ANNUAL REPORT 2004

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ICBC

Insurance Corporation of British Columbia

Management's Responsibility for Financial Statements

SCOPE OF RESPONSIBILITY

Management prepares the accompanying consolidated financial statements and related information and is responsible for their integrity and objectivity. The statements are prepared in conformity with Canadian generally accepted accounting principles. These consolidated financial statements include amounts that are based on management's estimates and judgements, particularly our reserves for unpaid claims. We believe that these statements present fairly the Corporation's financial position, results of operations, and cash flows, and that the other information contained in the annual report is consistent with the consolidated financial statements.

INTERNAL CONTROLS

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. There is a quarterly risk assessment process, the results of which influence the development of the internal audit program. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted. We recognize the inherent limitations in all control systems and believe our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

BOARD OF DIRECTORS AND AUDIT COMMITTEE

The Audit Committee, composed of members of the Board of Directors, oversees management's discharge of its financial reporting responsibilities. The Committee recommends for approval to the Board of Directors the appointment of the external auditors and the external actuaries, and fee arrangements. The Committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors to discuss auditing, financial reporting, and internal control matters. The Audit Committee receives regular reports on the internal audit results and evaluation of internal control systems; and it reviews and approves major accounting policies including alternatives and potential key management estimates or judgements. Both internal and external auditors have access to the Audit Committee without management's presence. The Audit Committee has reviewed these financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

INDEPENDENT AUDITORS AND ACTUARY

Our independent auditors, PricewaterhouseCoopers LLP, have audited the financial statements. Their audit was conducted in accordance with Canadian generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

Eckler Partners Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of the Corporation's policy liabilities which include provision for claims and claim expenses, unearned premiums and deferred premium acquisitions. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. In performing the evaluation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Paul Taylor
President and Chief Executive Officer

February 4, 2005

Geri Prior
Chief Financial Officer

February 4, 2005

Auditors' Report

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

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2004 and the consolidated statements of operations and retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
February 4, 2005

Actuary's Report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2004 and their changes in its consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods, except as described in the following paragraph.

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

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

William T. Weiland

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
February 4, 2005

Consolidated Statement of Financial Position

As at December 31, 2004

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

Contingent liabilities and commitments (note 12)

Approved by the Board

T. Richard Turner
Chair of the Board of Directors

Bob Quart
Vice-Chair of the Board of Directors

Consolidated Statement of Operations and Retained Earnings

For the year ended December 31, 2004

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2004

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

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation) is a Crown corporation incorporated in 1973 and continued under the *Insurance Corporation Act*, R.S.B.C. 1996 Chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Motor Vehicle) Act,* and is also responsible for non-insurance services under the *Insurance Corporation Act* and *Motor Vehicle Act*. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and service.

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), $150,000 in accident benefits to all insured parties, $1,000,000 underinsured motorist protection, and protection against uninsured and unidentified motorists outside of the Province of British Columbia (the Province). The Corporation also offers insurance in a competitive environment (Optional), which includes the following coverages: extended third party legal liability, comprehensive, collision, loss of use, and others. The Corporation's Basic and Optional insurance products are distributed through over 900 independent agents located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary auto insurer.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles as required by the *Insurance Corporation Act*. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. As required by the *Insurance Corporation Act,* the Corporation reports the revenues and expenses attributable to universal compulsory automobile insurance and non-insurance separately from the other operations of the Corporation (note 13).

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

Premiums earned

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

Deferred premium acquisition costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and, to the extent recoverable from unearned premiums, are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The method followed in determining the deferred premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned.

Provision for unpaid claims

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

The provision for unpaid claims is an estimate subject to variability and, as with any insurance company, could be material in the near term. All changes to the estimate are recorded as incurred claims and prior years' claims adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims, taking into consideration the consistency of the Corporation's claims handling procedures, the amount of information available, and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates will be. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is difficult to predict for several reasons, including some claims not being reported until many years after a policy term, or changes in the legal environment. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments (note 12a).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims (note 12c) and other liabilities.

Reinsurance
The Corporation reflects reinsurance balances on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on the consolidated statement of operations and retained earnings on a net basis to indicate the results of its retention of premiums written.

Investments and investment income
Bonds are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Mortgages are valued at principal amounts adjusted to reflect any principal repayments. Equities are valued at cost. Real estate held for investment consists of income-producing properties, which are recorded at cost less accumulated amortization and provision for diminution in value (note 3). During 2004 the Corporation changed its method of amortizing real estate held for investment from the sinking fund method to the straight-line method. This change has been applied prospectively.

Income on interest-bearing securities is accrued daily. Dividends on equity investments are recognized as income on their payment dates. Capital gains and losses on bonds, equities, and other investments are included in income in the period realized.

If the value of an investment suffers a loss in value that is other than temporary, the investment is adjusted to the estimated realizable value with the adjustment being included in the statement of operations.

The Corporation also participates in the sale and repurchase of Government of Canada bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. Under the terms of the sale and repurchase agreement, the payments associated with the bond repurchase may be settled on a net basis. These sale and repurchase arrangements are accounted for as secured financings. As the repurchase payments may be settled on a net basis, the repurchase obligation has been recorded against the carrying value of these bonds (note 3).

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

All derivatives have been designated as hedging items that qualify under Accounting Guideline 13 (AcG-13) *Hedging Relationships* issued by the Canadian Institute of Chartered Accountants (CICA). Any costs associated with the hedge are recorded on a cash basis.

For purposes of meeting the requirements of AcG-13, all hedges are hedging relationships that have been designated, and documented detailing the risk management objective and strategy for undertaking the hedge. The documentation specifically identifies the asset or liability being hedged, the type of derivative used, and the effectiveness of the hedge. All hedges are fair value hedges as they are used to hedge interest rate risk. Also, there is a formal assessment at the inception of the hedge and on an ongoing basis as to whether the derivatives used in the hedges are highly effective in offsetting changes in fair values or cash flows of hedged items throughout the whole relationship.

The income or expense resulting from the derivative transactions is included in interest income when the hedge item is recognized in earnings. In the event that the hedging relationship is no longer effective, the resulting realized or unrealized gain or loss from a swap would be recognized in the statement of operations as part of investment income. The associated derivative instrument would be subsequently recognized in the statement of financial position at fair value.

Pensions and post-retirement benefits
The cost of pensions and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, compensation levels, retirement ages of employees and expected healthcare costs.

The expected return on plan assets is calculated using the expected long-term rate of return on plan assets and the fair value of the assets.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

A transitional asset arose in 2000 as a result of the Corporation adopting CICA Handbook Section 3461 prospectively. The transitional asset is the unrecognized amount determined as the fair value of plan assets less the accrued benefit obligation, less any accrued benefit asset or plus any accrued benefit liability. The transitional asset is being amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. Funding to this defined contribution plan is accounted for on a cash basis.

Property and equipment
Property and equipment are recorded at cost less accumulated amortization. Software development costs, which are comprised of labour and material costs for design, construction, testing, implementing and other related costs, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

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

Cash and cash equivalents
For purposes of the statement of cash flows, the Corporation considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, net of outstanding cheques and money market securities as equivalent to cash.

Translation of foreign currencies
Foreign currency investments are translated at exchange rates at the date of purchase. Other foreign currency assets and liabilities considered monetary items are translated at exchange rates in effect at the year end date. Foreign currency revenues and expenses are translated at transaction date exchange rates. Exchange gains and losses are included in the determination of net income.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are provisions for unpaid claims, provisions for doubtful accounts, and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in applicable future periods.

3. CASH AND INVESTMENTS

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

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon net present value of the payment stream using rates currently in effect. The estimated fair value of real estate is based on the most recent BC Assessment Authority values, except for the Central City development in Surrey whose estimated fair value is based upon independent market appraisals prepared in prior years which resulted in a provision of $141.1 million for impairment in value that was determined to be other than temporary. During the year ended December 31, 2004, a portion of the Surrey Central City development was sold. The provision for diminution in value was reduced by $37.4 million, which represents the share of the provision relating to the portion of the development sold.

The total notional amount of interest rate swaps outstanding at December 31, 2004 is $136.2 million (2003 - $170.8 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2004 is $55.5 million (2003 - $69.5 million). At December 31, 2004, these swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three-month Canadian Deposit Overnight Rate plus 31.7 basis points (2003 - 27.61 basis points) and an average pay interest rate of 5.80% (2003 - 6.04%). The interest swaps had an estimated fair value of $7.0 million as at December 31, 2004 (2003 - $0.1 million). The fair value of interest rate swap contracts and foreign exchange swap contracts is determined by discounting expected future cash flows using current market interest and exchange rate instruments. The values of these swaps have been reflected in the estimated fair value of bonds.

a) Fixed income – interest rate risk

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

b) Fixed income – maturity profile

A significant business risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities. The timing of most policy liability payments is not known, and may take considerable time to determine precisely, or may be paid in partial payments.

The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio.

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
2004				
Bonds				
Canadian				
Federal	$ –	$ 1,597,208	$ 306,334	$ 1,903,542
Provincial	14,118	356,394	278,229	648,741
Municipal	14,145	107,360	143,332	264,837
Corporate	109,070	1,321,081	133,235	1,563,386
Global	–	205,772	177,135	382,907
	137,333	3,587,815	1,038,265	4,763,413
Mortgages	98,136	264,458	124,068	486,662
	$ 235,469	$ 3,852,273	$ 1,162,333	$ 5,250,075
2003				
Bonds				
Canadian				
Federal	$ 11,549	$ 1,245,745	$ 335,193	$ 1,592,487
Provincial	–	162,066	306,040	468,106
Municipal	–	28,192	310,538	338,730
Corporate	97,138	1,243,317	217,934	1,558,389
Global	–	161,764	146,753	308,517
	108,687	2,841,084	1,316,458	4,266,229
Mortgages	47,304	326,232	94,397	467,933
	$ 155,991	$ 3,167,316	$ 1,410,855	$ 4,734,162

c) Investment income

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

d) Securities lending

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2004 securities with an estimated fair value of $1,383 million (2003 - $791 million) have been loaned and securities with an estimated fair value of $1,485 million (2003 - $846 million) have been received as collateral.

4. PROPERTY AND EQUIPMENT

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

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

5. PROVISION FOR UNPAID CLAIMS

The changes in the provision for unpaid claims recorded in the consolidated statement of financial position and their impact on claims incurred for the year are as follows:

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

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

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

6. REINSURANCE

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

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

The Corporation entered into a one year casualty and catastrophe reinsurance contract beginning January 1, 2004 with the following terms:

a) up to $175 million in excess of $25 million annually for catastrophic occurrences;
b) up to $25 million in excess of $5 million for individual casualty loss occurrences.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. Of the claims recorded as recoverable from reinsurers, the Corporation has made no claims over the life of the current reinsurance contract. The Corporation made claims totaling $7.7 million (2003 - $6.7 million) over the life of the five year contract which expired on December 31, 2003. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

7. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation maintains contributory, defined benefit pension plans (the Pension Plans) that provide retirement benefits for regular employees, other than the employees of the former Motor Vehicle Branch (note 2), based on their length of service and highest five years' average earnings. The Pension Plans' assets are held in trust by a custodian. The Corporation pays Medical Services Plan and life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. Benefit entitlements differ for management and bargaining unit staff.

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined benefit plans were $18.9 million (2003 - $15.9 million).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations of the pension plans for funding purposes are prepared on a triennial basis. The management plan had an actuarial valuation as of December 31, 2001 which was extrapolated to December 31, 2004. The management plan will be actuarially valued in early 2005 for funding purposes for the December 31, 2004 valuation date. The bargaining unit staff plan had an actuarial valuation as of December 31, 2002 which was extrapolated to December 31, 2004.

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

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

The Pension Plans' assets consist of:

	Percentage of Plan Assets 2004	2003
Cash and accrued interest	3%	3%
Equities		
Canadian	29%	35%
Foreign	21%	22%
Fixed Income		
Government	30%	25%
Corporate	6%	6%
Pooled fixed income funds	4%	6%
Mortgages	4%	3%
Real estate	3%	0%
	100%	100%

The following amounts are included in the accrued benefit obligation in respect of plans that are not funded:

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	2004	2003	2004	2003
Accrued benefit obligation and plan deficit	$ 8,028	$ 7,299	$ 97,592	$ 80,733

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

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

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

The Corporation contributed $0.9 million in 2004 (2003 - $1.2 million) to the BC Public Service Pension Plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

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

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

8. OPERATING COSTS

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses are as follows:

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

9. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

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

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

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
2004			
Amount payable	$ 239,298	$ 135,930	$ 375,228
Amortization of prior year deferred premium acquisition costs	71,546	39,454	111,000
Deferred premium acquisition costs	(93,237)	(52,863)	(146,100)
Premium taxes and commission expense	$ 217,607	$ 122,521	$ 340,128
Represented as:			
Insurance	$ 200,663	$ 122,521	$ 323,184
Non-insurance	16,944	–	16,944
	$ 217,607	$ 122,521	$ 340,128
2003			
Amount payable	$ 221,102	$ 118,822	$ 339,924
Amortization of prior year deferred premium acquisition costs	40,184	21,816	62,000
Deferred premium acquisition costs	(71,546)	(39,454)	(111,000)
Premium taxes and commission expense	$ 189,740	$ 101,184	$ 290,924
Represented as:			
Insurance	$ 173,655	$ 101,184	$ 274,839
Non-insurance	16,085	–	16,085
	$ 189,740	$ 101,184	$ 290,924

10. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of Basic automobile insurance (note 1) in the Province and, therefore, insures at market rates an indeterminate number of vehicles owned or leased by the government of the Province and its controlled entities. As a consequence of these relationships, the Corporation has at any time, amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is responsible for collecting all vehicle-related income for acquiring and distributing licence plates and decals including permit and other fees under the *Motor Vehicle Act* and fines under the *Offense Act* and this is remitted in full to the Province. Income from the issuance of drivers and other licences and permits, and from fines is recognized on an accrual basis. The costs associated with the licensing and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statement of operations as operating costs, non-insurance (note 8).

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

11. FAIR VALUE

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than investments (note 3), amount recoverable from reinsurers (note 5), provision for unpaid claims (notes 2 and 5), post-retirement benefits (note 7) and structured settlements (note 12a) approximate their carrying value.

12. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports, and past service history. The present value of these structured settlements at December 31, 2004 is approximately $817 million (2003 - $777 million). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) In the normal course of business, the Corporation has entered into significant finance contracts through a financial institution under its financing programs whereby policyholders finance their premiums for up to 12 months. The Corporation has provided guarantees to the financial institution for the total amount outstanding at any time. In 2004 the total amount financed was approximately $1.4 billion (2003 - $1.3 billion).

c) Within the past few years lawsuits have been commenced in a number of Canadian jurisdictions alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. The outcome of these cases has varied based on the wording of the regulations in effect in the various jurisdictions. One such lawsuit was started against the Corporation in early 2002. There are two aspects to this litigation; the interpretation of the regulations and whether a class action should be certified. In 2004, the decision on the issue of the interpretation of the regulations was resolved in the Corporation's favour, and the claim was dismissed. The plaintiff has since filed a Notice of Appeal. If the plaintiff is unable to persuade the Court of Appeal on the merits of the case, there would be no claim that could be certified as a class action. The Corporation's management has determined that it is unable to assess the likely outcome of this legal action and therefore has not accrued for potential damages payable.

d) The Corporation has agreed to pay the Province $24.7 million a year, in cash or in kind, for three years commencing April 1, 2003 to fund Compliance Operations, which were transferred to the Province.

e) The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years are as follows:

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

13. ALLOCATION OF BASIC AND OPTIONAL AMOUNTS

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

Included in Basic are non-insurance costs, as the Corporation is required to provide non-insurance services such as driver and vehicle licensing, vehicle registration, and funding for Compliance Operations.

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

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

14. ROLE OF THE ACTUARY AND AUDITORS

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with accepted actuarial practice and regulatory requirements, and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary in his verification of the underlying data used in the valuation also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out their audit, the auditors also make use of the work of the actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditors' report outlines the scope of their audit and their opinion.