Auditors' Report

The Honourable John Les
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2006 and the consolidated statements of operations, 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

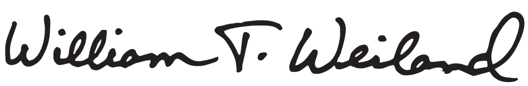
Chartered Accountants

Vancouver, British Columbia
March 1, 2007

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, 2006 and their changes in its consolidated statements of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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



William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
March 1, 2007

Consolidated Statement of Financial Position
As at December 31, 2006

($ THOUSANDS)	2006	2005
ASSETS		
Cash and investments (note 3)	$ 7,687,979	$ 7,167,078
Accrued interest	64,389	58,388
Amount recoverable from reinsurers (notes 5 & 6)	29,416	21,825
Premiums and other receivables (note 7)	890,144	661,267
Deferred premium acquisition costs and prepaid expenses (note 10)	145,920	45,933
Accrued pension benefits (note 8)	58,045	48,947
Property and equipment (note 4)	79,994	82,811
	$ 8,955,887	$ 8,086,249
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 54,153	$ 45,497
Accounts payable and accrued charges	209,127	197,683
Accrued post-retirement benefits (note 8)	100,375	86,721
Premiums and fees received in advance	49,504	48,916
Unearned premiums	1,615,747	1,497,176
Provision for unpaid claims (note 5)	5,419,733	5,053,108
	7,448,639	6,929,101
RETAINED EARNINGS	1,507,248	1,157,148
	$ 8,955,887	$ 8,086,249

Contingent liabilities and commitments (note 13)

The accompanying notes are an integral part of these financial statements.

Approved by the Board

T. Richard Turner
Chair, Board of Directors

Bob Quart
Vice-Chair, Board of Directors

Consolidated Statement of Operations
For the year ended December 31, 2006

($ THOUSANDS)	2006	2005
REVENUES		
Net Premiums Written		
Vehicle	$ 3,357,961	$ 3,132,116
Driver	17,466	15,156
	$ 3,375,427	$ 3,147,272
Net Premiums Earned		
Vehicle	$ 3,240,310	$ 3,103,658
Driver	16,546	13,754
	3,256,856	3,117,412
Service Fees	47,154	37,479
TOTAL EARNED REVENUES	3,304,010	3,154,891
CLAIMS AND OPERATING COSTS		
Net claims incurred during the year (note 5)	2,544,396	2,444,515
Prior years' claims adjustments (note 5)	99,043	80,662
Net claims incurred (note 5)	2,643,439	2,525,177
Claims services	252,657	239,563
Road safety and loss management services	48,357	47,679
	2,944,453	2,812,419
Operating costs – insurance (note 9)	132,816	136,561
Premium taxes and commissions (note 10)	292,171	478,476
	3,369,440	3,427,456
UNDERWRITING LOSS	(65,430)	(272,565)
Investment income (note 3c)	512,349	579,436
INCOME – INSURANCE OPERATIONS	446,919	306,871
NON-INSURANCE OPERATIONS		
Provincial licences and fines (note 11)	493,176	469,021
Licences and fines transferable to the Province (note 11)	493,176	469,021
Operating costs – non-insurance (note 9)	78,128	91,248
Commissions (note 10)	18,691	17,699
	589,995	577,968
LOSS – NON-INSURANCE OPERATIONS	(96,819)	(108,947)
NET INCOME FOR THE YEAR	$ 350,100	$ 197,924

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Retained Earnings
For the year ended December 31, 2006

($ THOUSANDS)	2006	2005
RETAINED EARNINGS		
Beginning of year	$ 1,157,148	$ 959,224
Net income for the year	350,100	197,924
End of year	$ 1,507,248	$ 1,157,148

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended December 31, 2006

($ THOUSANDS)	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 3,490,080	$ 2,881,658
Licence fees	472,043	450,145
Social service taxes	107,472	90,204
	4,069,595	3,422,007
Collection for receivables, subrogation, and driver penalty point premiums	151,501	151,659
Salvage sales	55,293	54,901
Interest	289,068	281,894
Dividends and other investment income	40,231	23,490
	4,605,688	3,933,951
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,372,010)	(2,225,935)
Province of BC for licence fees, fines, and social service taxes collected	(615,876)	(573,966)
Suppliers of goods and services	(203,334)	(234,749)
Employees for salaries and benefits	(355,270)	(347,590)
Agents for commissions	(260,759)	(248,507)
Policyholders for premium refunds	(286,932)	(317,885)
Province of BC for premium taxes	(140,392)	(148,762)
Other	(354)	(327)
	(4,234,927)	(4,097,721)
Cash flow from (used in) operating activities	370,761	(163,770)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Purchase of investment securities	(7,230,813)	(6,734,100)
Proceeds from sales of investment securities	6,847,117	6,411,327
Securities sold under repurchase agreements	133,979	458,505
Payments to vendors of property and equipment	(12,198)	(13,161)
Proceeds from sale of property and equipment	616	65
Cash flow (used in) from investing activities	(261,299)	122,636
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	109,462	(41,134)
Cash and cash equivalents, beginning of year	152,769	193,903
Cash and cash equivalents, end of year	$ 262,231	$ 152,769
REPRESENTED BY:		
Cash and money market securities (note 3)	$ 316,384	$ 198,266
Cheques outstanding	(54,153)	(45,497)
	$ 262,231	$ 152,769

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2006

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation, not subject to income taxes under the *Income Tax Act (Canada*), 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*. Non-insurance services include vehicle licensing, registration, and issuance of driver licences. 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 services (note 14).

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and 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 by approximately 900 independent brokers 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.

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 14).

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

Premiums earned

The Corporation recognizes vehicle and driver premiums, net of reinsurance, evenly over the term of each vehicle policy written or the driver's penalty point year, respectively. Premium refunds are reversed accordingly, against premiums earned. Unearned premiums are the portion of premiums relating to the unexpired term.

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 on a net basis to indicate the results of its retention of premiums written.

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. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a net corporate basis in the statement of financial position.

Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of reinsurance recoverable. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis (note 5) and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

To recognize the uncertainty in establishing best estimates, the Corporation includes PFAD in the assumptions relating to claims development, reinsurance recoveries and related future investment income. The PFAD included in the unpaid claims consists of the three elements, as set out in the Standards of Practice of the Canadian Institute of Actuaries: a claims development portion that reflects considerations relating to the Corporation’s claims practices, the underlying data and the nature of the lines of business written; a reinsurance recovery portion that reflects considerations relating to the ceded claims ratio and potential problem reinsurers; and thirdly, a portion for the investment return rate that reflects uncertainty in the investment portfolio yield, the investment climate in general and the rate at which claims are paid. The margins used are determined by evaluating the above considerations.

The margin for claims development is a percentage of the unpaid claims excluding the provision for adverse deviations. The margin for recovery of reinsurance ceded is a percentage of the amount deducted on account of reinsurance ceded in calculating the unpaid claims without provision for adverse deviations. The margin for investment return rate is a deduction from the expected rate of return per annum.

As with any insurance company, the provision for unpaid claims is an estimate subject to random volatility which could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, timing of claims payments, the recoverability of reinsurance and future rates of investment return. 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 challenging 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 13a).

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 and other liabilities.

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 impairment in value (note 3).

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 consolidated statement of operations.

The Corporation also participates in the sale and repurchase of Government of Canada, Provincial and U.S. Treasury bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. These sale and repurchase arrangements are accounted for as secured financings. The repurchase obligation has been recorded against the carrying value of these bonds (note 3). The difference between the sale price and the agreed repurchase price on a repurchase contract is recorded as interest expense.

Hedging and derivative instruments

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation uses derivative financial instruments to hedge interest rate risk and currency risks associated with its investment portfolio. Interest rate swaps are used to create a hedge to match a liability or an asset, and may contain a cross-currency component. 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 uses basis swaps and forward foreign exchange contracts to hedge foreign exchange risk. Basis swaps involve the exchange of principal and interest payments in two different currencies. ICBC uses short-term forward foreign exchange contracts to fix the rate of exchange of expected future foreign currency cash flows.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. Specific swap 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).

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 changes in 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 hedged 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 consolidated statement of operations as part of investment income. The associated derivative instrument would be subsequently recognized in the consolidated statement of financial position at fair value.

Pensions and post-retirement benefits

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services 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 or 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.

The transitional asset, created when the Corporation adopted the recommendations of CICA Handbook Section 3461 in 2000, is 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 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, implementation 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 which will amortize the cost of each asset over its estimated useful life 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 consolidated 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.

New accounting pronouncements

Effective January 1, 2007, the Corporation adopted the CICA standards for the recognition and valuation of financial assets and liabilities, including Section 1530, *Comprehensive Income;* Section 3855, *Financial Instruments – Recognition and Measurement;* and Section 3865, *Hedges.*

Under this accounting policy change, bonds, equities and deriviative instruments (note 3) will be valued at fair value on the Consolidated Statement of Financial Position. Unrealized gains and losses on investments that are classified as available for sale will be recorded in a separate component of equity, called accumulated other comprehensive income. Realized gains and losses relating to these investments, including any provisions for impairment, if necessary, will continue to be recorded in the Consolidated Statement of Operations. The financial results of prior periods will not be restated.

3. CASH AND INVESTMENTS

($ THOUSANDS)	2006		2005	
	Carrying Value	Estimated Fair value	Carrying Value	Estimated Fair value
Cash and money market securities	$ 316,384	$ 316,384	$ 198,266	$ 198,266
Bonds				
Canadian				
Federal	2,256,701	2,255,388	2,188,511	2,175,509
Bond repurchase	(787,132)	(787,132)	(657,632)	(657,632)
	1,469,569	1,468,256	1,530,879	1,517,877
Provincial	1,035,704	1,049,320	823,422	837,284
Bond repurchase	(58,373)	(58,373)	-	-
	977,331	990,947	823,422	837,284
Municipal	40,653	42,769	196,588	209,687
Corporate	1,882,855	1,891,670	1,722,708	1,730,917
	1,923,508	1,934,439	1,919,296	1,940,604
	4,370,408	4,393,642	4.273,597	4,295,765
Global	412,891	408,400	392,095	356,475
Bond repurchase	-	-	(26,746)	(26,746)
	412,891	408,400	365,349	329,729
Total bonds	4,783,299	4,802,042	4,638,946	4,625,494
Mortgages	663,300	664,477	600,612	603,636
Equities				
Canadian	924,455	1,228,306	768,324	1,128,230
United States	423,980	497,302	374,600	387,917
Europe, Australia, Far East	390,787	481,979	432,525	433,087
Total equities	1,739,222	2,207,587	1,575,449	1,949,234
Real estate, net of provision	185,774	276,865	153,805	189,651
	$ 7,687,979	$ 8,267,355	$ 7,167,078	$ 7,566,281

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 the net present value of the payment stream using rates currently in effect. The estimated fair value of ICBC's net real estate investments is based on independent appraisals made during the year, when available, and, when not available, on discounted cash flows. In 2005, the estimated fair value of real estate was based on the most recent Government Assessment Authority values. The carrying value of the Surrey City Central real estate investment is net of a provision of $103.7 million for impairment in value that was determined to be other than temporary based on an independent appraisal in a prior year.

The notional amount of interest rate swaps is $400.7 million at December 31, 2006 (2005 – $90.5 million). The notional amount of basis swaps outstanding is $12.2 million (2005 – $12.2 million). Interest rate swaps have receiving interest rates of either the Canadian Overnight Repo Rate Average or an average of the three-month Canadian Dealer Offer Rate (CDOR) plus 37.5 basis points (2005 – 36.7 basis points), and an average pay interest rate of 4.34% (2005 – 5.65%). The basis swaps have an average pay floating rate of the London Inter-Bank Offer Rate plus 15 basis points and an average receiving floating interest rate of the CDOR plus 24 basis points. At December 31, 2006, all swap contracts had remaining terms under two years. The swaps had an estimated fair value of $4.3 million as at December 31, 2006 (2005 – $13.1 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. No forward foreign exchange contracts were outstanding as at December 31, 2006 (2005 – $26.7 million).

a) Fixed income – interest rate risk

	2006		2005	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canadian				
Federal	3.9	3.5	3.6	3.4
Provincial	4.4	6.9	4.4	7.6
Municipal	5.4	4.7	5.7	4.3
Corporate	4.4	3.6	4.3	3.5
Global	3.7	5.3	3.5	5.5
Total bonds	4.2	4.3	4.0	4.3
Mortgages	5.6	3.2	5.7	3.1
Total bonds and mortgages	4.3	4.2	4.1	4.2

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
2006				
Bonds				
Canadian				
Federal	$ 3,915	$ 1,261,752	$ 203,902	$ 1,469,569
Provincial	-	480,615	496,716	977,331
Municipal	-	17,270	23,383	40,653
Corporate	42,900	1,557,057	282,898	1,882,855
Global	21,298	184,637	206,956	412,891
Total bonds	68,113	3,501,331	1,213,855	4,783,299
Mortgages	120,108	366,559	176,633	663,300
	$ 188,221	$ 3,867,890	$ 1,390,488	$ 5,446,599
2005				
Bonds				
Canadian				
Federal	$ -	$ 1,325,795	$ 205,084	$ 1,530,879
Provincial	7,728	369,902	445,792	823,422
Municipal	-	107,610	88,978	196,588
Corporate	32,118	1,460,771	229,819	1,722,708
Global	38,987	158,895	167,467	365,349
Total bonds	78,833	3,422,973	1,137,140	4,638,946
Mortgages	97,647	283,825	219,140	600,612
	$ 176,480	$ 3,706,798	$ 1,356,280	$ 5,239,558

c) Investment income

($ THOUSANDS)	2006	2005
Interest		
Money market	$ 11,384	$ 6,418
Bonds	220,685	200,135
Mortgages	34,108	32,787
	266,177	239,340
Gains (losses) on the sale of investments		
Equities	205,668	236,578
Bonds	(4,159)	98,361
Real estate	2,154	-
Foreign exchange	(9,784)	(26,627)
	193,879	308,312
Dividend and other income (expenses)		
Equities	52,281	38,325
Real estate	13,065	7,286
Investment management fees	(4,590)	(10,518)
Other	(8,463)	(3,309)
	52,293	31,784
Total investment income	$ 512,349	$ 579,436

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, 2006 securities with an estimated fair value of $352.8 million (2005 – $88.3 million) have been loaned and securities with an estimated fair value of $370.3 million (2005 – $93.9 million) have been received as collateral.

4. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2006		2005	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 23,930	$ 23,930	$ 23,939	$ 23,939
Buildings	141,364	32,151	140,212	32,132
Furniture and equipment	109,185	15,724	102,805	17,596
Software	22,879	7,070	22,018	8,562
Leasehold improvements	8,467	1,119	7,676	582
	$ 305,825	$ 79,994	$ 296,650	$ 82,811

Amortization expense for the year ended December 31, 2006 amounted to $15.0 million (2005 – $14.0 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)	2006	2005
Unpaid claims net – beginning of year	$ 5,031,283	$ 4,642,193
Change in estimates for losses occuring in prior years		
Prior years' claims adjustments	89,918	38,782
Increase in claims incurred in prior years due to a reduction in the amount of discount	9,125	41,880
	99,043	80,662
Provision for claims occuring in the current year	2,544,396	2,444,515
Net claims incurred	2,643,439	2,525,177
Less:		
Payments on claims incurred in the current year	978,560	938,534
Payments on claims incurred in prior years	1,415,110	1,314,033
Recoveries on claims	(109,265)	(116,480)
	2,284,405	2,136,087
Unpaid claims net – end of year	5,390,317	5,031,283
Recoverable from reinsurers	29,416	21,825
Unpaid claims gross – end of year	$ 5,419,733	$ 5,053,108

The provision for unpaid claims at December 31, 2006 includes an estimate of $126 million (2005 – $84 million) resulting from increases to the BC Supreme Court tariff of costs used to compute legal costs for indemnification of successful litigants effective January 1, 2007.

The Corporation discounts its provision for unpaid claims at an investment rate of return of 5.0% (2005 – 4.7%). The Corporation determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The following table shows the effects of discounting on the provision for unpaid claims:

($ THOUSANDS)	Undiscounted	Effect of Present Value	PFADs	Discounted
2006				
Provision for unpaid claims	$ 5,448,305	$ (620,546)	$ 562,558	$ 5,390,317
Amount recoverable from reinsurers	34,270	(3,306)	(1,548)	29,416
	$ 5,482,575	$ (623,852)	$ 561,010	$ 5,419,733
2005				
Provision for unpaid claims	$ 5,052,782	$ (545,298)	$ 523,799	$ 5,031,283
Amount recoverable from reinsurers	25,163	(2,189)	(1,149)	21,825
	$ 5,077,945	$ (547,487)	$ 522,650	$ 5,053,108

6. REINSURANCE

The Corporation maintains casualty and catastrophe reinsurance to protect against significant losses.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2006 with the following terms:

a) up to $275 million in excess of $25 million annually for catastrophic occurrences;
b) up to $20 million in excess of $5 million for individual casualty loss occurrences.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2005 with the following terms:

a) up to $275 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. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

7. PREMIUMS AND OTHER RECEIVABLES

($ THOUSANDS)	2006	2005
Premium receivables	$ 872,453	$ 640,045
Other receivables	17,691	21,222
	$ 890,144	$ 661,267

The Corporation grants credit to its customers in the normal course of business. Credit assessments are performed on a regular basis and the financial statements take into account an allowance for bad debts.

8. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation sponsors a registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). It also sponsors two supplemental pension arrangements for certain employees.

The Corporation also contributes to two other pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of COPE Local 378 are members of the COPE 378 / ICBC Pension Plan (the COPE Plan). The COPE Plan is a jointly trusteed plan. Trustees of the plan are appointed by each of the Corporation and COPE Local 378. In addition, certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of the BC Public Service Pension Plan.

The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. The Corporation has no role in the governance of the COPE Plan or the BC Public Service Pension Plan.

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 confidential, and bargaining unit staff.

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefit plans were $23.6 million (2005 – $25.9 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 and Confidential Plan had an actuarial valuation as of December 31, 2004 which was extrapolated to December 31, 2006. The COPE Plan had an actuarial valuation as of December 31, 2005 which was extrapolated to December 31, 2006.

Information regarding the pension plans and post-retirement benefits is as follows:

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	**2006**	**2005**	**2006**	**2005**
Plan assets				
Fair value at beginning of year	$ 859,544	$ 743,381	$ -	$ -
Actual return on plan assets	106,884	97,011	-	-
Employer contributions	20,671	23,286	1,900	1,667
Employees' contributions	16,511	15,964	-	-
Net transfers	9	843	-	-
Benefits paid	(22,847)	(20,941)	(1,900)	(1,667)
Fair value at end of year	980,772	859,544	-	-
Accrued benefit obligation				
Balance at beginning of year	864,974	733,299	126,830	97,592
Current service cost and employees' contributions	45,854	40,831	6,690	4,847
Net transfers	9	843	-	-
Interest cost	44,971	44,698	6,629	5,944
Actuarial (gains) losses	(43,463)	66,244	(5,988)	20,114
Benefits paid	(22,847)	(20,941)	(1,900)	(1,667)
Balance at end of year	889,498	864,974	132,261	126,830
Funded status – plan surplus (deficit)	91,274	(5,430)	(132,261)	(126,830)
Unamortized net actuarial losses	32,650	129,241	33,494	41,918
Unamortized plan adjustments	-	-	(1,608)	(1,809)
Unamortized transitional asset	(65,879)	(74,864)	-	-
Accrued benefit asset (liability)	$ 58,045	$ 48,947	$ (100,375)	$ (86,721)

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2006	**2005**
Cash and accrued interest	2%	2%
Equities		
Canadian	25%	27%
Foreign	24%	22%
Fixed Income		
Government	29%	29%
Corporate	6%	6%
Pooled fixed income funds	4%	4%
Mortgages	5%	5%
Real estate	5%	5%
	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)	**2006**	**2005**	**2006**	**2005**
Accrued benefit obligation and plan deficit	$ 7,764	$ 7,699	$ 132,261	$ 126,830

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

($ THOUSANDS)	Pension Plans 2006	Pension Plans 2005	Post-Retirement Benefits 2006	Post-Retirement Benefits 2005
Current service cost	$ 29,343[1]	$ 24,867[1]	$ 6,690	$ 4,847
Interest cost	44,971	44,698	6,629	5,944
Expected return on plan assets	(56,979)	(52,600)	-	-
Amortization of transitional asset	(8,985)	(8,985)	-	-
Plan adjustments	-	-	(201)	(201)
Amortization of net actuarial loss	3,223	2,602	2,436	1,095
Net expense	$ 11,573	$ 10,582	$ 15,554	$ 11,685

[1] Net of employees' contributions of $16,511 (2005 – $15,964)

The Corporation contributed $1.0 million in 2006 (2005 – $0.9 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 2006	Pension Plans 2005	Post-Retirement Benefits 2006	Post-Retirement Benefits 2005
Discount rate	5.20%	5.00%	5.20%	5.00%
Expected long-term rate of return on plan assets	6.6%	6.6%	n/a	n/a
Rate of compensation increase	3.8%	3.8%	3.8%	3.8%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services Plan trend rate	n/a	n/a	0.0%	0.0%

In 2006 the extended healthcare trend rate is assumed to be 11.4% in the first year, decreasing linearly over 9 years to 6.0% per year thereafter. In 2005 the extended healthcare trend rate was assumed to be 12.0% in the first year, decreasing linearly over 10 years to 6.0% per year thereafter.

9. 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)		2006		2005
Operating costs – insurance				
Administrative and other expenses	$	86,785	$	94,129
Insurance services		46,031		42,432
	$	132,816	$	136,561
Operating costs – non-insurance				
Administrative and other expenses	$	31,092	$	29,756
Payment to the Province for Compliance Operations		6,240		24,827
Driver services		40,796		36,665
	$	78,128	$	91,248

10. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

($ THOUSANDS)		2006		2005
Deferred premium acquisition costs	$	138,000	$	38,600
Prepaid expenses		7,920		7,333
	$	145,920	$	45,933

As at December 31, 2006 there were premium acquisition costs of $187.3 million (2005 – $175.4 million) related to future periods. An actuarial valuation determined that $138.0 million (2005 – $38.6 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

($ THOUSANDS)		2006		2005
Optional	$	122,300	$	115,400
Basic		15,700		(76,800)
	$	138,000	$	38,600

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
2006			
Amount payable	$ 261,743	$ 148,519	$ 410,262
Amortization of prior year deferred premium acquisition costs	24,100	14,500	38,600
Deferred premium acquisition costs	(85,608)	(52,392)	(138,000)
Premium taxes and commission expense	$ 200,235	$ 110,627	$ 310,862
Represented as:			
Insurance	$ 181,544	$ 110,627	$ 292,171
Non-insurance	18,691	-	18,691
	$ 200,235	$ 110,627	$ 310,862
2005			
Amount payable	$ 250,734	$ 137,941	$ 388,675
Amortization of prior year deferred premium acquisition costs	93,237	52,863	146,100
Deferred premium acquisition costs	(24,100)	(14,500)	(38,600)
Premium taxes and commission expense	$ 319,871	$ 176,304	$ 496,175
Represented as:			
Insurance	$ 302,172	$ 176,304	$ 478,476
Non-insurance	17,699	-	17,699
	$ 319,871	$ 176,304	$ 496,175

11. 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 9).

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

12. 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 (note 5), post-retirement benefits (note 8) and structured settlements (note 13a) approximate their carrying value.

13. 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, 2006 is approximately $907 million (2005 – $842 million). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) 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)		
2007	$	12,191
2008		10,598
2009		7,762
2010		4,949
2011		2,699
	$	38,199

14. RATE REGULATION

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and service for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. In addition, BCUC sets rates for Basic insurance that allow it to achieve the legislated capital targets and is responsible for directing ICBC to achieve legislated targets for total Corporation and Optional insurance.

For the regulation of the Corporation's Basic insurance rates, BCUC is required to ensure that the rates are just, reasonable, not unduly discriminatory and not unduly preferential. BCUC is required to fix rates on the basis of accepted actuarial practice, to pay for certain specified costs, to ensure the Corporation maintains the required capital, to ensure rates are not based on age, gender or marital status, and to ensure increases or decreases in rates are phased in a stable and predictable manner.

BCUC requires the Corporation to follow the financial allocation methodology it has approved with respect to allocating costs between Basic and Optional insurance business, and non-insurance business.

It also requires the Corporation to file actuarial certificates attesting to the fact that capital available for Basic insurance, Optional insurance and the total Corporation meets legislated targets.

BCUC initiates regulatory processes on its own initiative or upon application by the Corporation. It uses oral hearing, written hearing, or negotiated settlement processes to review applications and subsequently issue legally binding decisions.

The Corporation is required to incur a portion of BCUC's general operating expenses as well as its costs associated with each ICBC proceeding. BCUC can also order the Corporation to reimburse other proceeding participants for specified costs such as legal and expert witness fees.

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. 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.

($ THOUSANDS)	Basic Coverage 2006	Basic Coverage 2005	Optional Coverage 2006	Optional Coverage 2005	Total 2006	Total 2005
Revenues						
Premiums written	$ 1,896,685	$ 1,761,668	$ 1,478,742	$ 1,385,604	$ 3,375,427	$ 3,147,272
Premiums earned	$ 1,824,477	$ 1,736,760	$ 1,432,379	$ 1,380,652	$ 3,256,856	$ 3,117,412
Service fees	25,652	20,126	21,502	17,353	47,154	37,479
Total earned revenues	1,850,129	1,756,886	1,453,881	1,398,005	3,304,010	3,154,891
Claims and operating costs						
Net claims incurred during the year (note 5)	1,653,550	1,624,863	890,846	819,652	2,544,396	2,444,515
Prior years' claims adjustment (note 5)	594	126,428	98,449	(45,766)	99,043	80,662
Claims services, road safety and loss management services	197,608	189,050	103,406	98,192	301,014	287,242
	1,851,752	1,940,341	1,092,701	872,078	2,944,453	2,812,419
Operating costs – insurance (note 9)	66,046	69,347	66,770	67,214	132,816	136,561
Premium taxes and commissions (note 10)	40,693	225,857	251,478	252,619	292,171	478,476
	1,958,491	2,235,545	1,410,949	1,191,911	3,369,440	3,427,456
Underwriting (loss) income	(108,362)	(478,659)	42,932	206,094	(65,430)	(272,565)
Investment income (note 3c)	342,864	378,740	169,485	200,696	512,349	579,436
Insurance operations income (loss)	234,502	(99,919)	212,417	406,790	446,919	306,871
Non-insurance costs	96,819	108,947	-	-	96,819	108,947
Net income (loss)	$ 137,683	$ (208,866)	$ 212,417	$ 406,790	$ 350,100	$ 197,924
Retained earnings						
Beginning of year	$ 452,564	$ 131,430	$ 704,584	$ 827,794	$ 1,157,148	$ 959,224
Transfer of retained earnings	100,000	530,000	(100,000)	(530,000)	-	-
End of year	$ 690,247	$ 452,564	$ 817,001	$ 704,584	$ 1,507,248	$ 1,157,148

A government directive in February 2007, effective for December 31, 2006, directed the Corporation to transfer $100 million of its Optional insurance retained earnings to its Basic insurance business. A government directive in October 2005 directed the Corporation to transfer $530 million of its Optional insurance retained earnings to its Basic insurance business. The Corporation has complied with both government directives.

($ THOUSANDS)	Basic Coverage 2006	Basic Coverage 2005	Optional Coverage 2006	Optional Coverage 2005	Total 2006	Total 2005
Liabilities						
Unearned premiums	$ 901,646	$ 829,438	$ 714,101	$ 667,738	$ 1,615,747	$ 1,497,176
Provision for unpaid claims	$ 4,128,278	$ 3,888,600	$ 1,291,455	$ 1,164,508	$ 5,419,733	$ 5,053,108

15. 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 consolidated 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.