494	553	563	538
Transformation Program [1]	20	13	23	24	29	27
Non-Insurance	87	93	92	99	106	100
Restructuring costs	-	25	(3)	-	-	-

[1] Transformation Program operating costs in table include depreciation.

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

($ millions)	2014 Actual	2015 Actual
Operating Costs by Nature		
Employee benefit expense	433	423
Professional, administrative and other	174	172
Road improvements and other traffic safety programs	32	33
Depreciation & amortization	37	37
	676	**665**

Re-allocation of Transformation Program costs

As with any multi-year business transformation, it is common to review scope, cost and budget allocation and timing for individual projects as they progress.

In 2014 and 2015, ICBC reviewed the Transformation Program which involved ICBC's independent external advisors and focused on ensuring the program costs were tightly aligned with the original scope of Order in Council (OIC) 222/2010 and aligned with principles developed with an independent external business advisor that are consistent with best practices for large transformational projects.

As a result of these reviews in March 2015, ICBC's Board of Directors approved the reallocation or elimination of $50.4M from Transformation Program current and future costs; and in December 2015, the Board approved the reallocation of an additional $55.7M in mostly historical costs to general operating expenses.

All of the non-project related historical costs have moved from the Transformation Program into ICBC's general business operating expenses. There has been no impact to net income or basic insurance rates.

The Transformation Program's overall $400M budget remains unchanged. The Program is expected to achieve approximately $90-100 million annual savings and improve customer experience by streamlining how ICBC conducts its business and making it easier and more

convenient for British Columbians to access ICBC services.

Acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of our insurance products and the administration of driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4% of premiums) collected and paid to the provincial government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are expensed on a similar basis. At year-end, the unexpended portion of these costs are deferred and reflected as deferred premium acquisition costs. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, deferred premium acquisition costs are written down and recognized as a premium deficiency. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses. At 2015 year-end, the Optional line of business has deferred premium acquisition costs of $163 million, while the Basic line of business has a premium deficiency of $76 million (see note 18 of accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $631 million were $135 million higher than 2014. This is mainly due to an unfavourable deferred premium acquisition cost adjustment from higher than expected claims costs resulting in decreased profitability in the Basic business. Broker commissions and premium taxes are also higher by $21 million and $11 million respectively due to higher premiums earned.

Acquisition costs were $93 million higher than plan due to an unfavourable deferred premium acquisition costs adjustment as a result of higher claims costs.

Investments

We have an investment portfolio with a carrying value of $14.7 billion, which represents 88% of the company's total assets at the end of 2015.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims, unearned premiums and retained earnings. We maintain a conservative investment portfolio which has a significant allocation to high-quality fixed income securities.

At December 31, 2015, 73% of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 22% of the portfolio was invested in equity and real estate investments. A further 5% of the portfolio has been allocated to high yield bonds.

Investment income

In 2015, our investment income was $920 million. The increase of $68 million from 2014 reflects gains realized when US, European, Australasia and Far East equities were sold to transition to a portfolio of Global equities. Interest income on US high yield bonds also increased from prior year, as a full year of interest income was earned. Investment income also benefited from US dollar exposure within the bond portfolio as the US dollar appreciated in relation to the weakened Canadian dollar. Increases in investment income were offset by fewer dividends received. Overall, these results equate to an accounting investment return of 6.5% in 2015, compared to 6.4% in 2014, based on the average investment balance during the year on a cost basis. The higher accounting return is reflective of strong investment income in 2015.

($ millions)	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual
Investment Income	**441**	**443**	**671**	**852**	**425**	**920**
Interest, dividends & other income	249	309	338	418	370	333
Gains	192	134	333	434	55	587

Investment income was $495 million higher than plan due equity gains associated with the transition from US and European, Australasia and Far East equities to a Global equity portfolio, foreign exchange gains on high yield US bonds due to the weakened Canadian dollar, and unplanned bond gains.

Equity

Our equity includes retained earnings of $3,371 million and a net loss in other components of equity of $262 million as at December 31, 2015. Retained earnings help to absorb significant unexpected increases in claims costs and volatility in the financial markets. We have a strong capital base enabling us to withstand adverse claims experience and unfavourable financial market situations which have been volatile in recent years, protect our policyholders and continue to provide our customers with the best coverage at the lowest possible price.

Bonds and equities are measured at fair value on the consolidated statement of financial position, with changes in fair value (unrealized gains and losses) included in other components of equity, which decreased to an unrealized loss position of $51 million at December 31, 2015. This decrease primarily reflected the recognition of gains from the sale of equity and bond investments to net income and the decrease in the fair market value of our equity portfolio due to the weakening performance of the equity markets at the end of the year.

Similar to the private insurance industry, the adequacy of equity or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators.

The common industry method used to measure financial stability is the minimum capital test ratio, an OSFI risk-based capital adequacy framework which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. OSFI requires its regulated property and casualty insurers to meet minimum capital test targets.

Although not regulated by OSFI, we have established management targets for minimum capital test ratio in excess of ICBC's regulatory targets to take into consideration relevant factors such as business risks and requirements, and the volatility inherent in the insurance business such as changes to claims costs and in the investment markets. The 2015 internal management target level for corporate minimum capital test was a target of 185%, which is consistent with 2014. At December 31, 2015, our total corporate minimum capital test level of 157% fell short of the management target due to the increase in claims costs. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 20 and 22 of the accompanying consolidated financial statements.

Excess Optional capital transfer

The excess Optional capital transfer to the Province of B.C. of $138 million is $22 million lower than plan, primarily due to higher claims costs.

Basic and Optional operations

We operate as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to our customers such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. ICBC manages and reports the financial results of its operations on an integrated basis. Detailed financial information on the Basic and Optional lines of business is included in note 22 of the accompanying consolidated financial statements. The following paragraph provides a high-level summary of results for both the Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business incurred a net loss of $257 million, which was $344 million worse than the 2014 net income of $87 million. The Basic net income decreased from the prior year due to higher claims costs as discussed above. This increase in claims costs is offset by higher premium revenue from the Basic rate increase of 5.2% effective November 1, 2014 and higher investment income from equity gains.

The Optional insurance business generated net income of $388 million in 2015. Optional net income increased $102 million from 2014 mainly due to higher revenues from increased new vehicle sales and higher investment income, and partially offset by higher claims costs as noted above.

Subsidiaries

The Corporation does not have any active operating subsidiary companies.

The Corporation has 44 nominee holding companies, which hold investment properties for the purpose of generating investment income. ICBC owns 100% of the controlling interest for all of its nominee companies except one, for which ICBC has 90% controlling interest. ICBC has disclosed a listing of all of its nominee holding companies in Appendix A.

All of the nominee holding companies are consolidated in our financial statements. The basis of consolidation is explained in note 2b and a summary of the income from investment properties is provided in note 10 of the accompanying consolidated financial statements.

Major Capital Projects

Major Capital Projects* $ millions	Targeted Completion Date (Year)	Approved Anticipated Total Cost of Project	Actual Cost to Dec 31, 2015
Transformation Program ICBC's modernization of the company through the Transformation Program is in the final year of this multi-year program and most of the projects have been completed. The largest of these remaining projects is the Insurance Sales and Administration System (ISAS) project, which is the new policy administration, vehicle licensing and registration system for brokers. To mitigate any risks associated with not completing the Transformation Program, a comprehensive governance model with a strict approval process that provides oversight on scope, timelines, and budget. ICBC's internal and external oversight bodies (for example, Board of Directors, Executive Committee, a third-party independent risk advisor to the Board) ensure decisions align to corporate strategy to support the business transformation underway and other corporate projects.	2016	318	269

* This table reflects projects with capital expenditures over $50 million. The capital expenditures in this table are a subset of the capital expenditures reported in the Financial Resource Summary Table on page 19.