Insurance Corporation of British Columbia

# Addendum to

## Financial Allocation Methodology

## (Chapter 1, Volume 1)

# Financial Allocation Methodology - Retained Earnings

As indicated in the July 5th filing, Special Direction IC2 provides direction respecting the allocation of retained earnings.

ICBC allocated retained earnings for 2002 and 2003 between the Basic and Optional insurance businesses on a similar basis to that used to allocate costs and revenues between the two businesses. The primary driver of the allocation was unpaid claims liabilities. For more details please see ICBC's first rate application to the Commission on August 29, 2003.

Special Direction IC2[1] now provides specific direction to ICBC on the allocation of its retained earnings. Special Direction IC2 requires ICBC to allocate at January 1, 2004 (the beginning of ICBC's 2004 fiscal year), sufficient retained earnings to achieve a capital available of 170% of MCT for ICBC's Optional insurance business.

As of January 1, 2004, ICBC's retained earnings as a whole were $535.9 million. ICBC has allocated $510.9 million from retained earnings to its Optional insurance business. This amount, together with market value adjustments for investments and adjustments for assets results in the total capital available to Optional insurance necessary to achieve 170% of MCT.

The $25 million in retained earnings, remaining after the allocation of $510.9 million to Optional insurance, was allocated to ICBC's Basic insurance business as required by Special Direction IC2. For the discussion on retained earnings and the MCT calculation for Basic insurance, see Capital Chapter 4.III.

On a go forward basis, ICBC's retained earnings will increase or decrease with the annual income or loss attributable to each of the Basic and Optional insurance businesses.

[1] Special Direction IC2 to the British Columbia Utilities Commission, B.C. Reg 647/2004 and 678/2004