Financial Report

Discussion of Results

Highlights

ICBC's 2019/20 fiscal net loss was $376 million. Unfortunately, the COVID-19 global pandemic had a significant negative impact on ICBC's bottom line. The sudden and significant negative impact to the economy and global investment markets resulted in a large investment impairment charge. Further, the market downturn caused a reduction in market yields, which resulted in a lower rate to discount claims liabilities; increasing claims costs.

In February 2019, Government announced amendments to the Rules of Court to address the use of experts and expert reports in claim cases, which was challenged by a civil claim filed in April 2019. On October 24, 2019, the B.C. Supreme Court ruled these changes to be unconstitutional ("Crowder decision").

As a result, this reversal of the associated financial benefits is reflected in the 2019/20 financials. In February 2020, Government announced proposed amendments to the *Evidence Act* in response to the Crowder decision. The legislative and supporting regulatory changes under the Evidence Act did not pass by ICBC's fiscal year-end and as a result, ICBC could not recognize associated claims cost savings in fiscal 2019/20. Without the COVID-19 pandemic impacts, ICBC's financial performance would have been significantly better than budget.

ICBC's financial results for 2019/20 also represent the combination of outcomes under two separate insurance products. ICBC continues to face significant cost pressures on claims under the full tort product, which applies to crashes that occurred prior to April 2019. For claims arising from crashes that occurred within the current fiscal year, the new minor injury cap insurance product is in place, which includes increased benefits available to all customers who are injured in a crash, a limit on pain and suffering payouts for minor injuries, and a new independent claims dispute resolution process for most claims through the Civil Resolution Tribunal. These changes have helped bring claims costs more in line with premiums resulting in a positive underwriting income for the post-April 2019 insurance product; although risks remain including constitutional challenges to the reforms. The pre-April 2019 full tort product continues to experience cost pressures primarily from large and complex represented claims resulting in a significant underwriting loss.

Net claims incurred in 2019/20 are lower than the previous year mainly due to the April 2019 reforms and a decline in crash frequency. These benefits were partly offset by the reversal of savings due to the Crowder decision and by a lower rate to discount claims liabilities, due to lower prevailing interest rates as a result of the global investment market downturn caused by the COVID-19 pandemic.

Financial Summary

The table below provides an overview of ICBC's 2019/20 financial performance relative to its *2019/20—2021/22 Service Plan*.

$ millions [1]	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Premiums earned [2]	5,823	6404	6,286	(118)
Service fees and other	125	135	148	13
Total earned revenues	**5,948**	**6,539**	**6,434**	**(105)**
Provision for claims occurring in the current year	5,308	5,499	4,728[3]	771
Change in estimates for losses occurring in prior years	1,221	29	1,180[3]	(1,151)
Net claims incurred	**6,529**	**5,528**	**5,908**	**(380)**
Claims service and loss management [4]	419	472	464	8
Insurance operations expenses [4]	279	296	304	(8)
Premium taxes and commissions [4, 5]	307	748	741	7
Total expenses	**7,534**	**7,044**	**7,417**	**(373)**
Underwriting loss	**(1,586)**	**(505)**	**(983)**	**(478)**
Investment income	581	587	1,058	471
(Loss) income - insurance operations before impairment loss	**(1,005)**	**82**	**75**	**(7)**
Non-insurance operations expenses [4]	102	107	110	(3)
Non-insurance commissions [4]	31	32	31	1
Non-insurance - other income	(7)	(7)	(7)	-
Net loss before impairment loss	**(1,131)**	**(50)**	**(59)**	**(9)**
Impairment loss	(23)	-	(317)[6]	(317)
Net loss	**(1,154)**	**(50)**	**(376)**	**(326)**
At year end:				
Total liabilities	19,728	20,252	22,119	
(Deficit) Equity:				
- Deficit	(20)[7]	(97)	(396)	
- Other components of equity	124[7]	(148)	(165)	
- Non-controlling interest	15	15	14	
Total equity (deficit)	**119**	**(230)**	**(547)**	
Capital Expenditures	66	92	62	
Autoplan policies earned [8]	3,895,000		3,971,000	
Average premium ($) [9]	1,441		1,544	
Claims reported during the year [10]	1,021,000		983,000	

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS).
[2] Premiums earned are net of mid-term changes and cancellation refunds.
[3] For 2019/20, the reversal of the savings from the Crowder decision is reflected in current year claims and in prior years' claims adjustments.
[4]See Note 21 of the consolidated financial statements for details of Operating Expenses by Nature.
[5] Premium taxes and commissions include deferred premium acquisition cost adjustments.
[6] For 2019/20, due to the COVID-19 pandemic, the equity impairment loss was $298M.
[7] Balance adjusted due to rounding.
[8]Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating
[9] Average premium is based on Autoplan premiums earned.
[10] Claims reported represent the number of claims reported against purchased insurance coverages.

The table below shows ICBC's 2019/20 financial performance between the post-April 1, 2019 minor injury cap product and the pre-April 2019 full tort product. As the full tort product is no longer available, written premiums and earned premium revenue are fully attributable to the minor injury cap product. The full tort product is showing a net loss primarily due to the $1,180 million change in estimates for losses occurring in prior years. Although the reversal of savings from the Crowder decision was a significant portion of this adjustment, ICBC continues to face increasing cost pressures from large and complex represented full tort outstanding claims.

$ millions	**Minor Injury Cap Product**	**Full Tort Product**	**Non-Insurance and Support**	**Total**
	2019/20	**2019/20**	**2019/20**	**2019/20**
Net premiums written	6,356	-	-	6,356
Revenues				
Net premiums earned	6,286	-	-	6,286
Service fees and other income	148	-	-	148
Total earned revenues	6,434	-	-	6,434
Claims and operating expenses				
Provision for claims occurring in the current year [1]	4,728	-	-	4,728
Change in estimates for losses occurring in prior years [1]	-	1,180	-	1,180
Claim services, road safety and loss management services	192	214	58	464
	4,920	1,394	58	6,372
Operating expenses – insurance	245	59	-	304
Premium taxes and commissions – insurance	741	-	-	741
	5,906	1,453	58	7,417
Underwriting income (loss)	528	(1,453)	(58)	(983)
Investment income	352	706	-	1,058
Income (Loss) – insurance operations before impairment loss	880	(747)	(58)	75
Loss – non-insurance operations	-	-	(134)	(134)
Net income (loss) before impairment loss	880	(747)	(192)	(59)
Impairment loss [2]	(105)	(212)	-	(317)
Net income (loss)	775	(959)	(192)	(376)

[1] For 2019/20, the reversal of the savings from the Crowder decision is reflected in current year claims and in prior years' claims adjustments.
[2] For 2019/20, due to the COVID-19 pandemic, the equity impairment loss was $298M.

Basic and Optional Comparative Summary Table

$ millions	Basic - Actual vs. Prior Year			Optional - Actual vs. Prior Year		
	2018/19 Actual	2019/20 Actual	2019/20 Variance	2018/19 Actual	2019/20 Actual	2019/20 Variance
Premiums earned [1]	3,390	3,564	174	2,433	2,722	289
Service fees and other	74	87	13	51	61	10
Total earned revenues	**3,464**	**3,651**	**187**	**2,484**	**2,783**	**299**
Provision for claims occurring in the current year	3,621	2,900[2]	721	1,687	1,828[2]	(141)
Change in estimates for losses occurring in prior years	718	757[2]	(39)	503	423[2]	80
Net claims incurred	**4,339**	**3,657**	**682**	**2,190**	**2,251**	**(61)**
Claims service and loss management	280	313	(33)	139	151	(12)
Insurance operations expenses	120	132	(12)	159	172	(13)
Premium taxes and commissions [3]	(136)	193	(329)	443	548	(105)
Total expenses	**4,603**	**4,295**	**308**	**2,931**	**3,122**	**(191)**
Underwriting loss	**(1,139)**	**(644)**	**495**	**(447)**	**(339)**	**108**
Investment income	413	734	321	168	324	156
(Loss) income - insurance operations before impairment loss	**(726)**	**90**	**816**	**(279)**	**(15)**	**264**
Non-insurance operations expenses	102	110	(8)	-	-	-
Non-insurance commissions	31	31	-	-	-	-
Non-insurance - other income	(7)	(7)	-	-	-	-
Net loss before impairment loss	**(852)**	**(44)**	**808**	**(279)**	**(15)**	**264**
Impairment loss	(16)	(220)[5]	(204)	(7)	(97)[4]	(90)
Net loss	**(868)**	**(264)**	**604**	**(286)**	**(112)**	**174**
At year end: [5]						
Liabilities:						
Unearned premiums	1,636	1,651		1,249	1,304	
Provisions for unpaid claims	10,338	11,318		3,950	4,686	
Equity (Deficit):						
- Retained earnings (deficit)	65	(198)		(85)[6]	(198)	
- Other components of equity	92	(112)		32[6]	(53)	
- Non-controlling interest	10	9		5	5	
Total equity (deficit)	**167**	**(301)**		**(48)**	**(246)**	

[1] Premiums earned are net of mid-term changes and cancellation refunds.
[2] For 2019/20, the reversal of the savings from the Crowder decision is reflected in current year claims and in prior years' claims adjustments.
[3] Premium taxes and commissions include deferred premium acquisition cost adjustments.
[4] For 2019/20, due to the COVID-19 pandemic, the equity impairment loss was $207M in Basic and $91M in Optional.
[5] Balances presented at year end as of March 31, 2019 and March 31, 2020, respectively.
[6] Balance adjusted due to rounding.

Variance and Trend Analysis

The 2019/20 net loss of $376 million was $778 million lower than the $1,154 million net loss in 2018/19. The COVID-19 pandemic had a significant and sudden negative impact on global investment markets resulting in ICBC taking a substantial impairment charge on its equity investments. Excluding this impairment charge, ICBC had a net loss of $59 million. The year-over-year improvement was mainly due to lower claims costs, higher premiums earned, and higher investment income, partially offset by the investment impairment charge, the reversal of savings from the Crowder decision and an unfavourable deferred premium acquisition cost (DPAC) adjustment.

Compared to budget, the current year's net loss was $326 million higher than the budgeted net loss of $50 million. This was largely due to higher than expected prior years' claims adjustments as the result of the reversal of savings from the Crowder decision, lower discount rate, and the increased emergence of large bodily injury claims from prior years.

Premiums earned

Premiums earned in 2019/20 were $6,286 million, which is an increase of $463 million compared to 2018/19. This is due to the growth in the number of insured vehicles and the impact of the Basic insurance rate increase of 6.3 per cent effective April 1, 2019. Optional insurance rate increases also contributed to increased premiums earned. Premiums earned were lower than budget due to a lower average premium per policy and lower policy growth than expected. Lower premium per policy compared to budget was largely due to the impact from customers listing fewer high-risk drivers than expected with the introduction of a driver-based insurance model in September 2019.

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. Service fees were higher than the prior year and budget due to an increase in the financing fee and higher participation in payment plans.

Claims costs

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 as well as the increasing number of new vehicles with advanced safety features installed. Severity is influenced by factors that include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

Cost of claims incurred account for more than three quarters of ICBC's total costs. They are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period, regardless of when the crash was reported to ICBC, and the change in estimates for losses that occurred in prior periods. Claims incurred costs include payments made to settle

claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on known claims and claims not yet reported.

The estimation of claims development involves assessing the future behaviour of incurred claims, taking into consideration the closure rates, payment patterns, consistency of ICBC's claims handling procedures, the amount of information available at the time of the valuation, including the legal representation status of claims, and historical delays in reporting of claims. In general, the more time required for the settlement of a group of claims, the more uncertain the estimates will be. Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods 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.

For this fiscal year only, the provision for claims occurring in the current year, or current year claims costs, would be reflective of the April 1, 2019 minor injury cap product and the changes in the estimates for losses that occurred in prior periods would be reflective of the pre-April 1, 2019 full tort product.

Overall, 2019/20 net claims incurred costs of $5,908 million were $621 million lower than the claims costs incurred in 2018/19. This is mainly due to the April 2019 reforms and reduced crash frequency, partly offset by the reversal of savings from the Crowder decision and a lower discount rate.

Net claims incurred costs in 2019/20 were $380 million higher than budget, with a favourable difference of $771 million in current year claims costs and an unfavourable difference of $1,151 million in prior periods' adjustments.

$ millions	**2015 Actual**	**2016/17 Actual** *(15 months)*	**2017/18 Actual**	**2018/19 Actual**	**2019/20 Actual**
Net Claims Incurred Costs	**4,042**	**5,966**	**5,647**	**6,529**	**5,908**
Injury	2,748	3,955	3,902	4,854	4,327
Material Damage and Other	1,294	2,011	1,745	1,675	1,581

Data Source: ICBC financial systems

Current year claims costs are better than budget mainly due to a lower frequency of crashes. 2019/20 continued to see a reduction in the number of crashes, which is an encouraging development from record high levels in 2016/17 and 2017/18.

The Corporation observed a substantial reduction in reported claims in March 2020 compared to what was expected and has included in its estimates a reduction for claims incurred in March 2020. A contributing factor was the public health emergency, related to the COVID-19 pandemic, declared by the Province of B.C. on March 17, 2020. This resulted in a significant reduction in activities around the province and a decrease in vehicle related crashes.

Prior years' claims adjustments are worse than budget, mainly due to the reversal of savings from the Crowder decision, and to a lower discount rate due to lower projected yields in the financial markets following the onset of the COVID-19 pandemic. Prior years' claims

adjustments also reflect increased cost pressure on claims under the full tort system, in particular an increase in the estimated number of large injury claims that will develop over time.

Injury claims

Current year injury claims account for approximately 65 per cent of current year claims incurred costs in 2019/20 and include bodily injury claims and accident 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 has decreased in 2019/20 compared to 2018/19 due to the April 2019 reforms and lower claims frequency.

Bodily injury claims costs accounted for over 80 per cent of the total current year injury claims costs. With the introduction of product reform and shifting to a care-based model, more costs are incurred under accident benefits, reducing bodily injury costs, which have accounted for over 90 per cent of injury claims costs in recent years.

$ millions	**2015 Actual**	**2016/17 Actual** *(15 months)*	**2017/18 Actual**	**2018/19 Actual**	**2019/20 Actual**
Current Year Injury Claims Incurred (major categories)	**2,563**	**3,570**	**3,334**	**3,498**	**2,986**
Bodily Injury	2,380	3,308	3,114	3,162	2,420
Accident & Death Benefits	183	262	220	336	566

Data Source: ICBC financial systems

Material damage (non-injury) claims

Material damage claims can largely be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current year material damage claims was lower than 2017/18 and 2018/19 as a result of lower claims frequency. In 2018/19, ICBC began work toward modernizing the repair network programs with a goal to contain costs in line with industry standards. The changes are also intended to incentivize suppliers to continually improve their performance. The new collision program was implemented in February 2020 and the new glass program was implemented in March 2020.

$ millions	2015 Actual	2016/17 Actual *(15 months)*	2017/18 Actual	2018/19 Actual	2019/20 Actual
Current Year Material Damage Claims Incurred (major categories)	**1,156**	**1,755**	**1,555**	**1,548**	**1,495**
Property damage	433	704	673	643	611
Collision	491	727	583	612	583
Comprehensive	166	222	198	195	202
Windshield	66	102	100	98	99

Data Source: ICBC financial systems

Change in estimates for losses occurred in prior years

In 2019/20, the change in estimates for losses that occurred in prior periods was $1,180 million and had a significant negative impact on ICBC's fiscal year bottom line. This is a result of an increase in the estimated number of large and complex pre-April 2019 full tort product injury claims that will develop over time, the reversal of savings from the Crowder decision and the lower rate to discount claims costs. The pre-April 2019 full tort product continues to experience significant cost pressures and is a continuing risk to ICBC financial results.

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 fiscal year based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as at March 31, 2020 was $16,004 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 per cent of total unpaid claims costs. As illustrated in the table below, 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	2%	9%	19%	34%	55%	73%
Unpaid	98%	91%	81%	66%	45%	27%

Data Source: ICBC financial systems

ICBC commissions 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 in the context of the consolidated financial statements.

ICBC earns 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, ICBC reports the 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 (see note 17 to the consolidated financial statements). The discount rate is based on the expected return of ICBC's 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. As of March 31, 2020, the discount rate of 2.9 per cent decreased by 76 basis points from the prior period's discount rate of 3.7 per cent partly due to the COVID-19 pandemic, which resulted in an increase to the balance of unpaid claims.

Road safety and loss management

In 2019/20, ICBC invested $58 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs.

Using a safe systems approach, ICBC targets its road safety investments on the major risks that impact customers and costs in the business, including distractions, high-risk driving, impaired driving and vulnerable road users. Over the past year, ICBC worked 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.

ICBC continued to support enhanced enforcement initiatives through a funding agreement with the Ministry of Public Safety and Solicitor General. In 2019/20, ICBC invested approximately $23 million in enhanced enforcement, such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in public education and awareness, and community initiatives to help change driver behaviours. ICBC combats fraud through its deterrence, detection, enforcement and prevention efforts. ICBC continues to work to improve and refine processes to ensure fraudulent and exaggerated claims are detected in a timely manner and managed appropriately. Process changes have led to greater collaboration between all business areas that identify and investigate fraudulent and exaggerated claims to be able to reduce overall claims costs.

Operating expenses

Operating expenses include compensation and other expenses required to operate the insurance and non-insurance businesses (which consist of expenses for administering driver licenses, vehicle registration and licensing, and Government fines collection) with the exception of claims payments, commissions and premium taxes. In 2019/20, ICBC continued to keep controllable operating expenses as low as possible while ensuring it is adequately staffed to maintain

appropriate service levels and manage claims. ICBC's 2019/20 insurance expense ratio of 17.2 per cent, which is a standard industry measure of operational efficiency, was significantly lower than the 2019 industry benchmark of 31.2 per cent.[4]

In 2019/20, operating expenses of $878 million were higher than 2018/19, primarily in claims and insurance related costs. This is mainly due to an increase in average full-time equivalents (FTEs) hired in 2018/19 in claims and claims-related areas to manage claims volume and complexity and support staffing needs during product reform transition, compensation increases for unionized employees, higher pension expense due to a lower discount rate, and costs incurred for the development and implementation of the Enhanced Care coverage program.

Operating expenses in 2019/20 were slightly higher than budget due to the higher pension expense resulting from a lower discount rate, and costs incurred for Enhanced Care coverage program. This was partially offset by lower FTEs driven by lower claims volumes and delays in hiring.

Included in total operating expenses are non-insurance operating expenses of $110 million primarily funded from Basic insurance premiums.

$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual
Operating Expenses	**800**	**875**	**878**
Claims related costs	419	472	464
Insurance	279	296	304
Non-Insurance	102	107	110

Below is a table of total operating expenses by nature:

$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual
Operating Expenses by Nature	**800**	**875**	**878**
Employee compensation & benefit expense	503	564	553
Professional, administrative and other	207	203	219
Depreciation & amortization	59	74	73
Road improvements and other traffic safety programs	31	34	33

[4] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2019. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).*

Acquisition costs

Acquisition costs represent the amounts paid to brokers and appointed agents for the sale of ICBC's insurance products and the administration of driver and vehicle licensing transactions, respectively. Acquisition costs also include premium taxes (4.4 per cent 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 deferred and amortized as expense on a similar basis. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, the deferred premium acquisition costs (DPAC) are written down and a premium deficiency liability is recognized. 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. As at March 31, 2020, the net Corporate DPAC asset was $364 million, after a favourable deferred premium acquisition cost adjustment of $34 million (see notes 21 and 22 to the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $772 million were higher than the prior period. This is mainly due to a less favourable deferred premium acquisition cost adjustment in comparison to 2018/19, which was based on significant improvement of profitability expected from the April 1, 2019 product reform. There is a pending civil claim challenging the product reform. At this stage of the proceeding, the probability of success can not be determined and the financial effects can vary. In 2019/20, broker commissions and premium taxes also increased as a function of higher premiums earned. Acquisition costs were consistent with budget. ICBC's acquisition costs as a percentage of revenue continues to be lower than industry standards.

Investments

ICBC has an investment portfolio with a carrying value of $18.4 billion, which represented 85 per cent of the Corporation's total assets as at March 31, 2020.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims. ICBC maintains a conservative investment portfolio with a significant allocation to high-quality fixed income securities.

As at March 31, 2020, 67 per cent of the carrying value of the portfolio took the form of high-grade corporate and Government bonds, money market securities and mortgage instruments, while 33 per cent of the portfolio was invested in equity and alternative investments (real estate, mezzanine debt and infrastructure investments). ICBC has increased its investments in alternative investments from 14 per cent in 2018/19 to 35 per cent in 2019/20.

Investment income and impairment loss

In 2019/20, total investment income, net of impairment loss, was $741 million. This was higher than the total investment income in the prior period, mainly due to gains on bonds and equities from trading activities, gains on transition of pooled funds to BCI and capital gains distributions.

These were partially offset by lower dividend income as a result of the transition to BCI, equity impairment as a result of the COVID-19 pandemic and investment property impairment. Overall, these results equate to an accounting investment return of 4.1 per cent in 2019/20, compared to 3.4 per cent in 2018/19, based on the average investment balance during the period on a cost basis.

Total investment income was $154 million higher than budget, mainly due to higher bond and equity gains from trading activities and unplanned real estate dispositions. This was partially offset by lower than planned dividend income, and unplanned equity and investment property impairment recognized in the current period.

$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual
Total Investment Income	**558**	**587**	**741**
Investment Income	**581**	**587**	**1,058**
Interest, dividends & other income	544	568	429
Gains on sale of investments	37	19	629
Impairment Loss	**(23)**	**-**	**(317)**

Equity (Deficit)

At March 31, 2020, ICBC was at a deficit of $547 million. Equity has historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets. However, given the impact of several consecutive years of recurring losses, the capital base has been diminished. Despite capital being in a deficit position, ICBC holds an investment portfolio that fully covers the claims liability. Further, ICBC has sufficient cash flows to meet current obligations as cash flows from operating activities was $1.2 billion at March 31, 2020.

As at March 31, 2020, ICBC had net unrealized losses of $360 million in the accumulated other comprehensive income comprised of $305 million in unrealized gains and $665 million in unrealized losses. The unrealized gains and losses included in other components of equity reflect the changes in fair value for bonds and equities and the realization of gains and losses during the year.

The adequacy of equity or capital base is an important factor in assessing the financial stability of an insurance company and is closely monitored by regulators. For federally regulated insurance companies, the common industry method used to measure financial stability is the Minimum Capital Test (MCT) ratio, an OSFI risk-based capital adequacy framework which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. Although ICBC is not federally regulated, legislation and regulation require ICBC to use the OSFI MCT framework to set capital targets.

As at March 31, 2020, ICBC’s corporate MCT level of -30 per cent was lower than the prior year. This was primarily due to the cumulative net losses from recent fiscal years as a result of

continuing pressure from claims costs and the financial downturn due to the COVID-19 pandemic. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 12, 24 and 26 to the accompanying consolidated financial statements.

Basic and Optional insurance operations

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to ICBC's 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. Detailed financial information on Basic and Optional lines of business is included in note 26 to the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for 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 $264 million. The Basic net loss was better than the prior period due to lower claims costs, higher premiums earned, and higher investment income, which were partially offset by the investment impairment charge and a less favourable DPAC adjustment.

In 2019/20, the Optional insurance business incurred a net loss of $112 million, which was better than the net loss in 2018/19. This was mainly due to higher premiums earned as a result of vehicle growth and Optional insurance rate increases which were partially offset by the investment impairment charge.

Risks and Uncertainties

ICBC has a well-established risk management process in place, using the ISO 31000 framework, to identify and evaluate the impact that significant risks could have on the achievement of corporate objectives and to identify controls in place to mitigate residual risk to acceptable levels, in order to protect ICBC against financial and reputational harm. ICBC periodically assesses its risk management processes and continues to evolve these processes in order to improve the effectiveness of its processes to identify, evaluate and treat its strategic and operating risks. Identified risks are captured in a corporate risk register for periodic monitoring and reporting. Risks are categorized in accordance with COSO ERM[5] definitions and are aggregated for quarterly reporting to ICBC's executives and the Board of Directors.

As a provider of vehicle insurance products, a sub-set of the risks ICBC is exposed to include industry and financial risks, which may have an impact on ICBC's financial results. Refer to note 12 to the accompanying consolidated financial statements for further details on ICBC's management of these industry and financial risks. For more information on ICBC's significant

[5] COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management) is a widely accepted framework used by management to enhance an organization's ability to manage uncertainty, consider how much risk to accept, and improve understanding of opportunities as it strives to increase and preserve stakeholder value.

accounting estimates and judgments, refer to note 3 to the accompanying consolidated financial statements.