Financial Report

Discussion of Results

Highlights

ICBC continues to face financial strain as insurance rates have not kept pace with substantial cost pressures from the high number of crashes on our roads and the rapidly rising cost of claims from those crashes. Together, ICBC and Government began taking bold steps in 2017/18 toward restoring ICBC's financial sustainability and making rates more fair. The Corporation is focused on controlling operating expenses and working with Government to mitigate claims costs to stabilize its financial position. To continue to address the high volume and severity of injury claims, ICBC further increased front-line claims related staff in 2017/18.

ICBC continues to experience ongoing pressure from worsening claims trends in 2017/18, including an increasing bodily injury claims frequency, continued acceleration in the increase in large bodily injury claims and an extension in the time required to resolve claims. Additional pressures include higher material damage costs, which is consistent with trends affecting other jurisdictions. In addition, ICBC continues to face challenging financial market conditions and low interest rates.

Financial Resource Summary Table

This report contains statements regarding the business of the Corporation. The table below provides an overview of ICBC's 2017/18 financial performance relative to its *2017/18-2019/20 Service Plan* tabled in September 2017.

($ millions)[1]	2014 Actual	2015 Actual	2016/17 Actual (15 months)	2016/17 Actual (12 months) (unaudited)	2017/18 Budget	2017/18 Actual	2017/18 Variance
Premiums earned [2]	4,159	4,448	6,051	4,914	5,319	5,329	10
Service fees and other	88	94	130	106	108	113	5
Total earned revenues	**4,247**	**4,542**	**6,181**	**5,020**	**5,427**	**5,442**	**15**
Provision for claims occurring in the current year	3,379	3,798	5,660	4,612	4,719	5,084	(365)
Change in estimates for losses occurring in prior years [3]	181	244	306	202	(63)	563	(626)
Net claims incurred	**3,560**	**4,042**	**5,966**	**4,814**	**4,656**	**5,647**	**(991)**
Claims service and loss management [4]	335	321	445	365	395	402	(7)
Insurance operations expenses [4]	218	217	284	231	237	231	6
Transformation Program [4]	24	27	38	31	30	30	-
Premium taxes and commissions [4, 5]	468	601	819	688	707	792	(85)
Total expenses	**4,605**	**5,208**	**7,552**	**6,129**	**6,025**	**7,102**	**(1,077)**
Underwriting loss	**(358)**	**(666)**	**(1,371)**	**(1,109)**	**(598)**	**(1,660)**	**(1,062)**
Investment income	852	920	615	624	499	462	(37)
Income (loss) - insurance operations	**494**	**254**	**(756)**	**(485)**	**(99)**	**(1,198)**	**(1,099)**
Non-insurance operations expenses [4]	99	100	126	102	101	102	(1)
Non-insurance commissions [4]	28	30	38	31	32	31	1
Non-insurance - other income	(5)	(7)	(7)	(6)	(7)	(6)	(1)
Net income (loss)	**372**	**131**	**(913)**	**(612)**	**(225)**	**(1,325)**	**(1,100)**
Excess Optional capital transfer to the Government of British Columbia	139	138	-	-	-	-	-
At year end:							
Long-term debt	-	-	-		-	-	
Total liabilities	12,267	13,552	15,098		16,000	16,999	
Equity:							
- Retained earnings	3,380	3,372	2,458 [6]		2,233	1,133	
- Other components of equity	236	(262)	(31) [6]		(223)	(161)	
- Non-controlling interest	-	36	19		20	15	
Total equity	**3,616**	**3,146**	**2,446**		**2,030**	**987**	
Capital Expenditures							
Transformation Program	50	54	32		-	-	
Non-Transformation Program	31	40	49		60	54	
Total Capital Expenditures	81	94	81		60	54	
Autoplan policies earned [7]	3,493,000	3,596,000	4,613,000			3,833,000	
Average premium ($) [8]	1,153	1,196	1,280			1,364	
Claims reported during the year [9]	900,000	858,000	1,182,000			1,047,000	

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). The 2014 numbers reflect revenue and expense reclassifications, which had no impact on net income. Fiscal period 2016/17 is a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. The unaudited financial results for the 12-month period from April 1, 2016 to March 31, 2017 are used here to provide a more relevant comparison.

[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 Expenses by Nature.

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

[6] Balance adjusted due to rounding.

[7] Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.

[8] Average premium is based on Autoplan premiums earned.

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

Basic and Optional Comparative Summary Table

($ millions)[1]	Basic - Actual vs. Prior Year			Optional - Actual vs. Prior Year		
	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual	2017/18 Variance	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual	2017/18 Variance
Premiums earned [2]	2,926	3,149	223	1,988	2,180	192
Service fees and other	65	69	4	41	44	3
Total earned revenues	**2,991**	**3,218**	**227**	**2,029**	**2,224**	**195**
Provision for claims occurring in the current year	3,149	3,451	(302)	1,463	1,633	(170)
Change in estimates for losses occurring in prior years [3]	(78)	218	(296)	280	345	(65)
Net claims incurred	**3,071**	**3,669**	**(598)**	**1,743**	**1,978**	**(235)**
Claims service and loss management	245	274	(29)	120	128	(8)
Insurance operations expenses	120	122	(2)	111	109	2
Transformation Program	-	-	-	31	30	1
Premium taxes and commissions [4]	179	451	(272)	509	341	168
Total expenses	**3,615**	**4,516**	**(901)**	**2,514**	**2,586**	**(72)**
Underwriting loss	**(624)**	**(1,298)**	**(674)**	**(485)**	**(362)**	**123**
Investment income	422	325	(97)	202	137	(65)
Loss - insurance operations	**(202)**	**(973)**	**(771)**	**(283)**	**(225)**	**58**
Non-insurance operations expenses	102	102	-	-	-	-
Non-insurance commissions	31	31	-	-	-	-
Non-insurance - other income	(6)	(6)	-	-	-	-
Net loss	**(329)**	**(1,100)**	**(771)**	**(283)**	**(225)**	**58**
Optional net income transfer to Basic business	201	99	(102)	(201)	(99)	102
Net loss after income transfer	**(128)**	**(1,001)**	**(873)**	**(484)**	**(324)**	**160**
At year end:[5]						
Liabilities:						
Unearned premiums	1,430	1,550		985	1,080	
Provisions for unpaid claims	7,851	8,608		2,667	3,288	
Equity:						
- Retained earnings	1,460	928		998	205	
- Other components of equity	(17)	(112)		(14)	(49)	
- Non-controlling interest	13	10		6	5	
Total equity	**1,456**	**826**		**990**	**161**	

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS). Fiscal period 2016/17 is a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. The unaudited financial results for the 12-month period from April 1, 2016 to March 31, 2017 are used here to provide a more relevant comparison.

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

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

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

[5] Balances presented at year end as of March 31, 2017 and March 31, 2018, respectively.

In 2016, ICBC changed its fiscal year-end date from December 31 to March 31 to align with the Province of B.C.'s fiscal year-end date. As a result of this change, ICBC's fiscal year is now a 12-month period from April 1 to March 31. The comparative audited financial information for 2016/17 reflects a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017.

However, to provide a more meaningful and relevant analysis of the current fiscal year's results to prior year, the unaudited figures for the 12-month period from April 1, 2016 to March 31, 2017 were included in the tables, where applicable, and the focus of related discussions will be based on these 12-month prior year comparatives.

The 2017/18 net loss of $1,325 million was $713 million higher than the $612 million net loss for the same period of 2016/17. This was mainly due to increasing claims costs and lower investment income compared to the previous period. Compared to budget, the current year's net loss was $1,100 million higher than the budgeted net loss of $225 million. This is largely due to higher than expected claims costs, particularly many more large and extremely costly claims, which can run into hundreds of thousands of dollars each.

Premiums earned

Premiums earned in 2017/18 increased to $5,329 million which is an increase of $415 million compared to the same period of 2016/17. This is due to the impact of the Basic insurance rate increase of 4.9 percent effective November 1, 2016. To a lesser extent, the Basic insurance rate increase of 6.4 percent effective November 1, 2017, Optional insurance rate increases and a growth in the number of insured vehicles also contributed to increased premiums earned. Premiums earned were consistent with budget.

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. Compared to the same period of 2016/17, in 2017/18 service fees increased in line with higher premiums earned. Service fees and other were consistent with budget.

Claims costs

Cost of claims incurred account for approximately 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 is 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.

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 legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

Bodily injury claims frequency is continuing to increase. In 2017/18, there was a recent emergence of two new, extraordinary adverse trends affecting bodily injury claims. These trends involve a continued acceleration in the increase in large bodily injury claims, in particular, claims that become large losses over many years, and an increase in the time required to resolve claims.

Overall, 2017/18 net claims incurred costs of $5,647 million were higher than the claims costs incurred during the same period of 2016/17 due to the worsening claims trends discussed above. This increase was driven by the increase in current period claims costs and the prior periods' claims costs adjustments.

Net claims incurred costs in 2017/18 were $991 million higher than budget, with an increase of $365

million in current period claims costs and $626 million in prior periods' adjustments. These increases are attributable to a continued acceleration in the increase in large bodily injury claims and an increase in the time required to resolve claims.

ICBC continues to face financial strain as insurance rates undergo substantial pressure from the elevated number of crashes and the rapidly rising cost of claims from those crashes.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual
Net Claims Incurred Costs	**3,113**	**3,560**	**4,042**	**5,966**	**4,814**	**5,647**
Injury	2,039	2,438	2,748	3,955	3,177	3,902
Material Damage and Other	1,074	1,122	1,294	2,011	1,637	1,745

Data Source: ICBC financial systems

Injury claims

Current year injury claims account for approximately 65 percent of current year claims incurred costs in 2017/18, 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 have increased in 2017/18 compared to the same period of 2016/17. This reflects an increased frequency of injury claims and the continued acceleration in the emergence of large bodily injury claims as discussed above.

Bodily injury claims costs accounted for over 90 percent of the total injury claims costs and increased in 2017/18 compared to 2016/17.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual
Current Year Injury Claims Incurred (major categories)	**2,089**	**2,295**	**2,563**	**3,570**	**2,910**	**3,334**
Bodily Injury	1,930	2,130	2,380	3,308	2,698	3,114
Accident & Death Benefits	159	165	183	262	212	220

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 higher than the same period of 2016/17 due to increases in the average cost of material damage claims. Vehicle repair costs continue to rise due to an increase in embedded technology in vehicles. As a result, the hours of labour required to repair vehicles and the cost of replacement parts continue to increase, particularly for newer vehicles. Implementing a material damage strategy to manage claims costs and ensure appropriate controls and governance are in place continues to be a key priority for ICBC.

($ millions)	2013 Actual	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual
Current Year Material Damage Claims Incurred (major categories)	**980**	**1,038**	**1,156**	**1,755**	**1,422**	**1,555**
Property damage	382	401	433	704	573	673
Collision	416	427	491	727	587	583
Comprehensive	126	150	166	222	182	198
Windshield	56	60	66	102	80	100

Data Source: ICBC financial systems

Change in estimates for losses occurred in prior years

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.

In 2017/18, the change in estimates for losses that occurred in prior periods was unfavourable as compared to 2016/17. This is a result of a continued acceleration in the emergence of large bodily injury claims and an increase in the time required to resolve claims. This is also due to higher material damage claims from prior periods that have 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 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, 2018 was $11,896 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 percent 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%	15%	30%	45%	67%	81%
Unpaid	96%	85%	70%	55%	33%	19%

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.

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 13 to the consolidated financial statements). 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. As of March 31, 2018, the discount rate of 3.1 percent increased by 30 basis points from the prior period's discount rate of 2.8 percent, which helped to decrease the balance of unpaid claims.

Road safety and loss management

In 2017/18, ICBC invested $51 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 Justice. In 2017/18, ICBC invested approximately $22 million in enhanced enforcement, such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in advertising and community initiatives to help change driver behaviours.

Operating expenses

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

In 2017/18, ICBC continued to manage controllable operating expenses by being an operationally excellent, low-cost organization, with a continued focus on prudent management of administration costs.

In 2017/18, claims related operating expenses of $402 million were higher than in the same period of 2016/17. This is primarily due to higher compensation costs from hiring more front-line claims related staff in an effort to manage the rise in claims volumes. Claims related operating expenses in 2017/18 were consistent with budget.

The Transformation Program, a multi-year initiative, was completed in 2016/17. The depreciation expenses related to assets resulting from the Transformation Program totaled $30 million in 2017/18.

Included in total operating expenses are non-insurance operating expenses of $102 million, which consist of expenses for administering driver licensing, vehicle registration and licensing, and Government fines collection. Non-insurance costs are funded from Basic insurance premiums.

($ millions)	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Budget	2017/18 Actual
Operating Expenses	**676**	**665**	**893**	**729**	**763**	**765**
Claims related costs	335	321	445	365	395	402
Insurance	218	217	284	231	237	231
Non-Insurance	99	100	126	102	101	102
Transformation Program[1]	24	27	38	31	30	30

[1] Transformation Program was completed in 2016, and the expenses for fiscal 2017/18 refer to the depreciation of Transformation Program assets.

Below is a table of total operating expenses by nature:

($ millions)	2014 Actual	2015 Actual	2016/17 Actual *(15 months)*	2016/17 Actual *(12 months) (unaudited)*	2017/18 Actual
Operating Expenses by Nature	**676**	**665**	**893**	**729**	**765**
Employee benefit expense	433	423	570	462	489
Professional, administrative and other	174	172	227	187	191
Depreciation & amortization	37	37	55	45	55
Road improvements and other traffic safety programs	32	33	41	35	30

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 percent 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, 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. The premium deficiency as at March 31, 2018, was $117 million, and the premium deficiency adjustment expense was $157 million (see notes 17 and 18 to the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $823 million were higher than prior period. This is mainly due to an unfavourable premium deficiency adjustment from higher claims costs that resulted in decreased profitability. Broker commissions and premium taxes were also higher than in the same period of 2016/17 mainly due to higher premiums earned. Premium taxes were higher than budget largely due to a premium tax assessment for 2015 to 2017 payment plan fees. In the past, ICBC was not assessed premium taxes on payment plan fees.

Investments

ICBC has an investment portfolio with a carrying value of $15,796 million, which represented 88 percent of the Corporation's total assets as at March 31, 2018.

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, 2018, 72 percent of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 28 percent of the portfolio was invested in equity and real estate investments.

Investment income

In 2017/18, investment income was $462 million. This was lower than investment income in the same prior period, mainly due to lower equity dividends as the pooled funds distributed less income and capital dividends than in prior period, lower gains due to realized losses on bond trading activity as the market value of bond investments were negatively impacted by increasing interest rates and a decline in the U.S. dollar.

Overall, these results equate to an accounting investment return of 2.9 percent in 2017/18, compared to 4.1 percent for the 15 month period in 2016/17, based on the average investment balance during the period on a cost basis.

Investment income was $37 million lower than budget mainly due to foreign exchange losses on U.S. high-yield bonds from the weaker U.S. dollar and the planned gain on the sale of an investment property being delayed to the next fiscal period. This was partially offset by higher interest income, equity gains and equity dividends.

($ millions)	**2014 Actual**	**2015 Actual**	**2016/17 Actual** *(15 months)*	**2016/17 Actual** *(12 months) (unaudited)*	**2017/18 Budget**	**2017/18 Actual**
Investment Income	**852**	**920**	**615**	**624**	**499**	**462**
Interest, dividends & other income	418	333	515	461	402	377
Gains	434	587	100	163	97	85

Equity

Our equity at March 31, 2018 included retained earnings of $1,133 million and accumulated loss in other components of equity of $161 million. Retained earnings have historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets. However, given the impact of rapidly rising claims costs and volatile financial markets, the capital base has been diminished.

As at March 31, 2018, ICBC had a net unrealized loss of $164 million. Unrealized gains and losses included in other components of equity reflect the cumulative changes in fair value for bonds and equities and the realization of gains and losses at the end of the year. The increase in interest rates for the bond portfolio and the downturn in the fair market value of the equity portfolio led to a net decrease in the fair market value of these investments, resulting in the unrealized loss.

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 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, 2018, ICBC's corporate MCT level of 31 percent was lower than the prior year. This was primarily due to the net loss for the current fiscal year. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 9, 20 and 22 to the accompanying consolidated financial statements.

Optional income and capital transfers to Basic

In 2016, ICBC was directed to transfer $300 million of income from the Corporation's Optional insurance business to the Basic insurance business. The transfer of income, which is for the sole purpose of rate setting, allowed ICBC to achieve the BCUC approved Basic insurance rate increase of 4.9 percent and bolster Basic MCT level. On November 1, 2016, $201 million was transferred, and the remaining $99 million was transferred on April 1, 2017.

However, with the increasing claims costs and net losses, capital levels continue to decrease. The capital transfer of $470 million from the Optional insurance line of business to the Basic insurance line of business on September 15, 2017 was aimed at bolstering the Basic MCT ratio and maintaining it above the regulatory minimum of 100 percent. This transfer was insufficient to offset the worsening claims trends. On February 26, 2018, Government issued direction to temporarily suspend the IC2 requirement to maintain Basic MCT at 100 percent and requirement for capital maintenance. This suspension is effective until March 31, 2022.

Basic and Optional insurance operations

ICBC operates 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. Detailed financial information on Basic and Optional lines of business is included in note 22 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 $1,001 million after the Optional income transfer of $99 million noted above. The Basic net loss was worse than the same prior period due to higher claims costs and lower investment income, which are partially offset by higher premium revenues from the Basic insurance rate increase of 4.9 percent effective November 1, 2016 and 6.4 percent increase effective November 1, 2017.

In 2017/18, the Optional insurance business incurred a net loss of $324 million after the Optional insurance income transfer to Basic noted above. The Optional insurance net loss is better than the net loss for the comparable period in 2016/17, mainly due to higher revenues from vehicle growth and Optional insurance rate increases, partially offset by higher claims costs and lower investment

income.

Risks and uncertainties

ICBC has a well-established risk management process in place to identify significant risks to the achievement of corporate objectives, and protect ICBC against financial and reputational harm. Identified risks are captured in a corporate risk register for periodic monitoring and reporting. Risks are categorized in accordance with COSO ERM[4] and 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 9 to the accompanying consolidated financial statements for further details on ICBC's management of these industry and financial risks.

[4] COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM 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.