

Insurance Corporation of British Columbia



**2018/19
ANNUAL SERVICE PLAN REPORT**



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ICBC's Corporate Service Plans, Annual Service Plan Reports and Financial reports are available on the ICBC website.

Board Chair's Accountability Statement



The Insurance Corporation of British Columbia's (ICBC) *2018/19 Annual Service Plan Report* compares the Corporation's actual results to the expected results identified in the [2018/19-2020/21 Service Plan](#) created in February 2018. I am accountable for those results as reported.

Sincerely,

A handwritten signature in blue ink that reads "Joy MacPhail". The signature is fluid and cursive.

Joy MacPhail
Chair of the Board of Directors

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Chair/CEO Report Letter



ICBC works closely with the Provincial Government to ensure all British Columbians have access to the auto insurance products and services they need and rely on, at the lowest rate possible. As a Crown corporation, ICBC is bound by overall Government expectations included in an annual Mandate Letter.

Despite significant cost pressures, ICBC worked with Government to accomplish the priorities in the [2018/19 Mandate Letter](#). ICBC continues to work with a focus on meeting financial targets and Government's public policy objectives.



Over the past year, the Government and ICBC have made significant progress on major reforms to B.C.'s auto insurance system. In particular, much work was completed to support changes to the Basic insurance product that took effect April 1, 2019, and rate fairness reforms coming in September. Collectively, these reforms are expected to deliver significant savings that will help reduce the pressure on rates and enhance rate fairness. However, Government and ICBC are committed to making further changes, if necessary, to address the rising financial challenges of our current auto insurance system in B.C. and restore ICBC's financial stability.

Although ICBC's financial challenges are significant, there should be no doubt that the Corporation remains a valuable public asset that provides important benefits for British Columbians. Many of the significant challenges facing auto insurance in our province are also plaguing other jurisdictions in Canada. ICBC continues to work hard to deliver high-quality auto insurance to British Columbians at the lowest cost possible.

In addition to the major reforms, ICBC continued its collaboration with Government on a number of shared priority projects, including cannabis-impaired legislation, driver's licence gender "x" option and new ride-hailing legislation.

Over the past year, a number of new directors were appointed to ICBC's Board. In July 2018, Nicolas Jimenez, previously Interim President and CEO, was appointed President and CEO.

ICBC's board members, executive leadership team and Government are actively working together with a focus on stabilizing ICBC's financial position and improving the Corporation's long term sustainability. In addition to regular meetings between the Minister, the ICBC Board Chair and CEO, representatives from ICBC meet regularly with senior staff from the Ministry of the Attorney General.

The Board of Directors continues to receive ongoing education and evaluation opportunities intended to expand their individual and collective understanding of ICBC and their role in overseeing its operations. This included a number of presentations to the Board of Directors by ICBC staff.

As part of our commitment to fiscal responsibility and to ensure the best possible use of Government resources, ICBC will continue to work with Government to meet all objectives set out in the Mandate Letter.

Sincerely,



Joy MacPhail
Chair of the Board of Directors



Nicolas Jimenez
President and Chief Executive Officer

Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) is designed to meet the requirements of the *Budget Transparency and Accountability Act* (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation's Board is required to report on the actual results of the Crown's performance related to the forecasted targets documented in the previous year's Service Plan.

Purpose of the Organization

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation mandated by the [Insurance Corporation Act](#), [Insurance \(Vehicle\) Act](#) and the [Motor Vehicle Act](#) to provide universal compulsory auto insurance (Basic insurance) to drivers in B.C., with Basic insurance rates regulated by the British Columbia Utilities Commission (BCUC).

ICBC is committed to providing customers with the insurance products and services they can count on and the coverage they need. In addition to providing Basic vehicle insurance, ICBC offers various Optional vehicle insurance coverages, including extended third-party liability, collision, comprehensive and vehicle storage.

ICBC is one of B.C.'s largest corporations and one of Canada's largest property and casualty insurers. Their insurance products and services are available through a province-wide network of approximately 900 independent brokers, Government agents and appointed agents. Each year, ICBC processes approximately one million claims through a 24-hour telephone claims handling service and online claims reporting. ICBC continues to have a presence in communities across the province and works with material damage suppliers (e.g., collision and glass repair shops) and healthcare professionals to help customers after a crash.

In addition to providing insurance products and services, ICBC also provides a number of non-insurance services on behalf of the Provincial Government, including vehicle registration and licensing, driver licensing, and fines collection. ICBC also assists with the B.C. Services Card and as a partner on various road safety campaigns and initiatives. ICBC operates as an integrated company for the benefit of their customers and partners with businesses and organizations in communities across B.C. to deliver services and programs. Autoplan brokers are key business partners, distributing ICBC's insurance products and providing other services such as vehicle registration and licensing. ICBC delivers services in partnership with a broad base of suppliers in the automotive industry. Law enforcement agencies, health services providers, material damage suppliers, lawyers and community organizations are among ICBC's other key partners.

ICBC does not have any active operating subsidiary companies. ICBC has 58 nominee holding companies, which hold investment properties for the purpose of generating investment income. ICBC has disclosed a listing of all of its nominee holding companies in Appendix B.

Strategic Direction

The strategic direction set by Government in 2017 and expanded upon in the Board Chair’s [Mandate letter](#) from the Honourable David Eby, Q.C., Attorney General and Minister responsible for ICBC in 2018, shaped the February [2018/19-2020/21 Service Plan](#) and the results reported in this ASPR.

ICBC operates with a corporate strategy focused on containing all costs within its control, while delivering quality services. In line with Government’s commitment to make life more affordable for British Columbians, while delivering services that people can count on, ICBC is dedicated to providing customers with the best insurance coverage and service, at the lowest possible cost. To support this, ICBC’s Corporate Strategy focuses on four key goals: Deliver Value and Service for Customers, Enable Financial Stability, Deliver Operational Excellence and Align People and Business Capabilities.

Working with government and at the direction of the Attorney General as Minister responsible for ICBC, significant steps have been taken to identify and deliver mitigations and initiatives that will help reduce the pressures on auto insurance rates. The initiatives focus on insurance product reform, rate fairness, road safety and modernized material damage programs. The goal of these initiatives is to create a sustainable and fairer auto insurance system, striking the balance between increased care for the injured and managing increased pressures of injury and material damage costs. See the Report on Performance section for more discussion on this topic.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in ICBC’s [2018/19-2020/21 Service Plan](#).

Alignment with Government Priorities

Government Priorities	ICBC aligns with this priority by:
Making life more affordable	<ul style="list-style-type: none"> • Keeping rates as low as possible while enhancing fairness in pricing (Strategy under Goal 1)
Delivering the services people count on	<ul style="list-style-type: none"> • Designing and delivering quality products and services in ways that meet customer and business needs (Strategy under Goal 1)

Operating Environment

ICBC continues to face significant insurance rate pressures due to increasing claims costs that, without major reforms introduced in 2018/19, would result in extraordinary increases to insurance rates for British Columbians.

The rising cost of litigated injury claims is by far the single biggest pressure on ICBC's finances. In 2018/19, ICBC saw an increase in the number of large loss claims which run into hundreds of thousands of dollars each. In particular, large loss injury claims from prior years continue to grow in cost. These large loss claims are being driven, in part, by increased settlement expectations from plaintiff counsel leading up to product reforms introduced on April 1, 2019, making settling legally represented claims more challenging and costly. The disproportionate use of experts and expert reports is also contributing to these cost pressures. In almost all cases, ICBC is responsible for paying for these reports.

In February 2019, the Provincial Government introduced rules to limit the number of expert reports allowed in litigated cases. This change will help to reduce escalating disbursement costs for litigated injury claims and bring British Columbia in line with other provinces that limit the number of experts in court cases.

An encouraging development that occurred in 2018/19 was a reduction in the number of crashes from record high levels in 2016/17 and 2017/18. However, despite this decline, the overall cost of claims has risen as a result of more claims per crash and an increase in the average cost per claim, and this continues to put upward pressure on insurance rates. ICBC will continue to monitor crash rates and invest in road safety programs that encourage safe driving behaviours.

A primary focus for ICBC last year was supporting Government's changes to the Basic insurance product. Accident benefits were doubled to \$300,000 with retroactive impact for all collisions that occurred on or after January 1, 2018. The change means that anyone injured in a crash after that date can receive the increased allowance for medical care and recovery costs. Additional product reforms came into effect April 1, 2019, which include improvements to the care and treatment of anyone injured in a crash and a limit on pain and suffering payouts for minor injuries. Government also introduced a new dispute resolution option for customers. The Civil Resolution Tribunal (CRT) is independent from ICBC and will reduce reliance on the courts to help settle ICBC claims, so customers can receive fair, fast resolution to their claims. The impacts of the April 1, 2019 product changes will be reflected in the 2019/20 ASPR.

Changing the way injuries are treated and compensated is the most impactful action ICBC is taking to improve benefits for customers. Product reform is expected to reduce ICBC's claims costs by approximately one billion dollars per year and has helped control rate increases that would otherwise have been needed.

ICBC continues to engage with a wide range of associations representing medical treatment providers, and with individual treatment providers, following consultation that was initiated in 2017/18. The goal is to improve customer access to medical care to help them recover from injuries. Similarly, ICBC continues to work closely with the automotive repair industry in support of modernizing its material damage processes and programs, with a goal to contain costs. Material damage costs remain high due to evolving vehicle technology and associated costs of repair, which directly increases pressure on rates.

Report on Performance

As a Crown corporation, ICBC continually works to align with Government goals and objectives. ICBC fulfilled the expectations outlined in the [2018/19 Mandate Letter](#).

Despite ever-increasing financial and business environment challenges in 2018/19, ICBC remained committed to providing customers with the insurance products and services they can count on and the coverage they need. At the same time, ICBC remained focused on reducing the pressure on insurance rates and enhancing fairness in pricing. To support this, ICBC's corporate strategy remained focused on four key goals: deliver value and service for customers, enable financial stability, deliver operational excellence, and align people and business capabilities.

ICBC's commitment to containing controllable operating expenses is demonstrated in its continued dedication to operational excellence. Continuously building on its culture of operational excellence helped ICBC improve the way it delivered services to customers, achieved key business objectives and managed controllable operating expense pressures in 2018/19.

Throughout 2018/19, ICBC continually evaluated its performance against the measures set out in its Service Plan. Together, ICBC's executive leadership team and Board members along with Government are actively communicating and working together with a continued focus on stabilizing ICBC's financial position and improving the Corporation's long term sustainability.

Goals, Objectives, Measures and Targets

To assess progress against their goals, ICBC relies on a number of financial and non-financial corporate performance measures. ICBC uses both International Financial Reporting Standards (IFRS) and non-IFRS measures to assess performance. Non-IFRS measures do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures used by other companies in the industry. Where possible, ICBC uses standard industry measures that enable benchmarking against other insurers; and when external sources of data are used, the most current available information is included in this report. In other cases, because of ICBC's unique business model, it develops distinct measures relevant to the area of performance.

Unless otherwise noted, the 2018/19 targets included in this report were established in the February [2018/19-2020/21 Service Plan](#), and the targets for future years reflect those in the February [2019/20-2021/22 Service Plan](#).

In 2016, ICBC changed its fiscal year-end date from December 31 to March 31 to align with the B.C. Government's fiscal year-end. As a result of this change, the 2016/17 actuals included in this report reflect a 15-month transitional fiscal period from January 1, 2016 to March 31, 2017. For 2017/18 and thereafter, ICBC's fiscal year is the 12-month period from April 1 to March 31.

The data used in the calculation of performance results are derived from ICBC's financial and operating systems. Management is responsible for ensuring appropriate controls over the financial systems and are regularly reviewing these to ensure they are operating effectively.

Goal 1: Deliver Value and Service for Customers

ICBC remains committed to delivering value and service for customers by focusing on its customers' needs and what matters most to them.

Objectives

- 1.1a Maintain or improve current Insurance Services satisfaction score
- 1.1b Maintain or improve current Driver Licensing satisfaction score
- 1.1c Maintain or improve current Claims Services satisfaction score

Key Highlights

ICBC continues to meet service measures for its Insurance Services, Driver Licensing and Claims Service by remaining focused on providing consistent, quality products and services to its customers. Below are some key highlights that link to strategies identified in the 2018/19 Service Plan to help ICBC deliver value and service for customers.

Strategy 1: Work with Government and partners to support Government priorities and initiatives

Over the past year, ICBC worked closely with Government on a number of priorities that helped deliver value and service for customers. In particular, significant progress was made supporting major reform to the Basic insurance product, including enhancements to the care and treatment available to customers after a crash. These changes are good news for customers injured in a crash, and their treatment providers, and it reinforces ICBC's commitment to supporting the recovery of its customers.

ICBC also collaborated with Government on a number of shared priority projects, including cannabis-impaired legislation, driver's licence gender "x" option and new ride-hailing legislation. ICBC worked with Government in laying the framework to deliver a new blanket insurance product in support of ride-hailing.

Strategy 2: Keep rates as low as possible while enhancing fairness in pricing

ICBC is fully committed to working alongside Government to make changes and improvements that help to ensure rates are fair and as low as possible for British Columbians. In 2018/19, ICBC made significant progress toward a new insurance rating model coming out in September 2019, which will ensure all drivers pay insurance premiums that are reflective of the risk they represent on the road.

Strategy 3: Design and deliver quality products and services in ways that meet customer and business needs

On June 1, 2018, Government and ICBC made the first major improvement to accident benefits in more than 25 years by doubling the overall medical care and recovery cost allowance for injured customers, retroactive to January 1, 2018. This change marked the beginning of a suite of improvements to the Basic insurance product. The changes are intended to shift the focus away from maximizing payouts to increasing the care and treatment available to anyone injured in a crash.

Moving forward on recommendations in the January 2018 operational review by [PwC Canada](#), ICBC began work toward modernizing its Material Damage Program to make sure customers get the highest standard of repairs at the best price. This work is being accomplished in consultation with industry advisory committees that include representation by material damage suppliers across the province. The work completed over the past year will help to establish a foundation to improve the collective

performance and compliance of the industry and recognize supplier investments in training, equipment, productivity and customer service.

Another recommendation from the PwC Canada review was to apply the discipline of behavioural economics to improve the experience for injured customers. Last year, ICBC developed a proof of concept (POC) that focused on solutions to improve communication and transparency with customers. These solutions involved new work tools, such as conversation guides and email templates to ensure the information provided to customers was consistent and informative. Results of the POC and early customer feedback have been positive, prompting a wider internal roll out of the solutions to help Claims employees improve the value and service they provide customers.

Another example that illustrates how ICBC is meeting customer needs comes from the 2018/19 ICBC fairness commissioners report where he commended ICBC staff for the customer decisions they make on a daily basis: *The overwhelming majority of decisions taken by ICBC employees and agents in their dealings with the Corporation's customers are reasonable and fair.* Peter Burns, Q.C., is ICBC's fairness commissioner and was appointed by ICBC's Board of Directors. The fairness commissioner assesses unresolved ICBC complaints from a neutral perspective, to ensure that customers have been treated fairly, based on ICBC's policies and procedures. As part of the fairness commissioners' terms of reference, the commissioner has the ability to issue public reports if not satisfied with how an investigation and recommendations are being handled by ICBC.

Strategy 4: Reduce injury and death on B.C. roads

In 2018/19, ICBC continued to put a strong focus on its road safety efforts to address distracted driving and intersection crashes to help reduce injury and death on B.C. roads.

ICBC launched its first distracted driving technology pilot in February 2018. Almost 140 ICBC customers volunteered to download an app on their phone that blocks the use of a handheld device when the telematics device installed in the vehicle senses that the vehicle is being driven. The purpose of this small pilot was to gauge driver acceptance of the technology and understand their experience using it. The results were encouraging and prompted the launch of a larger pilot study, which will evaluate the effectiveness of similar technology in reducing crash frequency as well as high risk driving behaviours.

ICBC remained committed to the Road Improvement Program and Intersection Safety Camera (ISC) Program last year and continues to partner with the Provincial Government and police across the province on enhanced traffic enforcement. During 2018/19, ICBC and Government implemented the 100 percent activation of the intersection safety cameras, to ensure red light violations at all 140 ISC locations are enforced 24 hours-a-day. ICBC also began work in support of Government's initiative to introduce automated speed enforcement at 35 existing ISC locations.

ICBC is also partnering with Government on an intersection safety improvement initiative to reduce collisions at intersections across the province. Investments in road safety will help to improve the safety of all communities across B.C. and will also help to manage claims costs. Meanwhile, ICBC continued to partner with police and other stakeholders with education and awareness campaigns and other tactics related to the other top contributing factors in fatal collisions: speed and impaired driving.

Performance Measure 1: Customer Service Performance

Performance Measures	2016/17 Actuals <i>(15 months)</i>	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target ³	2020/21 Target ³
1.1a Insurance Services Satisfaction ¹	95%	95%	94%	95%	92%	93%
1.1b Driver Licensing Satisfaction	93%	93%	93%	92%	93%	94%
1.1c Claims Services Satisfaction ²	92%	92%	93%	92%	92%	93%

Data Source: Customer service performance is measured based on the percentage of satisfied customers for each major transaction type across our lines of business. The design of our measures and targets reflects the inherent differences of key transactions. Two independent research firms conduct customer survey interviews throughout the year to monitor transactional satisfaction.

¹ With the implementation of the upcoming rate fairness changes, policy transactions will take longer to process as more information will be required to appropriately rate a customer's policy. This process is expected to affect transactions in 2019/20 and 2020/21.

² Starting in 2017/18 and moving forward, the Claims Services Satisfaction score is the overall average of results from First Notice of Loss and Closed Claims, including Centralized Claims Injury Centre (CCIC) and glass claims. Previously, CCIC and glass claims were excluded.

³ Targets were updated in the 2019/20-2021/22 Service Plan to reflect anticipation that the processing time at the broker office will be longer to address customer's questions around rate design changes.

Discussion*Performance Measure 1.1a: Insurance Services Satisfaction*

- Independent insurance brokers process over three million Autoplan policies each year. The insurance services satisfaction measure is typically based on surveys of approximately 5,000 customers over the course of a year. These transactions include purchasing a new policy, renewing a policy or making a midterm change to an existing policy.
- Overall, Insurance customer satisfaction scores remained consistently above last year's target of 94 percent. The fiscal year-end score was 95 percent.

Performance Measure 1.1b: Driver Licensing Satisfaction

- Each year, ICBC conducts approximately 1.6 million driver licence related key transactions concerning the issuance of driver licences and driver exams. These include renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 5,000 customers surveyed throughout the year.
- Driver Licensing customer satisfaction has been increasing since October 2018, but fell just short of its year-end target of 93 percent. While Driver Licensing has made positive changes in the testing process, the overall score was held back primarily as a result of lower customer satisfaction among those who failed their road test.

Performance Measure 1.1c: Claims Services Satisfaction

- Claims are processed through ICBC's claims contact centres, claim offices and specialty departments such as commercial claims and rehabilitation services. Claims surveying draws upon personal claims only and is based on the average of First Notice of Loss and closed claims. In a typical year, there are over 15,000 completed surveys.
- Despite the pressures to train new claims staff and prepare for new claims processes as a result of

product changes implemented April 1, 2019, ICBC continues to deliver a high level of customer service. Overall, Claims customer satisfaction remained stable at 92 percent throughout 2018/19.

Goal 2: Enable Financial Stability

ICBC aims to create value for customers by operating in a disciplined and focused manner. At the same time, ICBC strives to manage operating expenses in a low-cost manner, in line with Government's mandate to make life more affordable for British Columbians, while also focusing on accountability, service and cost consciousness.

Objectives

- 1.1a Stable Minimum Capital Test (MCT) ratio
- 1.1b Stable or lower combined ratio
- 1.1c Investment return to match the policy benchmark return

Key Highlights

Below are some key highlights that link to strategies identified in the 2018/19 Service Plan that helped ICBC enable financial stability by managing claims costs, operating expenses and its investment portfolio.

Strategy 1: Manage increasing bodily injury and material damage claims costs

ICBC continued to hire more claims-related staff in 2018/19 to help manage claim volume and provide support on the new claims processes as a result of product changes implemented on April 1, 2019.

In February 2019, Government announced amendments to the Rules of Court to limit the number of experts and expert reports in cases involving motor vehicle accidents in order to address the disproportionate use of experts and expert reports in those cases, which is expected to positively impact injury claim costs. In response to rising settlement expectations from plaintiffs' counsel and consistent with the observations included in the Ministry of Attorney General's Legal Services Branch review of ICBC's [litigation approach](#), ICBC has been doing what any responsible insurer would do when claims costs increase beyond historical trend lines: enhancing internal processes to ensure that its settlement offers appropriately reflect the evidence of injury being presented. Anyone injured in a crash is entitled to fair compensation, but equally as important, ICBC's focus is on ensuring customers get the care and treatment they need to recover, rather than continuing to pay settlements at levels which are increasing at unaffordable rates.

Material damage costs experienced a levelling off in 2018/19, as total costs were consistent with 2017/18.

Strategy 2: Manage operating expenses in a low-cost manner

ICBC continued managing controllable operating expenses in an efficient and prudent manner, continuing to capitalize on its previous investments in new technology. In striving toward more affordable and fair rates, ICBC employees are doing what is in their control to manage operating expenses and deliver quality services. As a result, in 2018/19, operating expenses were \$800 million, which is lower than the planned operating expenses of \$833 million.

Strategy 3: Balance risk and return within the investment portfolio

ICBC earns investment income that partially offsets the cost of rising insurance rates to policyholders

and aims to balance risk and return within its investment portfolio. Historically, investment income has been a strong contributor to ICBC’s financial health. The current investment portfolio continues to perform well, exceeding industry benchmark returns. However, ICBC cannot rely upon investment return to help offset claims costs to the same extent it did in the past, as increases in claims costs have outpaced the growth in investment returns.

Performance Measure 2: Ensure Financial Stability

Performance Measures	2016/17 Actuals <i>(15 months)</i>	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.1a MCT	112%	31%	TBD ¹	-7%	On Hold ¹	On Hold ¹
1.1b Combined Ratio	128%	136%	124%	132%	112%	112%
1.1c Loss Ratio ²	106%	114%	NA	119%	94%	93%
1.1d Investment Return ³ (Market Return)	Benchmark +0.31%	Benchmark +0.35%	Benchmark or better	Benchmark +0.33%	Benchmark or better	Benchmark or better

Data Source: Financial performance measures are derived from actual financial information, forecasted trends, management targets, and assumptions.

¹ In light of the changes to the Basic insurance product, Corporate MCT targets are subject to review.

² The Loss Ratio was introduced as a performance measure in 2019/20 - 2021/22 Service Plan. Therefore, the target for 2018/19 is not available.

³ Actual and benchmark investment returns are measured gross of management fees. ICBC’s management fees and operating costs are 10 bps. Overall benchmark return is determined by the weighted average of the respective benchmark returns of the asset class in the same period. The actual result shown is the performance relative to the benchmark return.

Discussion

Performance Measure 1.1a: Minimum Capital Test

- The Minimum Capital Test (MCT) ratio is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. It is calculated as the ratio of capital available to capital required, and is used to assess financial risk and long-term financial stability.
- The 2018/19 corporate MCT ratio was -7 percent, due to lower capital available as a result of ICBC’s net loss for the year, which continued to be caused by rapidly increasing claims costs and Basic insurance rates that were insufficient to cover costs.
- On February 26, 2018, Government issued direction to temporarily suspend the *Special Direction IC2* requirement to maintain Basic MCT at 100 percent. This suspension is effective until March 31, 2022.
- Legislative changes have been made to ICBC’s Basic insurance product that are intended to mitigate rising claims costs and support the long-term sustainability of the Corporation.

Performance Measure 1.1b: Combined Ratio

- The combined ratio is a key industry measure for overall profitability and is the ratio of all costs to premium dollars earned. A ratio below 100 percent indicates an underwriting profit (i.e., premiums are sufficient to cover costs), while a ratio above 100 percent indicates an underwriting loss (i.e., premiums are not sufficient and investment income is needed to help cover costs).

Costs included in the combined ratio are claims costs, operating expenses and acquisition costs (e.g., broker commission).

- ICBC's ratio is higher than typical for the property and casualty industry and reflects the unique nature of their business model. The property and casualty industry benchmark for 2018 was 98.7 percent.¹ Basic insurance premiums, which make up approximately 60 percent of our total premiums earned, are not set to generate underwriting profits. In addition, ICBC was not able to set Basic insurance rates to cover costs. ICBC delivers non-insurance services on behalf of Government. In 2018/19, non-insurance costs represented approximately two percentage points of the combined ratio.
- The 2018/19 combined ratio result did not achieve the target of 124 percent mainly due to continued worsening claims trends and Basic insurance rates that were insufficient to cover costs.

Performance Measure 1.1c: Loss Ratio

- ICBC's loss ratio is typically higher than the industry average. This is partially due to the unique nature of ICBC's business model, where Basic insurance premiums are not set to generate underwriting profits and, together with investment income, are expected to be set to cover costs and to achieve and maintain capital targets (except for the period when capital maintenance and capital build requirements are suspended).

Performance Measure 1.1d: Investment Return

- ICBC managed an investment portfolio with a carrying value of \$17,150 million at the end of 2018/19. The portfolio is conservatively invested, with the majority of assets held in high-quality fixed income securities, primarily to provide for future claims payments and unearned premiums. During the year, ICBC began transitioning the investment portfolio to a new strategic asset mix, lowering the allocation to public bonds and increasing the allocations to equities and alternative assets (e.g., infrastructure). Equities, mortgages, infrastructure and real estate are held in the investment portfolio to generate an added return over bonds. Investment income helps to reduce the amount of premiums needed from policyholders.
- Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy market benchmark calculated based on individual asset class market benchmark returns, weighted according to the portfolio's strategic asset mix.
- Investment returns over the last four years have benefited from allocations to equity, mortgages and real estate, all of which have provided an added return over bonds.
- ICBC's investment returns continue to compare favourably to market returns. The 2018/19–2020/21 investment portfolio performance targets are set at the policy market benchmark's four year annualized return. For performance measurement purposes, ICBC does not forecast the policy market benchmark return, as it is the result of market forces beyond the Corporation's control.
- As of March 31, 2019, ICBC's four year annualized return at 3.22 percent was 0.33 percentage

¹ MSA Research Inc., *MSA Benchmark Report, Property and Casualty, Canada, 2018. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund)*.

points higher than the comparable policy market benchmark of 2.89 percent.² Based on average portfolio values over this period, the estimated impact of this is about \$51 million annually or about \$204 million over four years.

- ICBC's one year return of 5.28 percent was 0.02 percentage points below the comparable policy market benchmark of 5.30 percent. The slight underperformance was largely due to below-benchmark returns from ICBC's external Canadian equity managers.

Goal 3: Deliver Operational Excellence

Providing customers with the best insurance coverage at the lowest possible cost requires operating ICBC in a low-cost manner. This means actively controlling spending, avoiding unnecessary costs and delivering a consistent, quality experience and value for customers.

Objectives

- 1.1a Stable Loss Adjustment Ratio
- 1.1b Stable Insurance Expense Ratio

Key Highlights

Below are some key highlights that link to strategies identified in the 2018/19 Service Plan that helped ICBC control spending, avoid unnecessary costs and focus on delivering a consistent, quality experience and value for customers.

Strategy 1: Continuously improve the business by leveraging operational excellence principles
ICBC continued to leverage operational excellence principles (i.e. lean methodology) in 2018/19 by applying these principles in the work supporting product changes and improvements to the way premiums are set. Examples include the design of the end-to-end claims handling process, processes to respond to customers' dispute resolution applications to the new Civil Resolution Tribunal, and practices and tools to support day-to-day claims management and broker support. These principles will continue to be leveraged to manage operating expenses and deliver quality services moving forward.

Strategy 2: Develop organizational flexibility to be responsive to a changing environment
ICBC continued to build on its culture of operational excellence in 2018/19 by forging a stronger connection between operational excellence principles, technology and innovation. Staying focused on enhancing organizational flexibility to support a changing environment, allows ICBC to continuously improve its business. For example, work was completed to prove out concepts such as robotic process automation to help with repetitive low value tasks to free up staff for other tasks (e.g., serving customers and settling claims). Bringing together the practices of operational excellence and technology further broadens the scale at which cost, quality and timely service could be improved.

² Sources: FTSE Canada Fixed Income Indices; Bloomberg/Barclays Government/Credit Index; Bank of America Merrill Lynch BB/B High Yield Index; S&P/TSX Capped Composite Index; Morgan Stanley Capital International (MSCI) EAFE Index & World Index ex Canada; S&P 500; Customized REAL/pac IPD Canadian Property Index; (REAL/pac IPD = Real Property Association of Canada Investment Property Databank) & Canadian Consumer Price Index.

Performance Measure 3: Deliver Operational Excellence

Performance Measures	2016/17 Actuals <i>(15 months)</i>	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.1a Loss Adjustment Ratio	16.6%	15.7%	TBD ¹	17.4%	On Hold	On Hold
1.1b Insurance Expense Ratio	17.3%	16.8%	17.0%	16.7%	16.8%	16.5%

Data Source: Financial performance measures are derived from actual financial information, forecasted trends and assumptions.

¹ In light of the changes to the Basic insurance product, targets are subject to review for 2019/20 and 2020/21.

Discussion*Performance Measure 1.1a: Loss Adjustment Ratio*

- The loss adjustment ratio is the percentage of claims handling costs per dollar of claims paid. It is calculated as the sum of claims services costs, external expenses and loss management expenses divided by claims paid net of external expenses.
- The 2018/19 result was 17.4 percent. In response to the rapid increase in claims severity and a slowdown in closures of represented injury claims in the earlier part of the year, ICBC updated its claims injury strategy in January 2019, ensuring consistent and fair quantification of damages. As a result of this approach, ICBC has observed lower closed severity and lower settlement volume, which have increased the loss adjustment ratio.

Performance Measure 1.1b: Insurance Expense Ratio

- The insurance expense ratio is a standard industry measure to assess the operational efficiency of an insurer. It is calculated as a ratio of insurance operating expenses (excluding claims, claims related costs and non-insurance expenses) to insurance premium dollars earned.
- The property and casualty industry benchmark for 2018 was 30.5 percent.³
- The 2018/19 result of 16.7 percent was slightly better than the 2018/19 target mainly due to lower operating expenses and incurred acquisition costs than budget. ICBC's insurance expense ratio is lower than average in the property and casualty industry.

³ MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2018. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and Saskatchewan Auto Fund).

Goal 4: Aligned People and Business Capabilities

Critical to achieving the corporate strategy is having the right people and the right business capabilities and tools to provide more information, improved services and better access for customers. ICBC's Employee Opinion Survey (EOS) scores have progressively increased over the years.

Objectives

1.1a Maintain or improve scores across all employee opinion indices

Key Highlights

The organization maintained its focus on continuous improvement of employee experience, but has adjusted its EOS targets to reflect that either a score increase or maintenance of existing scores is a satisfactory outcome. Below are key highlights that link to strategies identified in the 2018/19 Service Plan and helped ICBC improve business capabilities and better align people.

Strategy 1: Develop accountable, aligned, enabled, and motivated leaders and employees

In 2018/19, ICBC continued to build on the skills and capabilities of its people through the implementation of human resource initiatives and workforce plans, leadership development, succession planning and various employee experience programs. In particular, efforts have been made to provide ICBC employees more feedback and coaching on their individual performance plans and greater opportunity to take part in formal and informal learning and development activities. Leadership will continue to provide more and better opportunities for employees to learn and get better at their jobs.

Strategy 2: Leverage people, technology and practices to build business value

In 2018/19, ICBC continued to invest in their current operational systems, ClaimCenter and PolicyCenter, to ensure the technology allows them to meet business needs and build business value. ICBC also continued to invest in technology that equips employees with the right information to make data driven decisions (e.g., fraud analytics tool and improved corporate reporting tools).

Performance Measure 4: Aligned People and Business Capabilities

Performance Measures	2016/17	2017/18	2018/19	2018/19	2019/20	2020/21
	Actuals <i>(15 months)</i>	Actuals	Target	Actuals	Target ²	Target ^{2,3}
Employee Opinion Indices						
Aligned	78	81	≥81	82	82	82
Enabled	66	70	≥70	73	76	79
Motivated	64	67	≥67	72	75	78
Accountable	87	86	≥86	90	90	90
Leadership ¹	70	n/a	≥70	76	n/a	79

Data Source: Employee Opinion Survey conducted by an independent firm.

¹ The leadership index can only be updated in a full survey year.

² The 2019/20 and 2020/21 Leadership targets were transposed in the 2019/20-2020/21 Service Plan, but have now been corrected.

³ The Enabled and Motivated targets for 2020/21 have been updated since the 2019/20-2021/22 Service Plan.

Score Legend

- 80-100 = Extremely positive
- 60-79 = Moderately positive
- 40-59 = Moderately negative
- 0-39 = Extremely negative

Discussion

Employee Opinion Survey

- ICBC’s current approach to the EOS calls for a biennial running of the full survey and a shortened focused “pulse check” survey in the in-between years. In 2018/19, ICBC conducted a full EOS survey, achieving an organization-wide participation rate of 75 percent.
- Over the past few years, the full EOS participation rate has been historically high (in the mid-seventies), which demonstrates a strong level of engagement by employees in providing feedback to leadership. It also means that survey results are truly reflective of ICBC employees’ opinions.
- Survey results for 2018/19 indicated that ICBC surpassed or met their target scores in all five EOS indices, three of which showed significant increases since the last full survey in 2016/17: Enabled (+7 points), Motivated (+8 points) and Leadership (+6 points).

Financial Report

Discussion of Results

Highlights

ICBC continues to face significant rate pressure due to increasing claims costs that, without the product changes introduced in 2018/19, would result in extraordinary increases to insurance rates for British Columbians. The rising cost of litigated injury claims is the single biggest cost pressure impacting the insurance rates British Columbians currently pay. ICBC is working with Government to implement changes to the Basic insurance product that focus on increased accident benefits and a limit on pain and suffering payouts for minor injury claims. These changes, along with a new independent dispute resolution process, are projected to help save approximately a billion dollars per year, while also allowing for substantially increased care for anyone who is injured in a crash. These changes are urgently needed to address rapidly rising claims costs that resulted in ICBC's ongoing financial losses and to create a sustainable auto insurance system that is more affordable and focused on injury recovery.

Net claims incurred in 2018/19 are higher than the previous year mainly due to a higher emergence of large loss bodily injury claims which run into hundreds of thousands of dollars each, as well as a continued increase in the average cost per claim and lower closure rates. In the lead up to product reform, ICBC anticipated that increased pressure from plaintiff counsel could make settling legally represented claims more challenging in 2018/19, but the observed experience of higher paid settlements and lower claims closure rates has been more severe than expected. ICBC was not able to settle as many represented bodily injury claims in 2018/19 as it did in 2017/18. This decline in closures comes despite a substantial increase in the number of such claims being handled.

ICBC continued to increase its complement of claims and claims related staff in response to the complexity of claims, and to provide support in transition to the new claims process following product reform. ICBC also updated its claims injury strategy in January 2019, ensuring consistent and fair quantification of damages.

In February 2019, Government announced amendments to the Rules of Court to address the disproportionate use of experts and expert reports in claim cases, by limiting the number of expert reports used in court cases. This change will help to reduce escalating disbursement costs for litigated injury claims, and brings British Columbia in line with other provinces that limit the number of experts in court cases.

Financial Resource Summary

The table below provides an overview of ICBC's 2018/19 financial performance relative to its [2018/19—2020/21 Service Plan](#).

\$ millions ¹	2017/18 Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
Premiums earned ²	5,329	5,858	5,823	(35)
Service fees and other	113	119	125	6
Total earned revenues	5,442	5,977	5,948	(29)
Provision for claims occurring in the current year	5,084	6,038	5,308	730
Change in estimates for losses occurring in prior years ³	563	(76)	1,221	(1,297)
Net claims incurred	5,647	5,962	6,529	(567)
Claims service and loss management ⁴	402	440	419	21
Insurance operations expenses ⁴	261	288	279	9
Premium taxes and commissions ^{4,5}	792	456	307	149
Total expenses	7,102	7,146	7,534	(388)
Underwriting loss	(1,660)	(1,169)	(1,586)	(417)
Investment and other income	462	616	558	(58)
Income (loss) - insurance operations	(1,198)	(553)	(1,028)	(475)
Non-insurance operations expenses ⁴	102	105	102	3
Non-insurance commissions ⁴	31	32	31	1
Non-insurance - other income	(6)	(6)	(7)	1
Net loss	(1,325)	(684)	(1,154)	(470)
At year end:				
Long-term debt	-	-	-	
Total liabilities	16,999	18,594	19,728	
Equity:				
- Retained earnings (deficit)	1,133	479	(21)	
- Other components of equity	(161)	(59)	125	
- Non-controlling interest	15	19	15	
Total equity	987	439	119	
Capital Expenditures	54	105	66	
Autoplan policies earned⁶	3,833,000		3,895,000	
Average premium (\$)⁷	1,364		1,441	
Claims reported during the year⁸	1,047,000		1,021,000	

¹ Financial information for all years is prepared based on International Financial Reporting Standards (IFRS).

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

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

⁴ See Note 18 of the consolidated financial statements for details of Operating Expenses by Nature.

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

⁶ Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.

⁷ Average premium is based on Autoplan premiums earned.

⁸ Claims reported represent the number of claims reported against purchased insurance coverages.

Basic and Optional Comparative Summary Table

\$ millions	Basic - Actual vs. Prior Year			Optional - Actual vs. Prior Year		
	2017/18	2018/19	2018/19	2017/18	2018/19	2018/19
	Actual ¹	Actual	Variance	Actual ¹	Actual	Variance
Premiums earned ²	3,149	3,390	241	2,180	2,433	253
Service fees and other	69	74	5	44	51	7
Total earned revenues	3,218	3,464	246	2,224	2,484	260
Provision for claims occurring in the current year	3,451	3,621	(170)	1,633	1,687	(54)
Change in estimates for losses occurring in prior years ³	218	718	(500)	345	503	(158)
Net claims incurred	3,669	4,339	(670)	1,978	2,190	(212)
Claims service and loss management	274	280	(6)	128	139	(11)
Insurance operations expenses	122	120	2	139	159	(20)
Premium taxes and commissions ⁴	446	(136)	582	346	443	(97)
Total expenses	4,511	4,603	(92)	2,591	2,931	(340)
Underwriting loss	(1,293)	(1,139)	154	(367)	(447)	(80)
Investment and other income	325	397	72	137	161	24
Loss - insurance operations	(968)	(742)	226	(230)	(286)	(56)
Non-insurance operations expenses	102	102	-	-	-	-
Non-insurance commissions	31	31	-	-	-	-
Non-insurance - other income	(6)	(7)	1	-	-	-
Net loss	(1,095)	(868)	227	(230)	(286)	(56)
Optional net income transfer to Basic business	99		(99)	(99)		99
Net loss after income transfer	(996)	(868)	128	(329)	(286)	43
At year end:⁵						
Liabilities:						
Unearned premiums	1,550	1,636		1,080	1,249	
Provisions for unpaid claims	8,608	10,338		3,288	3,950	
Equity:						
- Retained earnings (deficit)	933	65		200	(86)	
- Other components of equity	(112)	92		(49)	33	
- Non-controlling interest	10	10		5	5	
Total equity	831	167		156	(48)	

¹ 2017/18 Basic and Optional commission allocation was adjusted.

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

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

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

⁵ Balances presented at year end as of March 31, 2018 and March 31, 2019, respectively.

Variance and Trend Analysis

The 2018/19 net loss of \$1,154 million was \$171 million lower than the \$1,325 million net loss in 2017/18. This was mainly due to a favourable deferred premium acquisition cost (DPAC) adjustment, higher premiums earned, and higher investment income, partially offset by higher claims costs compared to the previous period. Compared to budget, the current year's net loss was \$470 million higher than the budgeted net loss of \$684 million. This was largely due to higher than expected prior years' claims adjustments as the result of the continuation of higher paid severity and lower closure rates. Large bodily injury claims from prior years continue to emerge at higher rates than expected.

Premiums earned

Premiums earned in 2018/19 were \$5,823 million which is an increase of \$494 million compared to 2017/18. This is due to the impact of the Basic insurance rate increase of 6.4 percent effective November 1, 2017. To a lesser extent, Optional insurance rate increases and a growth in the number of insured vehicles also contributed to increased premiums earned. Premiums earned were consistent with budget.

Service fees and other

Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period. Service fees are in line with premiums earned.

Claims costs

Cost of claims incurred account for more than three quarters of ICBC's total costs. They are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period, regardless of when the crash was reported to ICBC, and the change in estimates for losses that occurred in prior periods. Claims incurred costs include payments made to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on known claims and claims not yet reported.

Claims incurred costs are affected by the growth in the number of policies, the chance of having a claim (frequency) and the average expected costs to settle those claims (severity). Frequency is influenced by factors that include driving and claimant behaviour, driver experience, weather and the effectiveness of road safety and loss management programs. Severity is influenced by factors that include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts/repair inflation and independent adjusting costs.

Overall, 2018/19 net claims incurred costs of \$6,529 million were \$882 million higher than the claims costs incurred in 2017/18 due to the worsening claims trends discussed above. This increase was driven by the increase in current period claims costs and the prior periods' claims costs adjustments.

Net claims incurred costs in 2018/19 were \$567 million higher than budget, with a favourable difference of \$730 million in current period claims costs and an increase of \$1,297 million in prior periods' adjustments.

Current year claims costs are better than budget due to improving crash frequency. In 2018/19 there was a reduction in the number of crashes, which is an encouraging development from record high levels in 2016/17 and 2017/18. Despite the decline in crashes, the overall cost of claims has risen and continues to put upward pressure on insurance rates. ICBC will continue to monitor crash rates and invest in road safety programs that encourage safe driving behaviours (see more details on page 13, Strategy 4: Reducing injury and death on B.C. roads).

Prior years' claims adjustments are worse than budget due to a higher than anticipated number of large, severe bodily injury claims, taking longer to settle and increasing claims costs.

\$ millions	2014 Actual	2015 Actual	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual
Net Claims Incurred Costs	3,560	4,042	5,966	5,647	6,529
Injury	2,438	2,748	3,955	3,902	4,854
Material Damage and Other	1,122	1,294	2,011	1,745	1,675

Data Source: ICBC financial systems

Injury claims

Current year injury claims account for approximately 68 percent of current year claims incurred costs in 2018/19, and include bodily injury claims and accident benefit claims. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses and external claims handling expenses. Overall, the total cost of current year injury claims have increased in 2018/19 compared to 2017/18. This reflects the increased severity of large bodily injury claims.

Bodily injury claims costs accounted for over 90 percent of the total current year injury claims costs. With the introduction of product reform and shifting to a care based model, more costs are incurred under accident benefits, reducing bodily injury costs.

\$ millions	2014 Actual	2015 Actual	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual
Current Year Injury Claims Incurred (major categories)	2,295	2,563	3,570	3,334	3,498
Bodily Injury	2,130	2,380	3,308	3,114	3,162
Accident & Death Benefits	165	183	262	220	336

Data Source: ICBC financial systems

Material damage (non-injury) claims

Material damage claims can largely be categorized into property damage, collision, comprehensive and windshield claims. Overall, the total cost of current year material damage claims was consistent with 2017/18. In 2018/19, ICBC began work toward modernizing the Material Damage program with a goal to contain costs in line with industry standards. The changes are also intended to incentivize suppliers to elevate their performance. Implementation of these changes is expected in 2019/20.

\$ millions	2014 Actual	2015 Actual	2016/17 Actual (15 months)	2017/18 Actual	2018/19 Actual
Current Year Material Damage Claims Incurred (major categories)	1,038	1,156	1,755	1,555	1,548
Property damage	401	433	704	673	643
Collision	427	491	727	583	612
Comprehensive	150	166	222	198	195
Windshield	60	66	102	100	98

Data Source: ICBC financial systems

Change in estimates for losses occurred in prior years

Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined.

In 2018/19, the change in estimates for losses that occurred in prior periods was unfavourable as compared to 2017/18. This is a result of the emergence of a greater number of large bodily injury claims than expected from previous years, and an increase in the time required to resolve these claims.

Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the fiscal year based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as at March 31, 2019 was \$14,288 million; however, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury claims accounts for approximately 90 percent of total unpaid claims costs. As illustrated in the table below, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence, with a greater portion of the costs being an estimate of claims costs payable in future years.

	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	End of Year 6
Breakdown of Bodily Injury Costs (%) (typical accident year)	100%	100%	100%	100%	100%	100%
Paid	2%	12%	25%	40%	60%	80%
Unpaid	98%	88%	75%	60%	40%	20%

ICBC commissions the services of an external actuary to provide an independent assessment of the provision for unpaid claims and, as part of the annual audit of the financial results, the external auditor's actuary also reviews the adequacy of the unpaid claims reserves.

ICBC earns investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims are ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports the provision for unpaid claims on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims (see note 14 to the consolidated financial statements). The discount rate is based on the expected return of ICBC's current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. As of March 31, 2019, the discount rate of 3.7 percent increased by 62 basis points from the prior period's discount rate of 3.1 percent, which resulted in a decrease to the balance of unpaid claims.

Road safety and loss management

In 2018/19, ICBC invested \$54 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs.

Using a safe systems approach, ICBC targets its road safety investments on the major risks that impact customers and costs in the business, including distractions, high-risk driving, impaired driving and vulnerable road users. Over the past year, ICBC worked with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

ICBC continued to support enhanced enforcement initiatives through a funding agreement with the Ministry Public Safety and Solicitor General. In 2018/19, ICBC invested approximately \$22 million in enhanced enforcement, such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in public education and awareness, and community initiatives to help change driver behaviours.

Operating expenses

Operating expenses include compensation and other expenses required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes. In 2018/19, ICBC continued to manage controllable operating expenses by being an operationally excellent, low-cost organization, with a continued focus on prudent management of administration costs.

In 2018/19, claims related operating expenses of \$419 million were higher than 2017/18. This is primarily due to higher compensation expenses from hiring additional claims and claims-related staff in an effort to manage claims complexity. Claims related operating expenses in 2018/19 were lower than budget due to lower salary rates and differences in staff mix in claims functions.

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

\$ millions	2017/18 Actual	2018/19 Budget	2018/19 Actual
Operating Expenses	765	833	800
Claims related costs	402	440	419
Insurance	261	288	279
Non-Insurance	102	105	102

Below is a table of total operating expenses by nature:

\$ millions	2017/18 Actual	2018/19 Budget	2018/19 Actual
Operating Expenses by Nature	765	833	800
Employee benefit expense	489	530	503
Professional, administrative and other	191	217	207
Depreciation & amortization	55	55	59
Road improvements and other traffic safety programs	30	31	31

Acquisition costs

Acquisition costs represent the amounts paid to brokers and appointed agents for the sale of ICBC's insurance products and the administration of driver and vehicle licensing transactions, respectively. Acquisition costs also include premium taxes (4.4 percent of premiums) collected and paid to the Provincial Government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are deferred and amortized as expense on a similar basis. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, DPAC are written down and a premium deficiency liability is recognized. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses. As at March 31, 2019, the net Corporate DPAC asset was \$308 million, after a positive premium deficiency adjustment of \$388 million (see notes 18 and 19 to the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of \$338 million were lower than prior period and budget. This is mainly due to a favourable premium deficiency adjustment based on lower crash frequency and improved profitability expected in the future. Higher broker commissions and premium taxes in 2018/19 were in line with higher premiums earned.

Investments

ICBC has an investment portfolio with a carrying value of \$17,150 million, which represented 86 percent of the Corporation's total assets as at March 31, 2019.

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

As at March 31, 2019, 67 percent of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market securities and mortgage instruments, while 33 percent of the portfolio was invested in equity, real estate and infrastructure investments. The decrease in the allocation to bonds and the increase in the allocation to the other investments compared to prior year is a result of transitioning the investment portfolio to the new strategic asset mix. The new strategic asset mix decreases the allocation to bonds and increases the allocations to equities and alternative assets (e.g., infrastructure).

Investment and other income

In 2018/19, investment income was \$558 million. This was higher than the investment income in the prior period, mainly due to higher dividend income and real estate gains on dispositions. These were partially offset by bond losses due to rising interest rates. Overall, these results equate to an accounting investment return of 3.4 percent in 2018/19, compared to 2.9 percent in 2017/18, based on the average investment balance during the period on a cost basis.

The investment income was \$27 million higher than budget, mainly due to higher bond interest income, equity gains from trading activities and unplanned real estate dispositions. This was partially offset by larger than planned bond losses, lower than planned dividend and real estate income, and asset impairments.

The 2018/19 investment and other income budget also included gains on the sale of own-use properties of \$85 million; however, these properties were not sold.

\$ millions	2017/18 Actual	2018/19 Budget	2018/19 Actual
Investment and Other Income	462	616	558
Investment Income	462	531	558
Interest, dividends & other income	377	561	521
Gains (losses) on sale of investments	85	(30)	37
Other Income - gain on sale of own-use properties	-	85	-

Equity

ICBC's equity at March 31, 2019 was at \$119 million. Equity has historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets. However, given the impact of continued worsening claims costs and several consecutive years of recurring losses, the capital base has been diminished.

As at March 31, 2019, ICBC had a net gain of \$143 million in the accumulated other comprehensive income. The unrealized gains and losses included in other components of equity reflect the changes in fair value for bonds and equities and the realization of gains and losses during the year.

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

As at March 31, 2019, ICBC's corporate MCT level of -7 percent was lower than the prior year. This was primarily due to the cumulative net losses from recent fiscal years as a result of continuing pressure from claims costs and inability to set Basic insurance rates to cover costs. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 10, 21 and 23 to the accompanying consolidated financial statements.

Optional income and capital transfers to Basic

With the increasing claims costs and recent net losses, capital levels continue to decrease. The income transfer of \$99 million and the capital transfer of \$470 million from the Optional insurance line of business to the Basic insurance line of business on April 1, 2017 and September 15, 2017, respectively, were aimed at bolstering the Basic MCT ratio and maintaining it above the regulatory minimum of 100 percent. These transfers were not sufficient to offset the worsening claims trends. The Optional insurance line of business has also experienced a continuing pressure from rising claims costs, in particular, emergence of large and represented claims. As a result, Optional capital has been depleted and is no longer available to bolster Basic capital.

On February 26, 2018, Government issued direction to temporarily suspend the IC2 requirement to maintain Basic MCT at 100 percent for the policy years 2018 through 2021.

Basic and Optional insurance operations

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to ICBC's customers, such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. Detailed financial information on Basic and Optional lines of business is included in note 23 to the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business incurred a net loss of \$868 million. The Basic net loss was better than the prior period due to a favourable DPAC adjustment, higher premiums earned, and higher investment income, which were partially offset by higher claims costs.

In 2018/19, the Optional insurance business incurred a net loss of \$286 million, which was better than the net loss in 2017/18, mainly due to higher revenues from vehicle growth and Optional insurance rate increases, partially offset by higher claims.

Risks and uncertainties

ICBC has a well-established risk management process in place, using the ISO 31000 framework, to identify and evaluate the impact that significant risks could have on the achievement of corporate objectives and to identify controls in place to mitigate residual risk to acceptable levels, in order to protect ICBC against financial and reputational harm. ICBC periodically assesses its risk management processes and continues to evolve these processes in order to improve established controls. Identified risks are captured in a corporate risk register for periodic monitoring and reporting. Risks are categorized in accordance with COSO ERM⁴ definitions and are aggregated for quarterly reporting to ICBC's executives and the Board of Directors.

⁴ COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management) is a widely accepted framework used by management to enhance an organization's ability to manage uncertainty, consider how much risk to accept, and improve understanding of opportunities as it strives to increase and preserve stakeholder value.

As a provider of vehicle insurance products, a sub-set of the risks ICBC is exposed to include industry and financial risks, which may have an impact on ICBC's financial results. Refer to note 10 to the accompanying consolidated financial statements for further details on ICBC's management of these industry and financial risks.

INSURANCE CORPORATION OF BRITISH COLUMBIA
CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2019

Management's Responsibility for the Consolidated 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 International Financial Reporting Standards. These consolidated financial statements include amounts that are based on management's estimates and judgments, particularly our provision for unpaid claims. We believe that these statements present fairly ICBC'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 consolidated 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 Audit Committee recommends for approval to the Board of Directors the appointment of the external auditors and the external actuaries. The Audit 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 judgments. Both internal and external auditors and the appointed actuary have access to the Audit Committee without management's presence. The Audit Committee has reviewed these consolidated financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the consolidated financial statements.

Independent Auditor and Actuary

Our independent auditor, PricewaterhouseCoopers LLP, has audited the consolidated 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 consolidated financial statements prepared by management.

William T. Weiland of Eckler Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of ICBC's policy liabilities, which include a provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in

accordance with accepted actuarial practice in Canada and regulatory requirements. In performing the evaluation, the appointed actuary makes assumptions as to the future rates of claims, frequency and severity, inflation, reinsurance recoveries and expenses, taking into consideration the circumstances of ICBC and the insurance policies in force. The appointed actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Mr. Weiland meets every year with PricewaterhouseCoopers' valuation actuaries and ICBC's management to discuss business developments, changes in claims processing and claims trends. These discussions assist the independent parties in developing expectations around and assessing management's estimate of the claims provision.



Nicolas Jimenez
President and Chief Executive Officer

June 28, 2019



Philip Leong
Interim Chief Financial Officer

June 28, 2019

Independent Auditor's Report

To the Minister Responsible for the Insurance Corporation of British Columbia and the Board of Directors of the Insurance Corporation of British Columbia

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Insurance Corporation of British Columbia and its subsidiaries (together, the Corporation) as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- The consolidated statement of financial position as at March 31, 2019;
- The consolidated statement of comprehensive loss for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the 2018/19 Annual Service Plan Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our

auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

June 28, 2019

Actuary's Report

I have valued the policy liabilities, including reinsurance recoverables, in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at March 31, 2019 and their changes in its consolidated statement of comprehensive loss for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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



William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

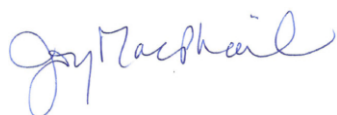
Vancouver, British Columbia
June 28, 2019

Consolidated Statement of Financial Position

(\$ THOUSANDS)	March 31 2019	March 31 2018
Assets		
Cash and cash equivalents (note 8)	\$ 76,393	\$ 17,568
Accrued interest	66,875	62,997
Assets held for sale (note 6)	51,159	-
Financial investments (note 6)	16,151,153	14,644,466
Derivative financial instruments (note 8)	889	2,744
Premiums and other receivables (note 10)	1,802,474	1,629,085
Reinsurance assets (note 10)	28,754	23,417
Investment properties (note 6)	871,212	1,133,699
Property and equipment (note 12)	110,419	110,128
Intangible assets (note 13)	300,412	296,786
Accrued pension benefits (note 17)	41,842	44,488
Deferred premium acquisition costs and prepaids (note 19)	344,919	20,977
	\$ 19,846,501	\$ 17,986,355
Liabilities and Equity		
Liabilities		
Cheques outstanding (note 8)	\$ 58,668	\$ 89,077
Accounts payable and accrued charges	326,651	283,172
Derivative financial instruments (note 8)	1,114	-
Bond repurchase agreements, investment-related, and other liabilities (note 9)	1,724,825	1,605,987
Premium deficiency (note 19)	-	117,623
Premiums and fees received in advance	83,635	67,763
Unearned premiums (note 15)	2,884,776	2,629,744
Pension and post-retirement benefits (note 17)	360,196	310,130
Provision for unpaid claims (note 14)	14,287,910	11,895,696
	19,727,775	16,999,192
Equity		
(Deficit) Retained earnings	(20,521)	1,132,998
Other components of equity	124,317	(161,340)
Equity attributable to owners of the corporation	103,796	971,658
Non-controlling interest (note 7)	14,930	15,505
	118,726	987,163
	\$ 19,846,501	\$ 17,986,355
Critical accounting estimates and judgments (note 3)		
Contingent liabilities and commitments (note 22)		
Subsequent events (note 25)		

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

Approved by the Board



Joy MacPhail
Chair of the Board of Directors



Cathy McLay
Director

Consolidated Statement of Comprehensive Loss

(\$ THOUSANDS)	For the year ended March 31 2019	For the year ended March 31 2018
Premiums written		
Premium revenue – vehicle	\$ 6,062,746	\$ 5,529,874
Premiums ceded to reinsurers – vehicle	(10,335)	(9,512)
Net premium revenue – vehicle	6,052,411	5,520,362
Premium revenue – driver	26,155	23,817
	\$ 6,078,566	\$ 5,544,179
Revenues		
Premiums earned		
Premium revenue – vehicle	\$ 5,809,253	\$ 5,315,627
Premiums ceded to reinsurers – vehicle	(10,335)	(9,512)
Net premium revenue – vehicle	5,798,918	5,306,115
Premium revenue – driver	24,616	22,823
	5,823,534	5,328,938
Service fees and other income	125,164	113,298
Total earned revenues	5,948,698	5,442,236
Claims and operating expenses		
Provision for claims occurring in the current year (note 14)	5,307,849	5,084,234
Change in estimates for losses occurring in prior years (note 14)	1,221,381	562,957
Net claims incurred (note 14)	6,529,230	5,647,191
Claims services (note 18)	365,059	351,366
Road safety and loss management services (note 18)	54,021	51,128
	6,948,310	6,049,685
Operating expenses – insurance (note 18)	279,071	260,588
Premium taxes and commissions – insurance (notes 18 and 19)	306,070	792,683
	7,533,451	7,102,956
Underwriting loss	(1,584,753)	(1,660,720)
Investment income (note 11)	557,540	462,203
Loss – insurance operations	(1,027,213)	(1,198,517)
Non-insurance operations		
Provincial licences and fines revenue (note 20)	630,326	618,387
Licences and fines transferable to the Province of B.C. (note 20)	630,326	618,387
Operating expenses – non-insurance (note 18)	101,750	101,912
Commissions – non-insurance (notes 18 and 19)	31,380	31,226
Other income – non-insurance	(6,748)	(6,493)
	756,708	745,032
Loss – non-insurance operations	(126,382)	(126,645)
Net loss	\$ (1,153,595)	\$ (1,325,162)
Other comprehensive (loss) income		
Items that will not be reclassified to net loss		
Pension and post-retirement benefits remeasurements (note 17)	\$ (21,210)	\$ 134,246
Items that will be reclassified to net loss		
Net change in available for sale financial assets	306,867	(263,721)
	285,657	(129,475)
Total comprehensive loss	\$ (867,938)	\$ (1,454,637)
Net loss attributable to:		
Non-controlling interest (note 7)	\$ (76)	\$ 320
Owners of the corporation	(1,153,519)	(1,325,482)
	\$ (1,153,595)	\$ (1,325,162)
Total comprehensive loss attributable to:		
Non-controlling interest (note 7)	\$ (76)	\$ 320
Owners of the corporation	(867,862)	(1,454,957)
	\$ (867,938)	\$ (1,454,637)

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

Consolidated Statement of Changes in Equity

(\$ THOUSANDS)	For the year ended March 31, 2019						
	Retained Earnings (Deficit)	Other Components of Equity		Total Other Components of Equity	Total attributable to owners of the corporation	Non-Controlling Interest	Total Equity
		Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements				
Balance, beginning of year	\$ 1,132,998	\$ (163,781)	\$ 2,441	\$ (161,340)	\$ 971,658	\$ 15,505	\$ 987,163
Contributions						11	11
Distributions						(510)	(510)
Comprehensive (loss) income							
Net (loss) income	(1,153,519)	-	-	-	(1,153,519)	(76)	(1,153,595)
Other comprehensive (loss) income							
Net gains reclassified to investment income	-	(33,596)	-	(33,596)	(33,596)	-	(33,596)
Net gains arising on available for sale financial assets in the year	-	340,463	-	340,463	340,463	-	340,463
Pension and post-retirement benefits remeasurements (note 17)	-	-	(21,210)	(21,210)	(21,210)	-	(21,210)
Total other comprehensive (loss) income	-	306,867	(21,210)	285,657	285,657	-	285,657
Total comprehensive (loss) income	(1,153,519)	306,867	(21,210)	285,657	(867,862)	(76)	(867,938)
Balance, end of year	\$ (20,521)	\$ 143,086	\$ (18,769)	\$ 124,317	\$ 103,796	\$ 14,930	\$ 118,726

(\$ THOUSANDS)	For the year ended March 31, 2018						
	Retained Earnings	Other Components of Equity		Total Other Components of Equity	Total attributable to owners of the corporation	Non-Controlling Interest	Total Equity
		Net change in available for sale financial assets	Pension and post-retirement benefits remeasurements				
Balance, beginning of year	\$ 2,458,480	\$ 99,940	\$ (131,805)	\$ (31,865)	\$ 2,426,615	\$ 19,571	\$ 2,446,186
Acquisition of entities with non-controlling interest (note 7)						2,205	2,205
Contributions						57	57
Change in net assets						(277)	(277)
Distributions						(6,371)	(6,371)
Comprehensive (loss) income							
Net (loss) income	(1,325,482)	-	-	-	(1,325,482)	320	(1,325,162)
Other comprehensive (loss) income							
Net gains reclassified to investment income	-	(134,166)	-	(134,166)	(134,166)	-	(134,166)
Net loss arising on available for sale financial assets in the year	-	(129,555)	-	(129,555)	(129,555)	-	(129,555)
Pension and post-retirement benefits remeasurements (note 17)	-	-	134,246	134,246	134,246	-	134,246
Total other comprehensive (loss) income	-	(263,721)	134,246	(129,475)	(129,475)	-	(129,475)
Total comprehensive (loss) income	(1,325,482)	(263,721)	134,246	(129,475)	(1,454,957)	320	(1,454,637)
Balance, end of year	\$ 1,132,998	\$ (163,781)	\$ 2,441	\$ (161,340)	\$ 971,658	\$ 15,505	\$ 987,163

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

Consolidated Statement of Cash Flows

(\$ THOUSANDS)	For the year ended March 31 2019	For the year ended March 31 2018
Cash flow from operating activities		
Net loss	\$ (1,153,595)	\$ (1,325,162)
Items not requiring the use of cash (note 24)	38,082	(151,458)
Changes in non-cash working capital (note 24)	2,008,353	1,534,306
Cash flow from operating activities	<u>892,840</u>	<u>57,686</u>
Cash flow used in investing activities		
Purchase of financial investments and investment properties	(15,082,854)	(12,009,868)
Proceeds from sales of financial investments and investment properties	14,186,913	11,845,020
Purchase of property, equipment and intangibles, net	(43,904)	(42,098)
Cash flow used in investing activities	<u>(939,845)</u>	<u>(206,946)</u>
Cash flow from financing activities		
Net securities sold under repurchase agreements (note 24)	139,206	129,163
Principal repayments on lease obligations	(2,967)	-
Cash flow from financing activities	<u>136,239</u>	<u>129,163</u>
Increase (decrease) in cash and cash equivalents during the year	89,234	(20,097)
Cash and cash equivalents, beginning of year	(71,509)	(51,412)
Cash and cash equivalents, end of year	<u>\$ 17,725</u>	<u>\$ (71,509)</u>
Represented by:		
Cash and cash equivalents (note 8)	\$ 76,393	\$ 17,568
Cheques outstanding (note 8)	(58,668)	(89,077)
Cash and cash equivalents, net	<u>\$ 17,725</u>	<u>\$ (71,509)</u>

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

Notes to Consolidated Financial Statements

For the year ended March 31, 2019

1. Corporate Information

The Insurance Corporation of British Columbia (the Corporation) is a wholly-owned Crown corporation of the Province of British Columbia (B.C.), not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act (ICA)*, R.S.B.C. 1996 Chapter 228. The head office of the Corporation is 151 West Esplanade, North Vancouver, British Columbia. The Corporation operates and administers plans of universal compulsory vehicle insurance (Basic) and optional vehicle insurance (Optional) as set out under the *Insurance (Vehicle) Act*, and is also responsible for non-insurance services under the *Insurance Corporation Act* and the *Motor Vehicle Act*. Non-insurance services include driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection. The Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to Basic insurance rates and services (note 23).

Basic insurance includes the following coverages: \$200,000 third party liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of \$300,000 beginning January 1, 2018 (\$150,000 prior to January 1, 2018 – note 3e) for medical and rehabilitation expenses and up to \$300 per week for wage loss (\$740 per week effective April 1, 2019 – note 3e), \$1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside the Province of B.C. The Corporation also offers Optional insurance in a competitive environment, which includes, but is not limited to, the following coverages: extended third party liability, comprehensive, collision, and loss of use. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent brokers located throughout the Province of B.C. 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 vehicle insurer.

On June 6, 2019, the Corporation's Board of Directors authorized these consolidated financial statements for issue.

2. Summary of Significant Accounting Policies

The significant accounting policies applied in preparation of these consolidated financial statements are set out below. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value.

a) Basis of reporting

The consolidated financial statements of the Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and required by the *Budget Transparency and Accountability Act*. The consolidated financial statements include the accounts of the Corporation and its subsidiary

companies. The Corporation's reporting currency and functional currency for all of its operations is the Canadian dollar, unless otherwise stated.

The Corporation reports revenues and expenses attributable to Basic insurance separately from the other operations of the Corporation (note 23). The Corporation presents investment income separately from underwriting results as this reflects how the business operations are managed and provides more relevant, reliable, comparable and understandable information of these consolidated financial statements. The Corporation also provides a number of non-insurance services on behalf of the Province of B.C. The costs associated with these non-insurance activities are borne by the Corporation. The amounts collected and remitted as well as the related costs are accounted for and disclosed separately in the consolidated statement of comprehensive loss under non-insurance operations for greater transparency (note 20).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.

b) Basis of consolidation

Control

The Corporation consolidates the financial statements of all subsidiary companies over which it has control. Control is achieved when the Corporation is exposed to, or has rights to, variable returns from the entity and has the ability to use its power to affect the amount of the returns. Entities are fully consolidated from the date on which control is transferred to the Corporation. All but one (2018 – two) of the Corporation's investment properties are held individually in nominee holding companies. The Corporation does not have any active operating subsidiary companies. All inter-company transactions and balances are eliminated.

Non-controlling interest (NCI), presented as part of equity, represents the portion of an entity's profit or loss and net assets that are not attributable to the Corporation. The Corporation attributes total comprehensive income or loss of entities between the parent and the NCI based on their respective ownership interests. All subsidiaries are wholly-owned, except for the Canadian limited partnerships listed in note 7.

When the Corporation loses control over an entity, it derecognizes the assets and liabilities of the entity, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the entity is measured at fair value when control is lost.

Significant influence

Associates are entities over which the Corporation has significant influence, which means it has the power to participate in the financial and operating decisions of the investee but does not have control or joint control over the financial or operating policies. Associates generally involve a shareholding of 20% to 50% of the voting rights.

In some cases, voting rights in themselves are not sufficient to assess power or significant influence over the relevant activities of the investee. In such cases, judgment is applied through the analysis of management agreements, the effectiveness of voting rights, the significance of the benefits to which the Corporation is exposed and the degree to which the Corporation can use its power or significant influence to affect its returns from investees. Associates are accounted for using the equity method. The Corporation has determined that it does not have significant influence in an investment in a limited partnership for real estate (note 3d), thus the investment is not classified as an associate.

Joint operation

The Corporation accounts for its interest in joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. The Corporation owns 50% share of each of its three joint operations, one of which is with a Limited Partner. The nature of all joint operations are investment properties in Canada.

c) Service fees

Service fees on the Corporation's payment plan are recognized monthly over the term of the policy. For six or twelve month term Autoplan policies, the Corporation's payment plan enables customers to make monthly or quarterly payments. The related interest bearing receivables are carried at amortized cost as determined using the effective interest method.

d) Insurance contracts

The Corporation issues insurance contracts which result in contingent payments of benefits subject to the occurrence of an insured event. The Corporation accounts for insurance contracts as follows:

Premiums earned

The Corporation recognizes vehicle insurance premiums on a straight-line basis over the term of each vehicle policy written. Driver premiums are earned over the term of the policy. Unearned premiums are the portion of premiums relating to the unexpired term, net of any premium refunds.

Deferred premium acquisition costs

To the extent premium acquisition costs such as commissions and premium taxes are recoverable from unearned premiums, they 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 costs limits the amount of the deferral to the amount recoverable from unearned premiums, 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. When this occurs, the premium deficiency is recognized as a liability and any deferred premium acquisition costs are written down.

Provision for unpaid claims

The provision for unpaid claims represents the estimated amounts required to settle all unpaid claims. It includes amounts for claims that are incurred but not reported (IBNR) plus development on known case reserves and loss adjustment expenses, and is gross of recoveries from reinsurance. The provision for unpaid claims also includes an estimate of direct expenses to be incurred in settling claims net of the expected salvage and subrogation recoveries. The provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money. To recognize the uncertainty in establishing best estimates, the Corporation includes a provision for adverse deviations (PfAD).

Reinsurance

Reinsurance balances are presented separately on the consolidated statement of financial position to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of comprehensive loss to indicate the results of its retention of premiums written.

Reinsurance assets, including both reinsurance recoverable on unpaid claims and reinsurance receivable on paid claims, are shown on the consolidated statement of financial position. A PfAD is included in the discounted amount recoverable from reinsurers. The PfAD is applied on a consistent basis with the underlying provision for unpaid claims and includes a reinsurance recovery portion that reflects considerations relating to potential collectability issues with reinsurers.

e) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in fair value, including cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, and money market securities with a term less than 90 days from the date of acquisition.

f) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, and the sale is considered to be highly probable, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured at cost less accumulated depreciation and impairment losses. Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale, and subsequent gains and losses on remeasurement, are recognized in profit or loss; these gains are not recognized in excess of any cumulative impairment loss. Once classified as held for sale, non-current assets are no longer amortized or depreciated (note 6).

g) Financial assets

The Corporation categorizes its financial instruments as fair value through profit or loss (FVTPL), loans and receivables (Loans) or available for sale (AFS) depending upon the purpose for which the

financial assets were acquired. Monetary assets are assets that are to be received in a fixed or determinable number of units of currency. Monetary financial assets include bonds and non-monetary financial assets include equities. The Corporation's financial assets are accounted for based on their classification as follows:

Fair value through profit or loss

A financial asset is 'classified', by default, as FVTPL if it is acquired or originated principally for the purpose of selling in the short-term. A financial asset can be 'designated' in this category if doing so results in more relevant information.

The Corporation's cash and cash equivalents (note 2e) and derivative financial instruments (note 2j) are classified as FVTPL, while three United States (US) equity pooled funds are designated as FVTPL.

The Corporation's derivative financial instruments are forward contracts and an interest rate swap that are not in a hedging relationship, which are also classified as FVTPL.

FVTPL financial assets are recorded at fair value on initial recognition and for subsequent measurement. Transaction costs and changes in the fair value are recognized in investment income on the consolidated statement of comprehensive loss.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation has classified its mortgage portfolio and premiums and other receivables as Loans. The mortgage portfolio consists of mortgages and mortgage bonds.

Loans are recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest rate method. Transaction costs are included in the initial carrying amount of the assets. Impairment losses on loans are recognized in investment income on the consolidated statement of comprehensive loss.

Available for sale

Non-derivative financial assets that are not classified as Loans or FVTPL are accounted for as AFS. The Corporation has classified its money market securities with a term greater than 90 days from the date of acquisition, its bond portfolio, and its equity portfolio as AFS except for the three US equity pooled funds which are designated as FVTPL.

AFS financial assets are recorded at fair value on initial recognition or the trade date and for subsequent measurement. Transaction costs are included in the initial carrying amount of the assets.

Changes in the fair value, other than due to foreign exchange, of an AFS financial asset are recorded in other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired, at which time the gain or loss will be recognized in investment income. Changes in the fair value due to foreign exchange on a non-monetary AFS financial asset are recorded in OCI. Changes in fair value due to foreign exchange on a monetary AFS financial asset are recorded in

investment income. Interest calculated using the effective interest method is accrued daily and recognized in investment income. Dividends are recognized in investment income when the right to receive payments is established on the ex-dividend date.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with substantially all of the risks and rewards of ownership.

h) Translation of foreign currencies

Foreign currency transactions are translated at exchange rates at the date of the sale or purchase. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the year end date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities at year end are recognized in investment income.

Translation differences on non-monetary AFS financial assets, such as equity securities, are recognized as part of the change in fair value in OCI until the security is disposed of or impairment is recorded. Translation differences on monetary AFS financial assets and non-monetary financial assets designated as FVTPL are recorded in investment income.

i) Fair value of financial assets

In accordance with IFRS 13 *Fair Value Measurement*, the Corporation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is classified as Level 1, 2 or 3, based on the degree to which fair value is observable:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs to the valuation methodology include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs to the valuation methodology are not based on observable market data.

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Where an active market does not exist, and quoted prices are unavailable, fair values are determined using valuation techniques that refer to observable market data. Where observable market data is unavailable, the estimated fair value is determined using valuation techniques.

The estimated fair value of money market securities greater than 90 days, which are not considered cash and cash equivalents, is approximated by cost. The estimated fair value for bonds and equities is based on quoted prices or on other observable market information, where available. The estimated fair value for mortgages is determined by referencing the yield curve of Government of Canada bonds to

the corresponding maturity dates of the underlying mortgages, plus an estimated risk premium. The risk premium is determined by factors such as the location of the property, tenant profile, and degree of leverage of the property.

These valuations are reviewed at each reporting date by management.

j) Derivative financial instruments

The Corporation uses derivative financial instruments such as foreign currency forward contracts and interest rate swaps to manage foreign exchange and interest rate risks (note 8).

Derivative financial instruments that are not designated as hedges are recorded using the FVTPL method of accounting whereby instruments are recorded at fair value as an asset or liability with changes in fair value recognized in investment income in the period of change.

k) Investment properties

Properties held for rental income or capital appreciation that are not occupied by the Corporation are classified as investment properties.

The estimated fair value of the Corporation's investment properties is based on independent appraisals by professionally qualified external valuers made during the year.

The Corporation has certain properties that serve dual purposes: investment and own-use. If the investment and own-use portions can be sold separately, or leased out separately under a finance lease, the portions are accounted for separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for own use in the supply of services or for administrative purposes. Where the portion held for own-use is significant, then it would be treated as property and equipment. The Corporation has one property that serves a dual purpose and is classified as an investment property.

Investment properties are comprised of land and buildings and are initially recognized at the fair value of the purchase consideration plus directly attributable costs. Subsequent to initial recognition, the investment properties are carried at cost, less accumulated depreciation, for the building portion, and impairment, if any.

Depreciation is provided on a straight-line basis at 2.5% to 5.0% of initial carrying value annually over the investment properties' useful life.

l) Investment-related liabilities

Investment-related liabilities include mortgage debt associated with investment properties (note 2k) and are initially recognized at fair value and subsequently measured at amortized cost.

m) Bond repurchase agreements

The Corporation participates in the sale and repurchase of Government of Canada and Provincial 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 financial liabilities and are initially recognized at fair value and subsequently measured at amortized cost. The repurchase interest rate at the time of the sale is the cost of borrowing the funds and is recognized as interest expense. Assets transferred under repurchase agreements are not derecognized as substantially all the risks and rewards of ownership are retained by the Corporation. A liability equal to the consideration received has been recorded.

n) Accounts payable and accrued charges

Accounts payable and accrued charges are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accruals are recognized initially at fair value and subsequently measured at amortized cost.

o) Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These costs are included in the accounts payable and accrued charges presented on the consolidated statement of financial position. Future operating losses are not recognized.

Where these amounts are due more than 12 months after the reporting date, they are measured at the present value of the expenditures expected to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

p) Pension and post-retirement benefits

The amounts recognized in net loss in respect of defined benefit pension plans and post-retirement benefits are as follows:

- The Corporation's portion of the current service costs;
- Non-investment costs;
- Interest costs;
- Past service costs; and
- Impact of any curtailment or settlements during the year.

The current service cost is equal to the present value of benefits earned by members during the reporting year.

The non-investment costs are equal to expenses paid from the plans in the reporting year relating to the administration of the plans.

The interest costs are calculated using the discount rate at the beginning of the reporting year and applied to the net liability at the beginning of the reporting year.

Past service costs arise from plan amendments that increase or decrease the obligation. Past service costs are recognized immediately in net loss.

The changes in the defined benefit obligation and the changes in the fair value of plan assets that result from a curtailment or settlement of plan liabilities during the reporting year are recognized in net loss.

A plan's surplus is equal to the excess, if any, of the plan's assets over its obligations. For plans in surplus, an asset is recognized on the consolidated statement of financial position to the extent that the Corporation can realize an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the plan or when the plan liabilities are settled. For plans in deficit, the resulting net liability is recognized on the consolidated statement of financial position.

The value recognized on the consolidated statement of financial position for each defined benefit pension plan and for post-retirement benefits is calculated at the end of the reporting year as follows:

- The defined benefit obligation of the plan;
- Less the fair value of the plan assets out of which the obligations are to be settled directly; and
- Adjusted for the net change of any surplus derecognized.

The Corporation recognizes all actuarial remeasurements in the reporting year in which they arise, through OCI on the consolidated statement of comprehensive loss.

Certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of a separate plan, the BC Public Service Pension Plan. This is a multi-employer defined benefit plan for which the Corporation applies defined contribution accounting. Since the BC Public Service Pension Plan pools risks amongst the current and former members of many employers, there is no consistent or reliable basis for allocating the Corporation's portion of the obligation, assets, and costs. As a result, the Corporation expenses the contributions made. Contributions are subject to change in the future, depending on the funded status of the plan, and are split equally between all participating employers and all contributing active plan members.

q) Property and equipment

Property and equipment are initially recorded at fair value and subsequently measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the items, including retirement costs. Subsequent costs, such as betterments, are included in the asset only when it is probable that future economic benefits associated with the item will flow to the Corporation. All other subsequent expenditures are recognized as repairs and maintenance. Capitalized software that is an integral part of the equipment is accounted for as equipment.

Property and equipment are depreciated when they are available for use, on a straight-line basis over the estimated useful life of each asset, taking into account the residual value, at the following annual rates:

- Buildings 2.5% to 10%
- Furniture and equipment 10% to 33%
- Leasehold improvements Term of the lease

The assets' residual values and useful lives are reviewed annually and adjusted, if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recorded in net loss.

r) Intangible assets

Capitalized software that is not an integral part of the equipment is accounted for as an intangible asset. Software development costs, which are comprised of labour and material costs for design, construction, testing, and other costs directly attributable to bringing the asset to a condition where it can be applied in its intended use, are capitalized for projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

Finite life intangible assets are initially recorded at fair value and subsequently carried at cost less accumulated amortization and impairment losses. Intangible assets with finite useful lives are amortized over their estimated useful lives when they are available for use on a straight-line basis at 10% to 33%, taking into account the residual value.

Indefinite life and not available for use intangible assets are not subject to amortization, but are assessed for indicators of impairment at each reporting date.

s) Impairment of assets

Impairment of financial assets

Financial assets not carried at FVTPL are assessed at each reporting date to determine if there is objective evidence of impairment such as deterioration in the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and the significance of deterioration in the fair value of the asset below cost. In addition, for equity investments, a prolonged decline is also considered objective evidence of impairment. Where objective evidence of impairment exists, an impairment loss will be recognized as follows:

- For AFS financial assets, the related unrealized loss charged to OCI is reclassified to investment income.
- For Loans, the related difference between the amortized cost carrying amount and the fair value, calculated as the present value of the estimated future cash flows, directly from the loan or the sale of collateral, discounted at the asset's original effective interest rate, is recognized in investment income.

If the fair value of a previously impaired debt instrument classified as AFS or a financial asset measured at amortized cost increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed in investment income. Impairment losses on equity instruments are not reversed.

Impairment of non-financial assets

The Corporation's non-financial assets consist primarily of investment properties, property and equipment, and intangible assets. An impairment review is carried out at the end of each reporting year to determine if there are any indicators of impairment. When indicators of impairment exist, the Corporation assesses the asset for impairment. Investment properties are assessed for impairment as separate and identifiable cash-generating units, distinct from the other operations of the Corporation. All other assets are assessed as a group as their cash flows are generated from the operations of the Corporation. If an asset is impaired, the Corporation's carrying amount is written down to its estimated recoverable amount when material. The recoverable amount is the higher of fair value less costs to sell and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. If there is a change in estimate of the recoverable amount, an impairment loss is reversed to net loss on the consolidated statement of comprehensive loss only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation, if no impairment loss had been recognized.

t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to net loss on the consolidated statement of comprehensive loss on a straight-line basis over the period of the lease. Where substantially all of the risks and rewards of ownership have been transferred to the lessee, the lease is classified as a finance lease. In these cases, an obligation and an asset are recognized based on the present value of the future minimum lease payments and balances are amortized over the lease term or useful life of the asset, as applicable.

u) Current and non-current classification of assets and liabilities

Assets are classified as current when expected to be realized within one year of the reporting date. Liabilities are classified as current when expected to be settled within one year of the reporting date. All other assets and liabilities are classified as non-current.

v) Restricted Cash

Restricted cash includes cash balances which the Corporation does not have immediate access to as they have been pledged to counterparties as security for investments or trade obligations. These balances are available to the Corporation only upon settlement of the trade obligations for which they have been pledged as security.

3. Critical Accounting Estimates and Judgments

The Corporation makes estimates and judgments that affect the reported amounts of assets and liabilities. These are continually evaluated based on historical experience and other facts, and expectations of future events that are believed to be reasonable under the circumstances. Management believes its estimates and judgments to be appropriate; however, actual results may be materially different and would be reflected in future years.

Significant accounting estimates and judgments include:

a) Provision for unpaid claims

The provision for unpaid claims is established according to accepted actuarial practice in Canada. Methods of estimation have been used which the Corporation believes produce reasonable results given current information (note 14).

The Corporation's provision for unpaid claims is an estimate subject to volatility, which could be material in the near term. The estimation of claims development involves assessing the future behaviour of incurred claims, taking into consideration the closure rates, payment patterns, consistency of the Corporation's claims handling procedures, the amount of information available at the time of the valuation, including the legal representation status of claims, and historical delays in reporting of claims. In general, the more time required for the settlement of a group of claims, the more uncertain the estimates will be. Variability can be caused by receipt of additional information, significant changes in the average cost or complexity of claims over time, significant changes in the Corporation's claims operations, the timing of claims payments, and future rates of investment return.

The ultimate cost of claims that settle over a long period of time is particularly challenging to forecast for several reasons, which include changes in the legal environment, case law or legislative amendments, and periods of time between the occurrence date of a claim and the date it is report to the Corporation. 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. Provisions for such liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate to reflect ultimate loss expectations based upon historical experience patterns, current socio-economic trends and for certain claims, structured settlements that are provided in the form of consistent periodic payments as opposed to lump-sum payments.

To recognize the uncertainty in establishing a best estimate of the provision for unpaid claims, and consistent with the requirements of the Standards of Practice of the Canadian Institute of Actuaries, the Corporation includes a PfAD, consisting of three elements: an interest rate margin, a reinsurance margin, and a claims development margin. The interest rate margin reduces the expected investment rate of return used for discounting to make allowance for i) asset liability mismatch risk, ii) uncertainty in the timing of claims settlement, and iii) credit risk within the investment portfolio. The reinsurance margin makes allowance for the collectability of recoverable amounts from reinsurers and is a reduction in the expected amount of reinsurance recoverable. The claims development margin makes allowance for the various factors that can

create greater uncertainty in the estimates of ultimate claims costs, including i) changes in the Corporation's operations (e.g. claims practices), ii) the underlying data upon which the unpaid claims estimates are based, and iii) the nature of the lines of business written. The claims development margin is a percentage of the unpaid claims, gross of reinsurance, and is larger for injury lines that generally require more time for claims to settle and close.

The Corporation also assesses the adequacy of its insurance liabilities at the end of each reporting period to ensure that they are sufficient to capture expected future cash outflows. All changes to the estimate since the end of the last reporting period are recorded in the current period as a 'Change in estimates for losses occurring in prior years' in the consolidated statement of comprehensive loss.

b) Impairment of financial assets

Judgment is required to determine if there is objective evidence of impairment of financial assets. The Corporation evaluates, among other factors, the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and the significance of deterioration in the fair value of the asset below cost. In addition, for equity investments a prolonged decline is considered objective evidence of impairment (note 11).

c) Pension and post-retirement benefits

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the Projected Unit Credit Method and management's best estimate of future compensation levels and healthcare costs.

The key assumptions used in calculating the cost of pension and post-retirement benefits are the discount rate, rate of compensation increase, inflation rate, life expectancies, Medical Services Plan (MSP) trends, and extended healthcare cost trends. Together with plan member data, these and other assumptions are used to estimate future benefit eligibility, amount and duration of payments. The rate determined for each of the key assumptions is disclosed in note 17.

The discount rate is used to calculate the present value of the expected future benefit payments and to calculate interest on the net liability. The discount rate is based on high-grade corporate bond yields at the measurement date.

The rate of compensation increase reflects individual job progression, general price level increases, productivity, seniority, promotion, and other factors.

The inflation rate assumption is based on an assessment of historical data, the Bank of Canada target inflation range and the inflation expectations implied by the Government of Canada nominal and real return long-term bond yields.

Life expectancies are based on Canadian mortality tables, and contain a provision for future longevity improvements.

The MSP trend rate is based on information provided by the B.C. provincial government in the budget and other announcements.

The extended healthcare trend rate is based on an analysis of plan experience, assumptions about the trend in total healthcare costs, and the proportion that will be covered by private plans.

With the exception of the discount rate, which is based on market conditions at the financial statement date, all other assumptions are management's best estimate (note 17).

d) Significant influence

The Corporation owns more than 20% of the nominal voting interests in an investment in a limited partnership for real estate. The factors the Corporation considered in making the determination that the Corporation does not have significant influence include the following:

- The Investment Committee of this investment is responsible for overseeing the investing activities and setting the Statement of Investment Policy. The Corporation does not have any influence over the Investment Committee; and
- Although the Corporation has one of five seats on the Governance Committee, the Governance Committee itself has no power over the Investment Committee. The role of the Governance Committee is to provide protective rights and is to ensure the investments are compliant with the Statement of Investment Policy. Further, the Governance Committee does not have any influence over the investing activities or over the management and operation of the partnership.

e) Product reform

Legislation was enacted on May 17, 2018 to reform the Basic insurance product to limit pain and suffering payouts for minor injuries and create an independent dispute resolution process for injury claims effective April 1, 2019 (note 25). The product reform changes are expected to reduce future claims costs to the extent that unearned premiums will sufficiently cover associated future claims costs and related expenses. Key assumptions for the overall reduction in claims cost pressures include that the limit on general damages of \$5,500 will apply to minor injuries, that the enhancements in accident benefits coverage will be used, that other insurance (collateral benefits) will be primary for most medical and wage loss amounts when it is available and, that 50% of bodily injury claims will have disputes resolved by the Civil Resolution Tribunal instead of the Supreme Court of B.C. As a result, the premium deficiency from the beginning of the year has been eliminated and deferred premium acquisition costs have been recognized to be amortized in future years, as outlined in note 19.

Judgment was required to determine the impacts of the legislation changes in reducing claims cost pressures with the resulting improvement in the Corporation's financial stability and ability to continue as a going concern, ensuring the assets of the Corporation are not impaired.

4. New Accounting Pronouncements

a) Standards and interpretations effective for the year ended March 31, 2019

The Corporation has adopted the standards and interpretations that are relevant to the operations of the Corporation and effective for the year ended March 31, 2019. There were no material impacts to the Corporation's consolidated financial statements from the adoption of new standards, including:

- IFRS 4 (Amendment) *Insurance Contracts*. Effective for annual periods beginning on or after January 1, 2018, the Corporation adopted the amendments to IFRS 4 for the year ended March 31, 2019. The amendments introduce two approaches to address concerns about the differing effective dates of IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*: the overlay approach and the deferral approach. The overlay approach provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard. The deferral approach provides companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until January 1, 2021. By adopting IFRS 9 and IFRS 17 simultaneously, there will not be any unintended interactions that may result from accounting mismatches. In November 2018, the IASB voted to tentatively extend the temporary exemption one year forward to January 1, 2022, subject to public consultation in 2019. The Corporation will continue to monitor the IASB's future developments related to the deferral. The Corporation will defer adopting IFRS 9 until the fiscal year beginning April 1, 2021 (tentatively April 1, 2022). See note 5 for the IFRS 9 deferral disclosure.

b) Standards and interpretations issued but not yet effective and not early adopted

Standards and interpretations issued that are relevant to the operations of the Corporation, but not yet effective include:

- IFRS 9 *Financial Instruments*. Effective for annual periods beginning on or after January 1, 2018; early adoption is permitted. The Corporation will defer the implementation of IFRS 9 until its fiscal year beginning April 1, 2021, as allowed under the amendments to IFRS 4 *Insurance Contracts* outlined above (tentatively extended to April 1, 2022 – see note 4a). IFRS 9 brings together the classification and measurement, impairment and hedge accounting to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are measured at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets at amortized costs. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting

model that aligns the accounting for hedge relationships more closely with an entity's risk management activities, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks and requires additional disclosures. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

- *IFRS 17 Insurance Contracts*. Effective for annual periods beginning on or after January 1, 2021 (tentatively extended to January 1, 2022 – see note 4a). Early adoption is permitted for entities that apply IFRS 9 and IFRS 15 on or before the initial application of IFRS 17. The standard establishes the principles of recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4. The standard was issued in May 2017 and requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values. The information will be updated regularly, providing more useful information to users of financial statements. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.
- *IFRS 16 Leases*. Effective for annual periods beginning on or after January 1, 2019; early adoption permitted. IFRS 16 was issued in January 2016 and is intended to replace IAS 17 *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting will remain largely unchanged with previous classifications of operating and finance lease being maintained.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Corporation will apply the modified retrospective approach, under which the amount of right-of-use assets equal to the lease liability as at April 1, 2019, with no restatement to the comparative figures. The adoption of IFRS 16 will lead to the recognition of operating leases, mainly real estate leases being accounted for as right-of-use assets and lease liabilities on the consolidated statement of financial position as at April 1, 2019 for the estimated amount of \$51.1 million.

- *IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. Effective for annual periods beginning on or after January 1, 2020; early adoption is permitted. Amends the existing requirements to update the definition of “material” and to clarify certain aspects of the definition in order to improve disclosure effectiveness in the financial statements. The adoption of this amendment is not expected to have a material impact to the Corporation's consolidated financial statements.
- *IAS 19 Employee Benefits*. Effective for annual periods beginning on or after January 1, 2019; early adoption is permitted. Amends the existing requirements to address the accounting for a plan amendment, curtailment, or settlement that occurs within a reporting period. Updated actuarial assumptions must be used to determine current service cost and net interest for the remainder of the reporting period after such an event. The adoption of this amendment is not expected to have a material impact to the Corporation's consolidated financial statements.
- *IAS 28 (Amendment) Long term Interests in Associates and Joint Ventures*. Effective for annual periods beginning on or after January 1, 2019. Amends the existing requirements to

clarify that IAS 39, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. The adoption of this amendment is not expected to have a material impact to the Corporation's consolidated financial statements.

The Corporation has not early adopted these standards.

5. IFRS 9 deferral disclosure

The Corporation has elected to defer implementation of IFRS 9 to the fiscal year commencing April 1, 2021 (tentatively April 1, 2022 – note 4a), based on an assessment of the Corporation's consolidated financial statements as at December 31, 2015, as permitted by the amendments to IFRS 4.

The Corporation qualifies for this deferral as IFRS 9 has not previously been applied and the carrying amount of its liabilities arising from insurance contracts was significant (greater than 90%) when compared to the total amount of liabilities of the Corporation as at December 31, 2015. The Corporation's predominant business activity therefore continues to be in connection with insurance contracts and the eligibility to defer IFRS 9 implementation remains.

The following table distinguishes the Corporation's financial assets that give contractual rise to cash flows that are solely payments of principal and interest (SPPI), excluding those held for trading, and all other financial assets. The assets are presented at fair value for the year ended March 31, 2019.

(\$ THOUSANDS)	2019	
	Classification under IFRS 9	Fair Value ³
Financial assets (excluding held for trading)		
Financial assets that meet SPPI criterion		
Cash and cash equivalents	AC	76,393
Accrued interest	AC	66,875
Other receivable ¹	AC	31,365
Type 2 structured settlements	AC	25,435
Money market funds	FVOCI	119,887
Bonds ²	FVTPL	9,025,385
Mortgages ²	FVTPL	2,055,694
		11,401,034
Other financial assets		
Non-SPPI bonds ²	FVTPL	240,928
Pooled funds classified as debt instruments	FVTPL	4,559,158
Equities	FVTPL	164,685
		4,964,771
<p>¹ Given the short-term nature of other receivable, the carrying amount has been used as a reasonable approximation of fair value.</p> <p>² The Corporation intends to designate bonds and mortgages at fair value through profit or loss on the basis such measurement would significantly reduce an accounting mismatch that would otherwise result through alternate measurement.</p> <p>³ The net change in fair value of financial assets that meet SPPI criterion during the year amounts to \$109.1 million. All other financial assets that do not meet SPPI criterion have a net change in fair value of \$128.8 million during the year.</p>		

Credit risk

IFRS 9 will require the Corporation to recognize a loss allowance for expected credit losses on financial assets that meet the SPPI conditions and are held for the purpose of collecting contractual cash flows. The credit risk rating for money market funds and bonds in the above table that meet these conditions (SPPI, excluding held for trading) can be found in note 10b. Mortgages and other receivables (including type 2 structured settlements) are assessed for significant increases to credit loss based on past due analyses. All mortgages are current as at March 31, 2019. See note 10b for an aging table for other receivables.

6. Investments

a) Financial investments

(\$ THOUSANDS)		2019	2018
	Classification	Carrying Value	Carrying Value
Financial investments			
Money market securities	AFS	\$ 119,887	\$ 182,116
Bonds			
Canadian			
Federal	AFS	3,383,363	3,786,935
Provincial	AFS	2,238,921	1,703,126
Municipal	AFS	213,282	127,868
Corporate	AFS	3,430,747	3,456,093
Total bonds		9,266,313	9,074,022
Mortgages	Loans	2,041,110	\$ 1,970,164
Equities			
Canadian	AFS	1,734,341	1,833,720
United States	AFS/FVTPL	334,394	31,812
Global	AFS	2,655,108	1,552,632
Total equities		4,723,843	3,418,164
Total financial investments		\$ 16,151,153	\$ 14,644,466

The Corporation's investment in pooled funds are denominated 92.7% (2018 – 99.0%) in Canadian dollars. The above equity disclosure presents the Corporation's interest in pooled funds by looking through the funds, and classifying by the location of issue of the underlying investments.

Money market securities, bonds, and equities are carried at their fair value. Mortgages are measured at amortized cost and have an estimated fair value of \$2.06 billion (2018 – \$1.97 billion). The fair value of mortgages is determined to be consistent with Level 3 investments based on the inputs to the valuation technique used (note 2i). The fair value of the mortgages is determined by applying a discount rate ranging from 3.2% to 5.0% (2018 – 3.0% to 5.2%).

Pooled funds

The Corporation invests in several pooled funds; the investment strategies of some of these funds include the use of leverage. As at March 31, 2019, the Corporation's interests range from 1.8% to 92.0% (2018 – 4.4% to 95.1%) of the net assets of the respective funds. The funds are managed by external asset managers. The Corporation holds redeemable units in each of the pooled funds that entitle the holder to a proportional share in the respective fund's net assets. The carrying value of the

Corporation's investments in pooled funds as at March 31, 2019 is \$4.56 billion (2018 – \$3.26 billion).

Pooled fund investments are included in financial investments as equities. The change in fair value of each AFS pooled fund is included in the OCI section within the consolidated statement of comprehensive loss in 'Net change in available for sale financial assets'. Three of the pooled fund investments are designated as FVTPL and as a result the change in fair value is recorded in investment income on the consolidated statement of comprehensive loss.

The Corporation's maximum loss exposure from its interests in the pooled funds is equal to the total fair value of these investments.

Asset-backed securities

The Corporation purchases bonds that are secured by various assets as part of its investment strategy. The majority of the bonds are issued by Canadian corporate entities and are secured by credit card, auto, or equipment receivables. Also, the Corporation invests in AAA rated senior securities issued by securitization trusts that have a first lien on assets. The weighted-average duration of the asset-backed securities in the Corporation's portfolio is 1.7 years (2018 – 1.8 years) and the coupon interest rates range from 1.8 % to 2.6% (2018 – 1.2% to 3.4%).

As at March 31, 2019, the carrying value of asset-backed securities included in financial investments in the consolidated statement of financial position is \$184.3 million (2018 – \$500.6 million). This amount also represents the maximum exposure to losses at that date.

The Corporation also has one mortgage backed security with a carrying value of \$18.1 million (2018 – one at \$18.5 million) and an estimated fair value of \$19.3 million (2018 – \$19.7 million). The mortgage backed security is included in financial investments as a mortgage and is secured by a first priority mortgage charge on a Class A real estate property. The fixed interest rate on the mortgage backed security is 4.9% (2018 – 4.9%) and the mortgage will mature in four years.

b) Investment properties

The movement in the carrying value of investment properties is as follows:

(\$ THOUSANDS)	2019	2018
Cost		
Balance, beginning of year	\$ 1,289,644	\$ 1,171,566
Additions	-	106,220
Capital improvements	9,626	13,299
Reclassification to assets held for sale	(66,278)	-
Disposals	(230,051)	-
Impairment loss	(10,170)	(1,441)
Balance, end of year	<u>992,771</u>	<u>1,289,644</u>
Accumulated depreciation		
Balance, beginning of year	155,945	123,017
Depreciation	31,241	32,928
Disposals	(50,508)	-
Reclassification to assets held for sale	(15,119)	-
Balance, end of year	<u>121,559</u>	<u>155,945</u>
Carrying value, end of year	<u>\$ 871,212</u>	<u>\$ 1,133,699</u>

The fair value of investment properties is \$1.16 billion (2018 – \$1.52 billion) and has been categorized as a Level 3 investment based on the inputs to the valuation technique used. As at March 31, 2019 and March 31, 2018, the estimated fair value is based on independent appraisals, by professionally qualified external valuers.

During the year, several investment properties have been reclassified to assets held for sale. As of March 31, 2019, five investment properties remain in assets held for sale. The Corporation intends to sell these properties to third parties within 12 months from date of reclassification.

Eleven investment properties that were reclassified to assets held for sale were sold during 2019 for a net gain of \$104.5 million (note 11).

There were no investment properties reclassified to assets held for sale in 2018.

c) Lease income

The Corporation leases out its investment properties. As of March 31, 2019, the future minimum lease cash receipts under non-cancellable leases over the next five years and beyond is as follows:

(\$ THOUSANDS)	2019		2018	
	Lease Income	Net Present Value	Lease Income	Net Present Value
Up to 1 year	\$ 40,119	\$ 38,699	\$ 61,172	\$ 59,361
Greater than 1 year, up to 5 years	116,974	104,065	149,352	135,284
Greater than 5 years	60,029	48,355	86,267	72,038
	<u>\$ 217,122</u>	<u>\$ 191,119</u>	<u>\$ 296,791</u>	<u>\$ 266,683</u>

7. Entities with Non-Controlling Interest

The following table presents the summarized financial information for the NCI in the Corporation's Canadian limited partnership subsidiaries. The amounts disclosed are based on those amounts included in the consolidated financial statements before inter-company eliminations.

(\$ THOUSANDS)	Canadian Limited Partnership I	Canadian Limited Partnership II	Canadian Limited Partnership III	Total
March 31, 2019				
NCI percentage	10.0%	10.0%	10.0%	
Revenue	\$ 8,322	\$ 18,296	\$ 8,808	\$ 35,426
Expenses	8,001	19,171	7,911	35,083
Net income (loss)	\$ 321	\$ (875)	\$ 897	\$ 343
Net income (loss) attributable to NCI	\$ 32	\$ (88)	\$ (20)	\$ (76)
Current assets	\$ 1,378	\$ 7,499	\$ 1,791	\$ 10,668
Non-current assets	104,870	163,486	87,724	356,080
Current liabilities	(1,816)	(4,554)	(1,602)	(7,972)
Non-current liabilities	(53,553)	(91,470)	(40,333)	(185,356)
Net assets	\$ 50,879	\$ 74,961	\$ 47,580	\$ 173,420
Net assets attributable to NCI	\$ 5,088	\$ 7,496	\$ 2,346	\$ 14,930

Canadian Limited Partnership III and the Corporation have agreed to financing on the mortgage payments of this property, therefore the net loss and net assets attributable to NCI will not equal the NCI percentage.

(\$ THOUSANDS)	Canadian Limited Partnership I	Canadian Limited Partnership II	Canadian Limited Partnership III	Total
March 31, 2018				
NCI percentage	10.0%	10.0%	10.0%	
Revenue	\$ 8,073	\$ 18,720	\$ 8,058	\$ 34,851
Expenses	8,100	15,207	7,389	30,696
Net income (loss)	\$ (27)	\$ 3,513	\$ 669	\$ 4,155
Net income (loss) attributable to NCI	\$ (3)	\$ 351	\$ (28)	\$ 320
Current assets	\$ 755	\$ 7,900	\$ 1,281	\$ 9,936
Non-current assets	107,801	166,998	90,063	364,862
Current liabilities	(1,764)	(5,018)	(1,863)	(8,645)
Non-current liabilities	(54,409)	(91,345)	(40,978)	(186,732)
Net assets	\$ 52,383	\$ 78,535	\$ 48,503	\$ 179,421
Net assets attributable to NCI	\$ 5,238	\$ 7,854	\$ 2,413	\$ 15,505

8. Financial Assets and Liabilities

a) Fair value hierarchy

The following table presents the fair value hierarchy for financial assets and liabilities measured at fair value in the consolidated statement of financial position. During fiscal years 2019 and 2018, there were no transfers between Level 1, Level 2 and Level 3. The Corporation's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

(\$ THOUSANDS)		Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2019					
Cash	\$ 76,393	\$ -	\$ 76,393	\$ -	-
Money market securities	119,887	-	119,887	-	-
Bonds	9,266,313	-	9,266,313	-	-
Equities	4,723,843	164,685	3,893,727	665,431	-
Total financial assets	\$ 14,186,436	\$ 164,685	\$ 13,356,320	\$ 665,431	-
March 31, 2018					
Cash	\$ 17,568	\$ -	\$ 17,568	\$ -	-
Money market securities	182,116	-	182,116	-	-
Bonds	9,074,022	-	9,074,022	-	-
Equities	3,418,164	160,356	2,989,351	268,457	-
Total financial assets	\$ 12,691,870	\$ 160,356	\$ 12,263,057	\$ 268,457	-

Cash (Level 2) is valued using the end of day exchange rates. Level 2 money market securities are valued using the cost plus accrued interest. Level 2 bonds are valued using the quoted market price or dealer quotes for similar instruments exchanged in active markets. Level 2 equities (pooled funds) are valued using the net asset value.

The following table shows the movement of financial assets where fair value has been determined based upon significant unobservable inputs (Level 3). Level 3 equity investments consist of two investments in Canadian real estate pooled funds, two US mezzanine debt funds, two US infrastructure funds and an investment in a Canadian private fixed income fund. The year-end fair values of the real estate pooled funds are provided by the investment managers and are based on the appraised values of the properties combined with any working capital. The US mezzanine debt funds and the US infrastructure funds values are provided by the investment managers and are based on the discounted cash flow method using yields of assets with similar characteristics. The private fixed income fund valuation is provided by the investment manager and is based on the observed external price, if one exists, or if one does not exist, discounted cash flows using the yields of externally priced comparable private or public fixed income assets.

(\$ THOUSANDS)	Fair Value Measurements using Level 3 Inputs	
	Equities	
March 31, 2019		
Balance, beginning of year	\$	268,457
Additions		381,888
Disposals		(9,040)
Market value adjustment		24,126
Balance, end of year	\$	665,431
March 31, 2018		
Balance, beginning of year	\$	146,379
Additions		109,449
Disposals		(2,651)
Market value adjustment		15,280
Balance, end of year	\$	268,457

The fair value of derivative instruments not designated as accounting hedges is as follows:

(\$ THOUSANDS)	2019		2018	
	Notional Amount	Fair Value Assets (Liabilities)	Notional Amount	Fair Value Assets (Liabilities)
Non-designated derivative instruments				
Assets				
Interest rate swap	\$ 91,850	\$ 889	\$ 91,850	\$ 2,744
Liabilities				
Forward contracts	333,618	(1,114)	-	-

During fiscal year 2019, the Corporation entered into five forward contracts for four US equity funds, not designated as accounting hedges, to naturally hedge foreign exchange risk. The forward contracts recognized a loss of \$0.8 million (2018 – nil), which offset a net gain of \$1.3 million (2018 – nil) in investment return from the US equities. The net gain consists of \$1.1 million (2018 – nil) loss recorded in investment return from three US equities categorized as FVTPL, and \$2.4 million (2018 – nil) gain from one US equity fund categorized as non-monetary AFS financial asset.

The non-designated derivative financial instruments are classified as Level 2 and are valued based on the difference between the forward rate at the contract initiation date and the remaining forward term rate on the reporting date.

b) Other financial assets

Other financial assets include accrued interest, premiums and other receivables, and reinsurance assets. The fair values of the majority of other financial assets approximate their carrying values due to their short-term nature. The non-current portion of these other financial assets is \$50.5 million (2018 – \$48.2 million).

c) Financial liabilities

Financial liabilities include cheques outstanding, accounts payable and accrued charges, bond repurchase agreements, and investment-related and other liabilities. All financial liabilities are carried at cost or amortized cost. Except for investment-related and other liabilities, the fair values of the remaining financial liabilities approximate their carrying values due to their short-term nature. The assumptions used in estimating the fair value of investment-related and other liabilities are discussed in note 9.

As at March 31, 2019, the general ledger bank balances representing cash inflows were \$178.1 million (2018 – \$171.9 million) and the general ledger bank balances representing cash outflows were \$236.8 million (2018 – \$261.0 million), netting to a cheques outstanding balance of \$58.7 million (2018 – \$89.1 million) on the consolidated statement of financial position.

9. Bond Repurchase Agreements, Investment-Related, and Other Liabilities

(\$ THOUSANDS)	2019		2018	
	Carrying Value		Carrying Value	
Bond repurchase agreements	\$	1,449,455	\$	1,310,249
Investment-related liabilities		241,677		260,088
Other liabilities		33,693		35,650
Total bond repurchase agreements, investment-related, and other liabilities	\$	1,724,825	\$	1,605,987
Non-current portion	\$	249,677	\$	258,181

Investment-related liabilities are comprised of mortgages payable of \$241.7 million (2018 – \$260.1 million) with repayment terms ranging from three to ten years and interest rates ranging from 2.6 % to 5.4% (2018 – 2.6 % to 6.6%). The fair value of investment-related liabilities approximates carrying value. Other liabilities consist of finance lease obligations, accrued interest payable, and unsettled trades. All of these liabilities are classified as Level 2 under the fair value hierarchy.

Estimated principal repayments for investment-related and other liabilities are as follows:

(\$ THOUSANDS)	2019		2018	
Up to 1 year	\$	25,693	\$	37,557
Greater than 1 year, up to 5 years		128,231		114,566
Greater than 5 years		121,446		143,615
	\$	275,370	\$	295,738

10. Management of Insurance and Financial Risk

As a provider of vehicle insurance products, effective risk management is fundamental in protecting earnings, cash flow, and ultimately the financial stability of the Corporation. The Corporation is exposed to various types of insurance and financial risks.

a) Insurance risk

The principal risk that the Corporation faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur when the frequency or severity of claims and benefits are greater than estimated. Insurance events have an element of randomness and the actual number and amount of claims and benefits will vary each year from the level established using statistical techniques.

Frequency and severity of claims

Frequency is the average number of claims per policy, calculated by dividing the total number of claims by the total number of policies. Severity is the average cost of a claim calculated by dividing the total cost of claims by the total number of claims. There are a number of factors that influence the frequency and severity of claims.

Some factors are affected by the actions of the Corporation and a number of strategies are used to try and reduce cost pressures created by these factors, including claims operational changes, road safety programs, programs to influence driver behaviour such as impaired driving and distracted driving programs, public awareness campaigns, auto crime reduction initiatives, and fraud detection and investigation.

There are other factors that the Corporation has little or no control over, including weather, demographics, court issued settlement awards, plaintiff legal fees, and economic changes, including vehicle parts/repair inflation and medical expense inflation that influence the cost of claims.

Sources of uncertainty in the estimation of the provision for unpaid claims

To manage the uncertainty associated with estimating the provision for unpaid claims, the Corporation's Chief Actuary employs standard actuarial methods. The estimation of the provision for unpaid claims is determined in accordance with accepted actuarial practice in Canada and is based on reasonable assumptions and appropriate methods that are consistently applied (note 3a).

There is an inherent uncertainty regarding the assumptions to estimate the amount and timing of future claims payments that make up the provision for unpaid claims. The Corporation is liable for all insured events that occurred during the term of the insurance contract, even if the loss is reported after the end of the contract term. In addition, injury claims may take a long period of time to settle.

Injury claims include bodily injury, accident benefits, and death benefits, which account for approximately 68% (2018– 66%) of total claims costs. The timing of payments of injury claims can be extended due to delayed reporting, and the timing and amount of injury payments can exhibit considerable uncertainty because of the complex bodily injury claims environment, the subjective nature of pain and suffering damages, internal claims operational changes, the judicial environment, and settlement awards.

The Corporation's provision for unpaid claims can be affected by the frequency and severity of claims, the discount rate, and actuarial methods and assumptions. The frequency and severity of claims are discussed above, while the discount rate and the actuarial methods and assumptions are discussed in notes 3 and 14.

Concentration of insurance risk

The Corporation has a diverse customer base as the sole provider of Basic insurance to all drivers in British Columbia. The Corporation operates in one provincial jurisdiction and provides vehicle insurance only, so there is a concentration of insurance risk with respect to geography, jurisdiction, and product type.

The impact of the concentration of insurance risk is quantified through Capital Adequacy Testing (CAT) (catastrophe) modeling that the Corporation's reinsurance broker updates annually. This testing allows the Corporation to assess, monitor and manage these risks effectively. The concentration of insurance risk is also managed through a CAT reinsurance treaty, a casualty reinsurance treaty, and road safety programs such as road improvement strategies, the graduated licensing program, and the distracted driving campaign. As the sole provider of Basic insurance, the Corporation invests in and benefits the most from these programs.

Premium pricing risk

The Corporation is the sole provider of Basic insurance and is not subject to competitive risk for its Basic insurance product. However, the Basic insurance rate level is sensitive to investment market conditions and claims experience, which can result in premiums being insufficient to cover costs. The Corporation is subject to regulations over its Basic insurance and applies to BCUC for approval to change its Basic insurance rate. The Corporation is required to make Basic insurance rate applications on an annual basis, and BCUC is required to set rates according to accepted actuarial practice. These aspects of regulation mitigate the underwriting risk associated with pricing for the Basic insurance product (note 23).

The Province of B.C. may direct income transfers from Optional insurance to Basic insurance in order to keep Basic rates as low as possible. In addition, the Province of B.C. may direct capital transfers from Optional insurance to bolster Basic insurance capital.

Regulation establishes the rate smoothing framework for Basic insurance rates that allows for the use of capital to reduce volatility. As a result of the framework, the Corporation's ability to set rates to cover costs can be impacted by BCUC setting rates below cost for a period of time. An independent review was commissioned by the Corporation's Board in 2018, tasked with examining all key cost drivers impacting the affordability and sustainability of Basic insurance rates, and potential mitigation strategies. The independent review indicated that the Corporation's capital will continue to face added risk (note 23). In response to the findings of the independent review, the Corporation is working with the Province of B.C. to implement Rate Affordability Action Plan initiatives. Among these initiatives are the product reform (note 3e) and the rate design aimed at improving fairness of Basic insurance rates.

The Corporation's Optional insurance products compete with other insurers and are subject to underwriting risk and competitive risk.

b) Financial risk

Concentration of financial risk

The Corporation establishes investment portfolio level targets and limits with the objective of ensuring that portfolios are diversified across asset classes and individual investment risks. The Corporation monitors actual investment positions and risk exposures for concentration risk.

As at March 31, 2019, the equity portfolio was 17.1% (2018 – 24.1%) invested in the financial sector, 15.2% (2018 – 8.3%) in the real estate sector, and 10.6% (2018 – 11.8%) in the industrials sector. The bond portfolio was 63.0% (2018 – 61.9%) invested in the government sector and

18.6% (2018 – 18.4%) invested in the financial sector. See credit risk for a discussion of the government bonds.

Concentration of geographical risk

Geographical concentration risks arises when the investments are located in the same geographical region. The Corporation reduces geographical concentration risk by dispersing the investments in more than one geographical region. The Corporation has contracted external investment managers to manage its foreign equity investments in diversified global and US pooled funds. As at March 31, 2019, the investment portfolio was 81.1% (2018 – 88.9%) invested in Canada, 12.4% (2018 – 5.9%) invested in the United States, and 6.5% (2018 – 5.2%) was invested elsewhere around the world.

Price risk

General economic conditions, political conditions, and other factors affect the equity markets, thereby also affecting the fair value of the securities and the pooled funds held by the Corporation. Fluctuations in the value of these securities impact the recognition of both unrealized and realized gains and losses on equity securities and on the units of funds held. As at March 31, 2019, the impact of a 10% change in prices, with all other variables held constant, would result in an estimated corresponding change to OCI for AFS equities of approximately \$445.6 million (2018 – \$341.8 million) and to profit or loss for FVTPL equities of approximately \$26.7 million (2018 – nil).

The Corporation manages a widely diversified portfolio, diversified geographically, by sector, and by company, and has policies in place to limit and monitor total equity exposure and individual issuer exposure.

Interest rate risk

When interest rates increase or decrease, the market value of fixed income securities will decrease or increase respectively with a larger market value impact on instruments with a long duration compared to instruments with a short duration. Fluctuations in interest rates have a direct impact on the market valuation of the Corporation's fixed income portfolio. A natural hedge exists between the Corporation's fixed income portfolio and the provision for unpaid claims, as the Corporation's investment yields are used to derive the discount rate for the provision for unpaid claims (note 10a).

The Corporation has policies in place to limit and monitor its exposure to interest rate risk in relation to the duration of its claims liabilities.

The carrying values reported in the consolidated statement of financial position for cash and cash equivalents, premiums and other receivables, and accounts payable and accrued charges approximate their fair values and are not significantly impacted by fluctuations in interest rates.

In fiscal years 2019 and 2018, the Corporation did not use material derivative financial instruments to hedge interest rate risk on its investment portfolio.

	2019		2018	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds				
Canadian				
Federal	2.0	3.9	1.4	2.8
Provincial	2.5	5.2	1.6	2.8
Municipal	2.6	4.7	1.7	2.3
Corporate	2.7	3.1	2.1	2.8
Total bonds	2.4	4.0	1.7	2.8
Mortgages	3.9	2.2	3.6	2.3
Total bonds and mortgages	2.7	3.6	2.0	2.7

As at March 31, 2019, a 100 basis point change in interest rates would result in a change of approximately \$365.9 million (2018 – \$250.3 million) in fair value of the Corporation’s bond portfolio and a corresponding impact of approximately \$365.9 million (2018 – \$250.3 million) to OCI. A 100 basis point change in interest rates would result in a change of approximately \$43.8 million (2018 – \$44.4 million) in fair value of the Corporation’s mortgage portfolio, however there would be no impact to OCI as the mortgage portfolio is measured at amortized cost. Interest rate changes would also result in an inverse change to the provision for unpaid claims and the corresponding claims costs (note 10a).

Credit risk

Credit risk is the potential for financial loss to the Corporation if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to concentrations of credit risk include cash and cash equivalents, fixed income securities, accounts receivable, reinsurance receivables and recoverables, and structured settlements (note 22a). The total credit risk exposure is \$9.91 billion (2018 – \$9.00 billion).

Fixed income securities

Fixed income securities are comprised of Canadian investment grade bonds and mortgages. The Corporation mitigates its overall exposure to credit risk in its fixed income securities by holding the majority of its fixed income portfolio in investment grade bonds, and by limiting mortgages to a maximum of 14.5% (2018 – 14.0%) of total investment assets. Credit risk in mortgages is mitigated by the security of the underlying mortgaged property. Risk is also mitigated through a stringent underwriting process which involves review of the underlying property to ensure sufficient cashflow to service the debt, appraisals of the underlying property, review of market conditions and of the financial capacity of the borrower. Mortgages are subject to an independent review annually.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates.

The maximum credit risk exposure for fixed income securities pertain to all bond investments and to mortgage investments; however, the Corporation considers Canadian government bonds to be risk-free. Therefore, the total carrying amount is \$7.92 billion (2018 – \$7.26 billion). There is minimal credit risk exposure to cash.

The counterparty risk associated with repurchase agreements for 2019 and 2018 is not material.

The Corporation's money market securities and bonds by credit quality according to Standard and Poor's are as follows:

(\$ THOUSANDS)	2019	2018
Money market securities		
AAA	\$ 119,887	\$ 182,116
Bonds		
AAA	\$ 3,941,367	\$ 4,564,901
AA	1,429,381	1,011,683
A	2,925,921	2,687,514
BBB	969,644	809,924
	\$ 9,266,313	\$ 9,074,022

Premiums and other receivables

The Corporation has a diverse customer base as it is the sole provider of Basic insurance to all drivers in British Columbia. While there is no significant individual concentration of credit risk, the Corporation's premiums and other receivables are comprised of customers with varying financial conditions.

The credit risk for premiums receivables is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. The maximum credit risk for all other receivables equals their carrying amount. As at March 31, 2019, the Corporation considered \$79.9 million (2018 – \$70.2 million) of its premiums and other receivables to be uncollectible and has provided for them. The allowance was determined by applying a percentage derived from five to six years of collection experience by receivable type to the total of current and prior periods' gross billings.

The following table outlines the aging of premiums and other receivables as at March 31, 2019 and at March 31, 2018:

(\$ THOUSANDS)					
	Current	Past Due 1 – 30 days	Past Due 31 – 60 days	Over 60 days	Total
March 31, 2019					
Premiums and other receivables	\$ 1,761,338	\$ 4,532	\$ 3,870	\$ 112,633	\$ 1,882,373
Provision	(2,057)	(1,919)	(2,168)	(73,755)	(79,899)
Total premiums and other receivables	<u>\$ 1,759,281</u>	<u>\$ 2,613</u>	<u>\$ 1,702</u>	<u>\$ 38,878</u>	<u>\$ 1,802,474</u>
March 31, 2018					
Premiums and other receivables	\$ 1,593,409	\$ 5,651	\$ 3,219	\$ 96,994	\$ 1,699,273
Provision	(1,761)	(1,798)	(1,899)	(64,730)	(70,188)
Total premiums and other receivables	<u>\$ 1,591,648</u>	<u>\$ 3,853</u>	<u>\$ 1,320</u>	<u>\$ 32,264</u>	<u>\$ 1,629,085</u>

The movements in the provision for premiums and other receivables are as follows:

(\$ THOUSANDS)		
	2019	2018
Balance, beginning of year	\$ (70,188)	\$ (64,124)
Charges for the year	(27,750)	(24,003)
Recoveries	5,334	4,952
Amounts written off	12,705	12,987
Balance, end of year	<u>\$ (79,899)</u>	<u>\$ (70,188)</u>

Reinsurance assets

Failure of reinsurers to honour their obligations could result in losses to the Corporation. The maximum credit risk exposure equals the carrying amount of \$28.8 million (2018 – \$23.4 million). The Corporation has policies that require reinsurers to have a minimum credit rating of A-. No single reinsurer represents more than 15% of the total reinsurers' share of the provision for unpaid claims and adjusting expenses in a contract year. Both these items mitigate the Corporation's exposure to credit risk. No amount owing from the reinsurers was considered impaired as at March 31, 2019 or March 31, 2018.

(\$ THOUSANDS)	2019		2018	
Reinsurance recoverable (note 14)	\$	22,078	\$	23,258
Reinsurance receivable		6,676		159
Reinsurance assets	\$	28,754	\$	23,417

Liquidity risk

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

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, except for the provision for unpaid claims, pension and post-retirement benefits, and investment-related and other liabilities, are due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities. Where overall cash flows are negative, the Corporation maintains sufficient liquid assets (money market securities) to cover any shortfall from operations. In addition, the Corporation has a netting arrangement with its banks that permits positive bank balances to be offset against negative bank balances.

Liquidity risk is primarily controlled by holding government bonds and other highly liquid investments, which can be readily sold. In addition, the Corporation takes into account the overall historical liability settlement pattern and the historical cash in-flows as a basis to broadly define diversification and duration characteristics of the investment portfolio.

The following table summarizes the maturity profile of the Corporation's fixed income investments by contractual maturity or expected cash flow dates:

(\$ THOUSANDS)				
	Within One Year	One Year to Five Years	After Five Years	Total
March 31, 2019				
Bonds				
Canadian				
Federal	\$ 312,581	\$ 1,961,138	\$ 1,109,644	\$ 3,383,363
Provincial	11,178	893,552	1,334,191	2,238,921
Municipal	8,546	97,573	107,163	213,282
Corporate	131,316	2,445,168	854,263	3,430,747
Total bonds	463,621	5,397,431	3,405,261	9,266,313
Mortgages	428,286	1,551,378	61,446	2,041,110
	\$ 891,907	\$ 6,948,809	\$ 3,466,707	\$ 11,307,423
March 31, 2018				
Bonds				
Canadian				
Federal	\$ 13,469	\$ 3,773,466	\$ -	\$ 3,786,935
Provincial	-	1,703,126	-	1,703,126
Municipal	-	127,868	-	127,868
Corporate	66,481	3,119,358	270,254	3,456,093
Total bonds	79,950	8,723,818	270,254	9,074,022
Mortgages	338,118	1,548,335	83,711	1,970,164
	\$ 418,068	\$ 10,272,153	\$ 353,965	\$ 11,044,186

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation has direct foreign exchange risk on its US pooled fund investments. A 10% change in the US exchange rate as at March 31, 2019 would change the fair value of the US pooled fund investments and result in a change to OCI of approximately \$6.7 million (2018 – \$3.2 million) and to profit or loss of \$26.7 million (2018 – nil). The Corporation does not have direct foreign exchange risk on its global equity portfolio, however the Corporation is exposed to indirect foreign exchange risk.

The Corporation has policies in place to limit and monitor its exposure to currency risks.

11. Investment Income

(\$ THOUSANDS)	Classification	2019	2018
Interest			
Money market securities	AFS	\$ 4,710	\$ 2,016
Bonds	AFS	200,365	198,691
Equities	AFS/FVTPL	4,544	1,360
Mortgages	Loans	75,999	72,930
		285,618	274,997
Gains on investments			
Equities	AFS/FVTPL	105,750	118,913
Bonds	AFS	(72,154)	15,253
Net unrealized fair value changes ¹	AFS/FVTPL	3,391	(48,703)
		36,987	85,463
Dividends, distributions and other income			
Equities	AFS/FVTPL	159,358	93,347
Income from investment properties	Other	32,535	38,594
Investment management fees ²	Other	(9,745)	(10,229)
Impairment loss	AFS	(23,676)	(13,936)
Other	Other	76,463	(6,033)
		234,935	101,743
Total investment income		\$ 557,540	\$ 462,203

¹ includes changes in unrealized foreign exchange gains and losses on monetary AFS/FVTPL assets

² includes internal and external fees

(\$ THOUSANDS)	2019	2018
Amounts recognized in investment income for investment properties		
Rental income	\$ 121,265	\$ 123,959
Direct operating expenses that generated rental income	(82,996)	(81,271)
Direct operating expenses that did not generate rental income	(5,734)	(4,094)
Income from investment properties	32,535	38,594
Impairment loss	(10,170)	(1,441)
Gain on sale of investment properties ¹	104,165	6,198
Total amount recognized in investment income	\$ 126,530	\$ 43,351

¹ 2019 balance includes a net gain of \$104,481 for investment properties that were reclassified to assets held for sale

As at March 31, 2019, the ‘Net change in available for sale financial assets’ portion of other components of equity (OCE) is comprised of \$238.4 million (2018 – \$54.9 million) in unrealized gains and \$95.3 million (2018 – \$218.7 million) in unrealized losses.

12. Property and Equipment

(\$ THOUSANDS)	Land	Buildings	Furniture & Equipment	Leasehold Improvements	Total
March 31, 2019					
Cost					
Balance, beginning of year	\$ 30,699	\$ 173,005	\$ 116,796	\$ 20,456	\$ 340,956
Additions	-	3,604	7,845	4,275	15,724
Disposals	-	-	(3,892)	(457)	(4,349)
Balance, end of year	30,699	176,609	120,749	24,274	352,331
Accumulated depreciation					
Balance, beginning of year	-	144,683	78,815	7,330	230,828
Disposals	-	-	(3,881)	-	(3,881)
Depreciation charge for the year	-	3,181	9,859	1,925	14,965
Balance, end of year	-	147,864	84,793	9,255	241,912
Net book value, end of year	\$ 30,699	\$ 28,745	\$ 35,956	\$ 15,019	\$ 110,419
March 31, 2018					
Cost					
Balance, beginning of year	\$ 30,759	\$ 170,264	\$ 117,197	\$ 15,475	\$ 333,695
Additions	-	3,008	10,005	6,183	19,196
Disposals	(60)	(267)	(10,406)	(1,202)	(11,935)
Balance, end of year	30,699	173,005	116,796	20,456	340,956
Accumulated depreciation					
Balance, beginning of year	-	141,872	78,687	6,850	227,409
Disposals	-	(255)	(10,406)	(1,201)	(11,862)
Depreciation charge for the year	-	3,066	10,534	1,681	15,281
Balance, end of year	-	144,683	78,815	7,330	230,828
Net book value, end of year	\$ 30,699	\$ 28,322	\$ 37,981	\$ 13,126	\$ 110,128

The balances in property and equipment include \$9.0 million (2018 – \$3.3 million) in assets under development.

13. Intangible Assets

(\$ THOUSANDS)	2019	2018
Cost		
Balance, beginning of year	\$ 447,747	\$ 413,415
Additions	50,197	34,444
Disposals	(3,342)	(112)
Balance, end of year	494,602	447,747
Accumulated amortization		
Balance, beginning of year	150,961	110,907
Disposals	(911)	(49)
Amortization charge for the year	44,140	40,103
Balance, end of year	194,190	150,961
Net book value, end of year	\$ 300,412	\$ 296,786

The Corporation's intangible assets consist of externally purchased software and any directly attributable costs required to bring the software to a condition where it is available for use.

The balance of intangible assets includes \$45.7 million (2018 – \$6.6 million) in assets under development.

There were no indefinite life intangible assets as at March 31, 2019 and March 31, 2018.

14. Provision for Unpaid Claims

a) Actuarial methods and assumptions

The Corporation typically employs three standard actuarial methods to analyze the ultimate claims costs, augmented by more in-depth analyses as needed:

- The incurred development method;
- The paid development method; and
- The Bornhuetter-Ferguson method.

The standard methods call for a review of historical loss and count development patterns. As part of this review, the Corporation calculates loss and count development factors, which represent the period-to-period changes in a given loss year's incurred loss amount. Based on an examination of the loss development factors, the Corporation's Chief Actuary selects a best estimate of development factors that forecast future loss development.

A key assumption that the loss and count development factors rely on is a selected baseline. The baseline for the majority of the coverages is the average of the most recent four loss years. The use of a baseline helps maintain consistency in the loss and count development factors from one reserve review to another. Circumstances may arise when the standard methods are no longer appropriate to use. In these cases, and in accordance with accepted actuarial practice, modifications to the methods are made or alternative methods are employed that are specific and appropriate to the circumstances. Circumstances may include a change in the claims settlement environment, a change in the handling or reserving of claims, or an emerging trend in the statistical data used in the analysis.

An additional method is employed to address the increasingly complex bodily injury claims environment, which includes a growing legal representation rate, a shifting frequency mix of bodily injury claims by severity of injury, and a slowdown in the settlement of claims. This additional method used legal status and claim severity to separate bodily injury claims data into segments of similar complexity and is based on the Adler-Kline claim closure model. It has allowed the Corporation's Chief Actuary to capture changes in the claim settlement rates within each segment, and changes in the mix of claims by segment, which impacts the bodily injury severity trend rate.

The timing of when the unpaid ultimate claims costs will be paid depends on the line of business. Bodily injury claims generally take longer to settle than material damage claims and exhibit greater variability as to the timing and amount ultimately paid to settle a claim. Historical patterns of claims payment data are used to estimate the future claims payment pattern. Expected future paid amounts are then discounted, using the discounted cash flow method, to determine a present value as of the reporting date. The discount rate is based upon the expected return on the Corporation's current investment portfolio, the expected asset default risk of its investment portfolio, and assumptions for interest rates relating to reinvestment of maturing investments. These estimates are based on current market returns as well as expectations about future economic and financial developments.

A PfAD is then added to the estimate to recognize sources of uncertainty in the assumptions behind the provision for unpaid claims (note 3a). The PfAD is calculated according to accepted actuarial practice in Canada.

Changes in Assumptions

Discount rate

The Corporation discounts its provision for unpaid claims using a discount rate of 3.7% (2018 – 3.1%). As a result of the increase in the discount rate, there was a favourable adjustment to both current and prior years' unpaid claims provision of \$229.1 million (2018 – favourable adjustment of \$85.8 million).

Change in loss development assumptions

Actuarial assumptions pertaining to loss and count development for all coverages were reviewed and revised in light of an additional year of actual experience. There were several material changes in development assumptions pertaining to bodily injury claims.

Development assumptions pertaining to the number of large bodily injury claims within the bodily injury segmented analysis were changed. The segmented analysis includes assumptions about the future emergence of large bodily injury claims (those costing in excess of \$200,000). In determining best estimates consistent with accepted actuarial practice, which requires assumptions that are independently reasonable and appropriate in aggregate, a modification was made in 2019 to the determination of count development factors. An unusually high number of newly large bodily injury claims was observed in the year, which produced a substantial increase in the statistical data. Therefore, certain count development factors for large bodily injury claims were revised to put less weight on the most recent experience (by use of an average of the most recent ten loss years), relative to the baseline (average of the most recent six loss years), which reflects that relatively fewer large claims remain to be recognized in the future, relative to the accelerated number that have already been recognized. This represents a change from 2018, in which more weight was put on the experience most recent at that time (by use of an average of the most recent eight loss years). The change in assumptions from an average of eight loss years to an average of ten loss years would have had an estimated favourable impact to the provision for unpaid claims pertaining to large bodily injury claims of approximately \$180.0 million, holding all other assumptions constant. However, this favourable change in assumptions was more than offset by an increase in large bodily claims observed during the current year, after which applying the lower factors results in an estimated net adverse development of approximately \$1.06 billion pertaining to future emergence of large bodily injury claims.

Development assumptions pertaining to bodily injury claims with legal representation (henceforth called represented bodily injury claims, in reference to their legal status) were adjusted to reflect an estimated favourable impact from changes to the rules of court that apply to trials scheduled after December 31, 2019 and were legislated effective February 11, 2019. These changes introduced limits on the number of experts used and the number of experts reports allowed in litigated cases (note 25). The resulting savings to the Corporation have been estimated based on a review of closed represented bodily injury claims. The review identified savings due to the purchase of fewer defence expert reports and payment of disbursements for fewer plaintiff expert reports in legal actions. Additional savings were identified in cases where, based on the judgment of the reviewers, the limit on experts overall would likely result in lower damages being awarded. Reflecting the results of the review against outstanding claims represents an assumption change that reduces the expected future development of represented bodily injury claims costs by 3.6%,

which is equivalent to a 3.5% favourable change in the average severity of unpaid bodily injury claims. No savings were assumed on account of this change for bodily injury claims with no legal representation or with a low amount of disbursements, and no savings were assumed for bodily injury claims involving catastrophic injuries, since there is discretion for additional experts (joint or court-ordered) to be used in cases where it is appropriate.

Development assumptions pertaining to the future closure pattern of represented bodily injury claims (excluding the large claims) in the segmented analysis were changed. The number of closures for these represented claims was substantially lower in fiscal year 2019. Consequently, lower disposal rates were selected for these represented claims for future fiscal years. The selected future disposal rates were changed to reduce the lower disposal rates seen in the latest fiscal year, to reflect an expectation that the current low closure environment is likely to persist to a meaningful degree. The Corporation had seen indications of increased legal activity, a lengthening of settlement duration, and higher settlement demands from plaintiff counsel on current pending claims, and expected this to continue in future fiscal years. The lower future disposal rates represents a change from 2018, in which a higher rate of closures was assumed (by use of a disposal rate based on the average of the three most recent fiscal years at the time). The change in assumptions from an average of three fiscal years of the latest fiscal year results in an unfavourable impact of approximately \$160.0 million.

Development assumptions pertaining to the future severity of large bodily injury claims within the bodily injury segmented analysis were changed. The paid severity of these claims emerged substantially higher than expected in fiscal year 2019. Therefore, the assumed starting points for future paid severities were changed from an average of the six most recent points to a trended average of the two most recent points (the two points are trended to the current period before averaging), to give more weight in the forecast to the high severity levels. The change in assumption results in an unfavourable impact of approximately \$130.0 million.

As of April 1, 2019, the fees paid by the Corporation to providers of medical treatment under mandatory accident benefits coverage have increased. As a result of this change, the Corporation will pay higher per-treatment amounts for future treatment on outstanding injury claims, and claimants will no longer have to pay user fees in addition to the Corporation's payment to the treatment provider. However, the ability to continue to access treatment under accident benefits with no user fee is expected to produce a reduction in future care settlements. Therefore, the Corporation has assumed that the reduction in future care settlements for not-at-fault injured claimants will offset the increase in treatment costs for at-fault injured claimants, so there is no impact to the provision for unpaid claims due to this change to treatment fees.

b) Sensitivity Analysis

The sensitivity to certain key assumptions is outlined below. The analysis is performed for possible changes in the assumptions with all other assumptions held constant, showing the impact on the provision for unpaid claims and net loss in the table below. Movements in these assumptions may be non-linear and may be correlated with one another.

(\$ THOUSANDS)		2019	2018
Assumption	Sensitivity		
Discount rate	+ 1ppt ¹	\$ (354,300)	\$ (276,700)
Discount rate	- 1ppt	373,300	291,300
Severity of unpaid bodily injury claims	+ 1%	128,000	107,500
Future emergence of large bodily injury claims	+ 1%	38,000	28,000
¹ ppt = percentage point			

c) Provision for Unpaid Claims

The movements in the provision for unpaid claims and reinsurance recoveries and their impact on claims incurred for the year are as follows:

(\$ THOUSANDS)	2019			2018		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Notified claims	\$ 8,479,993	\$ (23,258)	\$ 8,456,735	\$ 6,874,682	\$ (16,977)	\$ 6,857,705
Incurred but not reported	3,415,703	-	3,415,703	3,643,289	-	3,643,289
Balance, beginning of year	11,895,696	(23,258)	11,872,438	10,517,971	(16,977)	10,500,994
Change in liabilities (assets):						
Provision for claims occurring in the current year	5,309,211	(1,362)	5,307,849	5,085,543	(1,309)	5,084,234
Change in estimates for losses occurring in prior years:						
Prior years' claims adjustments	1,339,436	(8,158)	1,331,278	620,314	(5,271)	615,043
Prior years' changes in discounting provision	(110,035)	138	(109,897)	(51,734)	(352)	(52,086)
	1,229,401	(8,020)	1,221,381	568,580	(5,623)	562,957
Net claims incurred per consolidated statement of comprehensive loss	6,538,612	(9,382)	6,529,230	5,654,123	(6,932)	5,647,191
Cash (paid) recovered for claims settled in the year for:						
Claims incurred in current year	(1,486,133)	-	(1,486,133)	(1,556,317)	-	(1,556,317)
Recoveries received on current year claims	104,140	-	104,140	94,029	-	94,029
	(1,381,993)	-	(1,381,993)	(1,462,288)	-	(1,462,288)
Claims incurred in prior years	(2,840,888)	-	(2,840,888)	(2,888,960)	-	(2,888,960)
Recoveries received on prior years' claims	76,483	10,562	87,045	74,850	651	75,501
	(2,764,405)	10,562	(2,753,843)	(2,814,110)	651	(2,813,459)
Total net payments	(4,146,398)	10,562	(4,135,836)	(4,276,398)	651	(4,275,747)
Balance, end of year	\$ 14,287,910	\$ (22,078)	\$ 14,265,832	\$ 11,895,696	\$ (23,258)	\$ 11,872,438
Notified claims	\$ 9,378,198	\$ (22,078)	\$ 9,356,120	\$ 8,479,993	\$ (23,258)	\$ 8,456,735
Incurred but not reported	4,909,712	-	4,909,712	3,415,703	-	3,415,703
Balance, end of year	\$ 14,287,910	\$ (22,078)	\$ 14,265,832	\$ 11,895,696	\$ (23,258)	\$ 11,872,438

The following table shows the effect of discounting and PfADs on the provision for unpaid claims:

(\$ THOUSANDS)	Undiscounted	Effect of Present Value	PfADs	Discounted
March 31, 2019				
Provision for unpaid claims, net	\$ 13,973,769	\$ (1,292,859)	\$ 1,584,922	\$ 14,265,832
Reinsurance recoverable	20,995	(1,845)	2,928	22,078
Provision for unpaid claims, gross	<u>\$ 13,994,764</u>	<u>\$ (1,294,704)</u>	<u>\$ 1,587,850</u>	<u>\$ 14,287,910</u>
March 31, 2018				
Provision for unpaid claims, net	\$ 11,423,007	\$ (825,417)	\$ 1,274,848	\$ 11,872,438
Reinsurance recoverable	22,006	(1,728)	2,980	23,258
Provision for unpaid claims, gross	<u>\$ 11,445,013</u>	<u>\$ (827,145)</u>	<u>\$ 1,277,828</u>	<u>\$ 11,895,696</u>

d) Claims development table

The top half of the table illustrates how the Corporation's estimate of total undiscounted claims costs for each loss year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

As a result of the change in year end in fiscal 2017, there are two claims development tables: one as at March 31, 2019 and one as at December 31, 2015. The Corporation changed from a December 31 to a March 31 year end in fiscal 2017, and therefore there are three years of historical data in the first table as at March 31, 2019.

Claims development table as at March 31, 2019:

(\$ THOUSANDS)											
Fiscal Loss Year*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of undiscounted ultimate claims costs:											
- At end of fiscal loss year								\$ 4,372,966	\$ 4,968,820	\$ 5,208,101	
- One year later							\$ 4,037,775	4,529,126	5,229,618		
- Two years later						\$ 3,695,574	4,184,489	4,762,695			
- Three years later					\$ 3,313,949	3,757,390	4,450,883				
- Four years later				\$ 3,042,291	3,432,710	3,960,331					
- Five years later		\$ 2,837,869	3,111,271	3,591,481							
- Six years later		\$ 2,863,073	2,888,556	3,194,200							
- Seven years later	\$ 2,677,669	2,869,460	2,930,418								
- Eight years later	2,684,965	2,915,502									
- Nine years later	2,707,037										
Current estimate of cumulative claims	2,707,037	2,915,502	2,930,418	3,194,200	3,591,481	3,960,331	4,450,883	4,762,695	5,229,618	5,208,101	38,950,266
Cumulative payments to date	(2,661,177)	(2,827,974)	(2,801,432)	(2,959,414)	(3,090,114)	(2,881,388)	(2,656,451)	(2,401,671)	(2,068,635)	(1,381,993)	(25,730,249)
for unpaid claims	\$ 45,860	\$ 87,528	\$ 128,986	\$ 234,786	\$ 501,367	\$ 1,078,943	\$ 1,794,432	\$ 2,361,024	\$ 3,160,983	\$ 3,826,108	\$ 13,220,017
Undiscounted provision for unpaid claims in respect of 2009 and prior years											\$ 148,620
Undiscounted unallocated loss adjustment expense reserve											626,127
Total undiscounted provision for unpaid claims											\$ 13,994,764
Discounting adjustment											293,146
Total discounted provision for unpaid claims (gross)											\$ 14,287,910
*Fiscal Loss Year refers to the year ended March 31											

The table above reflects the total discounted provision for unpaid claims of \$14.29 billion (2018 – \$11.90 billion) before the amount for reinsurance recoverable. The total discounted provision for unpaid claims after the amount for reinsurance recoverable of \$0.02 billion (2018 – \$0.03 billion) would be \$14.27 billion (2018 – \$11.87 billion). The cumulative payments of fiscal loss year 2019 for the year ended March 31, 2019 are \$1.38 billion (2018 – \$1.46 billion).

The history for seven prior periods ending December 31 is shown in the below claims development table as at December 31, 2015 due to the Corporation’s change in year end in fiscal 2017:

(\$ THOUSANDS)							
Accident Year	2009	2010	2011	2012	2013	2014	2015
Estimate of undiscounted ultimate claims costs:							
- At end of accident year	\$ 2,657,831	\$ 2,743,503	\$ 2,866,833	\$ 3,030,779	\$ 3,146,388	\$ 3,372,304	\$ 3,765,040
- One year later	2,640,001	2,732,070	2,863,942	3,065,562	3,194,080	3,518,858	
- Two years later	2,626,760	2,730,183	2,830,063	2,985,690	3,200,324		
- Three years later	2,587,367	2,699,473	2,815,440	3,024,045			
- Four years later	2,594,054	2,779,267	2,841,115				
- Five years later	2,656,694	2,778,347					
- Six years later	2,639,312						

The expected maturity of the provision for unpaid claims is analyzed below (undiscounted and gross of reinsurance):

(\$ THOUSANDS)							
	Less than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Over Five Years	Total
March 31, 2019	\$ 3,423,283	\$ 2,796,479	\$ 2,480,744	\$ 2,111,063	\$ 1,387,650	\$ 1,795,545	\$ 13,994,764
March 31, 2018	\$ 3,088,224	\$ 2,574,559	\$ 2,113,634	\$ 1,600,226	\$ 907,172	\$ 1,161,198	\$ 11,445,013

The non-current portion of the undiscounted provision for unpaid claims is \$10.57 billion (2018 – \$8.36 billion).

The weighted-average term to settlement of the discounted provision for unpaid claims as at March 31, 2019 is 2.6 years (2018 – 2.4 years).

15. Unearned Premiums

All unearned premiums are earned within 12 months of the reporting date. The movements in unearned premiums net of reinsurance and the impact on premiums earned for the year are as follows:

(\$ THOUSANDS)	2019	2018
Balance, beginning of year	\$ 2,629,744	\$ 2,414,503
Premiums written during the year	6,078,566	5,544,179
Premiums earned during the year	(5,823,534)	(5,328,938)
Balance, end of year	<u>\$ 2,884,776</u>	<u>\$ 2,629,744</u>

16. 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, 2019 and 2018 as follows:

- a) For catastrophic occurrences, portions of losses up to \$225.0 million (2018 – \$225.0 million) in excess of \$25.0 million (2018 – \$25.0 million); and
- b) For individual casualty loss occurrences, portions of losses up to \$45.0 million (2018 – \$45.0 million) in excess of \$5.0 million (2018 – \$5.0 million).

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.

17. Pension and Post-Retirement Benefits

Plan information

The Corporation sponsors a defined benefit registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). Subject to the terms of the plan, the Management and Confidential Plan provides benefits to members based on their length of service and eligible earnings in the best five years of plan membership. Employees are required to contribute to the Management and Confidential Plan. Effective January 1, 2019, all Management and Confidential employees will contribute 50% of the current cost benefits.

In addition, the Corporation sponsors two supplemental pension plans for certain employees. The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. Subject to the terms of the plans, pensions are indexed in line with increases in the Consumer Price Index (CPI). Effective January 1, 2019, with respect to inflation protection, when an employee retires, their pensions earned from January 1, 2019 will increase with CPI changes limited by a sustainable rate which is contingent on the availability of assets and future expected contributions to the pension increase account.

The Corporation also contributes to two other defined benefit pension plans for which it is not the sole sponsor. Current and former employees of the Corporation who are or were members of the Movement of United Professionals (MoveUP, previously Canadian Office & Professional Employees Union (COPE) Local 378) are members of the MoveUP/Insurance Corporation of British Columbia Pension Plan (MoveUP Plan). Half of the Trustees of the MoveUP Plan are appointed by the Corporation and the other half by MoveUP. The Board of Trustees of the MoveUP Plan is the legal plan administrator. The MoveUP Plan provides benefits to members based on their length of service and eligible earnings in the best five years of plan membership. Subject to the terms of the plan, pensions are indexed in line with increases in the CPI. The Corporation's former Motor Vehicle Branch employees participate in the BC Public Service Pension Plan. The Corporation has no fiduciary responsibility for, or role in the governance of, the MoveUP Plan or the BC Public Service Pension Plan.

The Management and Confidential Plan, MoveUP Plan, and the BC Public Service Pension Plan are subject to the statutory requirements (including minimum funding requirements) of the British Columbia *Pension Benefits Standards Act (PBSA)* and the *Income Tax Act (Canada)*. Each plan's pace of funding is set out in their respective funding policies.

The Corporation pays MSP premiums, life insurance premiums, extended healthcare, and dental costs as post-retirement benefits for its qualifying retirees. The benefits are not prefunded. Benefit entitlements differ for management and confidential and bargaining unit employees, as stated within the terms of the plans.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes at the end of the Corporation's fiscal year. Defined benefit obligations are extrapolated from the most recent actuarial valuation date for each of the plans. The Management and Confidential Plan and the post-retirement benefits actuarial valuations are as at December 31, 2015 and the MoveUP Plan is as at December 31, 2017. Updated actuarial valuations for each plan will be

as of no later than three years from their most recent actuarial valuation date and will be reflected in the financial statements in the year immediately following their preparation.

On its consolidated statement of financial position, the Corporation does not recognize its portion of any surplus assets held by the MoveUP Plan because it cannot realize a future economic benefit in respect of those assets.

An additional liability may be recognized in some instances if minimum future funding requirements are expected to generate a future surplus. These instances are ones where the Corporation would not be able to access or realize a future economic benefit from the future surplus. The Corporation has determined that no additional liability is required to be recognized in respect of solvency funding payments made to the Management and Confidential Plan. This is because the British Columbia PBSA permits the Corporation to secure these payments with a letter of credit in lieu of cash solvency payments or to deposit them in the Plan's Solvency Reserve Account (SRA), for which any surpluses in this account would ultimately be refundable to the Corporation.

The weighted-average durations of the pension plans and post-retirement benefits are shown below, along with the approximate proportions of the defined benefit obligation by membership category:

	Pension Plans		Post-Retirement Benefits	
	2019	2018	2019	2018
Weighted-average duration	19 years	20 years	17 years	17 years
Proportion of obligation in respect of:				
- Active members	57.1%	62.5%	57.4%	57.0%
- Deferred members	6.5%	5.0%	0.0%	0.0%
- Retired members	36.4%	32.5%	42.6%	43.0%

Since pensions are adjusted to changes in the CPI, the pension plans are exposed to changes in levels and volatility in Canada's inflation rate.

In addition, the plans' obligations are exposed to interest rate risk and changes in the life expectancy for pensioners. As the plan assets include significant investments in quoted equity shares, the Corporation is also exposed to equity market risk.

Contributions to all pension and post-retirement benefit plans

Total contributions for employee future benefits for 2019, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of benefits paid from its unfunded pension and post-retirement benefits, were \$46.5 million (2018 – \$61.9 million). Estimated employer contributions for the year ending March 31, 2020 are \$47.2 million (2018 – \$47.4 million). The estimate is based on the plans' most recent actuarial funding valuations. This includes ongoing minimum payments for the solvency deficiency funding as permitted by the B.C. PBSA until June 2018.

As at March 31, 2019, the Corporation secured certain solvency funding requirements through payments made into SRA totalling \$5.0 million (2018 – \$19.5 million). The SRA is a separate account, established to hold solvency deficiency payments made under a defined benefit component of a pension plan. The only funds that may be deposited to the SRA are payments made in respect of a solvency deficiency. Starting June 2018, the Corporation secured a letter of credit for the Management and Confidential Plan for \$1.6 million (2018 – nil) with step increases to \$19.2 million by May 30, 2019 which replaced the monthly payments into the SRA.

Financial information

These consolidated financial statements include the asset and liabilities of all plans, excluding the BC Public Service Pension Plan, sponsored by the Corporation. The amounts recorded on the statement of financial position are as follows:

(\$ THOUSANDS)	Pension Plans		Post-Retirement Benefits		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Accrued pension benefits	\$ 41,842	\$ 44,488	\$ -	\$ -	\$ 41,842	\$ 44,488
Liabilities						
Pension and post-retirement benefits	(156,051)	(118,063)	(204,145)	(192,067)	(360,196)	(310,130)
Net total liability	\$ (114,209)	\$ (73,575)	\$ (204,145)	\$ (192,067)	\$ (318,354)	\$ (265,642)

One of the pension plans is in a net asset position and, as a result, that plan is required to be reported as an asset on the consolidated statement of financial position. The net total liability for all of the Corporation's pension plans and post-retirement benefits as at March 31, 2019 is \$318.4 million (2018 – \$265.6 million), which is reflected in the consolidated statement of financial position as a \$41.8 million asset and a \$360.2 million liability as illustrated in the table above.

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

(\$ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2019	2018	2019	2018
Plan assets				
Fair value, beginning of year	\$ 2,302,063	\$ 2,135,924	\$ -	\$ -
Interest on plan assets	80,431	79,212	-	-
Actuarial gain on assets	75,098	82,402	-	-
Employer contributions	40,187	54,616	5,806	6,762
Employee contributions	26,974	24,063	-	-
Benefits paid	(77,806)	(73,554)	(5,806)	(6,762)
Non-investment expenses	(900)	(600)	-	-
Fair value, end of year	2,446,047	2,302,063	-	-
Defined benefit obligation				
Balance, beginning of year	2,375,638	2,159,567	192,067	349,451
Current service cost	87,060	83,829	5,265	11,997
Interest cost	84,870	81,773	6,805	13,248
Remeasurements on obligation				
- due to changes in financial assumptions	95,470	89,252	5,814	11,891
- due to changes in demographic assumptions	32,504	35,228	-	(187,758)
- due to participant experience	(37,480)	(457)	-	-
Benefits paid	(77,806)	(73,554)	(5,806)	(6,762)
Balance, end of year	2,560,256	2,375,638	204,145	192,067
Funded status – plans in deficit	(156,051)	(118,063)	(204,145)	(192,067)
Funded status – plan in surplus	41,842	44,488	-	-
Net total liability	\$ (114,209)	\$ (73,575)	\$ (204,145)	\$ (192,067)

The net total expense for the pension plans and post-retirement benefits is \$77.5 million (2018 – \$88.2 million). In addition, the Corporation contributed \$0.5 million in 2019 (2018 – \$0.5 million) to the BC Public Service Pension Plan.

Assets

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2019	2018
Cash and accrued interest	0.6%	0.3%
Equities		
Canadian	24.1%	21.6%
United States	21.0%	18.0%
Global	22.5%	24.3%
Fixed income		
Government	24.1%	27.9%
Corporate	7.7%	7.9%
	100.0%	100.0%

All equity securities and bonds have quoted prices in active markets. All bonds are rated from BBB to AAA, based on rating agency ratings.

Pension plan assets generated a return of 6.8% for the year ended March 31, 2019 (2018 – 7.6%).

For the Management and Confidential Plan, the administrator compares the investment performance of the fund against the median investment performance of a peer group of comparable pension funds at least quarterly. In addition, there are monthly and quarterly asset allocation reviews performed to ensure compliance with investment policies. For the MoveUP Plan, the long-term objective is to obtain an investment return that will exceed the investment return assumption used in the actuarial valuation and to provide positive real growth. The Trustees review the fund managers' performance on a quarterly basis.

As at March 31, 2019 and March 31, 2018, the Corporation's pension plans did not hold any of the Corporation's securities or assets nor were any of the plans' assets used by the Corporation during these years.

Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's defined benefit obligation are as follows (weighted-average assumptions):

	Pension Plans		Post-Retirement Benefits	
	2019	2018	2019	2018
Discount rate	3.30%	3.50%	3.30%	3.50%
Rate of compensation increase	2.62%	2.63%	n/a	n/a
Pension inflation rate	1.75%	1.75%	n/a	n/a

Mortality assumptions are significant in measuring the obligations under the defined benefit plans. Future longevity improvements have been considered and included where appropriate. The following table summarizes the life expectancy for members, in years, based on the mortality assumption used:

2019				2018			
Life expectancy at 65 for a member currently				Life expectancy at 65 for a member currently			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
22.3	24.8	23.8	26.1	22.3	24.7	23.7	26.0

As at March 31, 2019 and March 31, 2018, the MSP trend rate is assumed to be reduced to zero due to the 50 per cent reduction in MSP premiums effective January 1, 2018 and subsequent plans to eliminate MSP premiums in their entirety effective January 1, 2020.

As at March 31, 2019, the extended healthcare trend rate is assumed to be six and six tenths per cent per annum for the first year, decreasing linearly over seven years to four and a half per cent per annum thereafter. As at March 31, 2018, the extended healthcare trend rate is assumed to be six and nine tenths per cent per annum for the first year, decreasing linearly over eight years to four and a half per cent per annum thereafter.

The Plans' sensitivity to significant assumptions is shown below:

(\$ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2019	2018	2019	2018
Estimated increase in defined benefit obligation - end of year due to:				
1ppt ¹ decrease in discount rate	\$ 484,522	\$ 488,011	\$ 35,437	\$ 32,871
1ppt increase in salary increase rate	\$ 80,947	\$ 94,094	n/a	n/a
1ppt increase in pension inflation rate	\$ 381,995	\$ 342,687	n/a	n/a
1ppt increase in healthcare trend rate	n/a	n/a	\$ 9,453	\$ 8,865
1ppt increase in medical services premium increase rate	n/a	n/a	-	\$ 30
1 year increase in life expectancy	\$ 80,807	\$ 68,855	\$ 4,411	\$ 4,090
¹ ppt = percentage point				

The sensitivity to the significant assumptions has been determined assuming all other assumptions remain unchanged. If multiple assumptions were to change at the same time, there may be correlations between assumptions that could result in different impacts than simply adding the individual sensitivities above.

18. Operating Expenses by Nature

(\$ THOUSANDS)	2019	2018
Operating expenses – by nature		
Premium taxes and commission expense	\$ 725,692	\$ 666,673
Premium deficiency adjustments	(388,242)	157,236
Employee benefit expense:		
Compensation and other employee benefits	424,835	400,485
Pension and post-retirement benefits (notes 17 and 24)	77,956	88,701
Professional and other services	45,427	41,064
Road improvements and other traffic safety programs	30,600	30,158
Building operating expenses	28,270	28,432
Merchant and bank fees	43,469	39,211
Office supplies and postage	22,164	23,339
Computer costs	30,580	27,798
Depreciation and amortization (notes 12 and 13)	59,105	55,384
Other	37,495	30,422
	\$ 1,137,351	\$ 1,588,903
Operating expenses – consolidated statement of comprehensive loss		
Premium taxes and commissions – insurance	\$ 306,070	\$ 792,683
Claims services	365,059	351,366
Operating expenses – insurance	279,071	260,588
Operating expenses – non-insurance	101,750	101,912
Road safety and loss management services	54,021	51,128
Commissions – non-insurance	31,380	31,226
	\$ 1,137,351	\$ 1,588,903

19. Deferred Premium Acquisition Costs and Prepaids and Premium Deficiency

(\$ THOUSANDS)	2019	2018
Deferred premium acquisition costs, beginning of year	\$ -	\$ 16,481
Acquisition costs related to future years	307,624	-
Amortization of prior year acquisition costs	-	(16,481)
Deferred premium acquisition costs, end of year	<u>\$ 307,624</u>	<u>\$ -</u>
Deferred premium acquisition costs	\$ 307,624	\$ -
Prepaid expenses	37,295	20,977
Deferred premium acquisition costs and prepaids	<u>\$ 344,919</u>	<u>\$ 20,977</u>

(\$ THOUSANDS)	2019	2018
Premium deficiency, beginning of year	\$ (117,623)	\$ -
Actuarial valuation adjustment	117,623	(117,623)
Premium deficiency, end of year	<u>\$ -</u>	<u>\$ (117,623)</u>

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

(\$ THOUSANDS)	Commissions	Premium Taxes	Total
March 31, 2019			
Amount payable	\$ 490,442	\$ 272,255	\$ 762,697
Amortization of prior year premium deficiency	16,101	(133,724)	(117,623)
Deferred premium acquisition costs	(201,868)	(105,756)	(307,624)
Premium taxes, commission expense and deferred premium acquisition costs	<u>\$ 304,675</u>	<u>\$ 32,775</u>	<u>\$ 337,450</u>
Represented as:			
Insurance	\$ 273,295	\$ 32,775	\$ 306,070
Non-insurance	31,380	-	31,380
	<u>\$ 304,675</u>	<u>\$ 32,775</u>	<u>\$ 337,450</u>
March 31, 2018			
Amount payable	\$ 434,495	\$ 255,310	\$ 689,805
Amortization of prior year deferred premium acquisition costs	38,574	(22,093)	16,481
Premium deficiency	(16,101)	133,724	117,623
Premium taxes, commission expense and deferred premium acquisition costs	<u>\$ 456,968</u>	<u>\$ 366,941</u>	<u>\$ 823,909</u>
Represented as:			
Insurance	\$ 425,742	\$ 366,941	\$ 792,683
Non-insurance	31,226	-	31,226
	<u>\$ 456,968</u>	<u>\$ 366,941</u>	<u>\$ 823,909</u>

20. Related Party Transactions

ICBC is a wholly-owned Crown corporation of the Province of B.C.

All transactions with the Province of B.C.'s ministries, agencies, and Crown corporations occurred in the normal course of providing insurance, registration, and licensing for motor vehicles, which is representative of fair value unless otherwise disclosed in these notes. The Corporation has elected to apply the exemption for government-related entities under IAS 24 *Related Party Disclosures*.

All transactions with the Corporation's subsidiary companies occurred in the normal course of investing in investment properties (note 2k).

The Corporation acts as an agent for the Ministry of Finance regarding the collection of provincial taxes on imported and privately sold used vehicles and motor vehicle-related debts. The Corporation is the sole provider of Basic insurance (note 1) in the Province of B.C. and, therefore, insures, at market rates, vehicles owned or leased by the Province of B.C. 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 also responsible for collecting and remitting in full to the Province of B.C. all driver license fees as well as vehicle-related fees for acquiring and distributing licence plates and decals including permits and other fees and fines. These collections are not revenue to the Corporation. The costs associated with the licensing and compliance activities conducted on behalf of the Province of B.C. are borne by the Corporation. These collections on behalf of and payments to the Province of B.C. are disclosed in the consolidated statement of comprehensive loss under non-insurance operations.

The Corporation has defined key management as members of the Board of Directors and management employees at the Senior Director and equivalent level and above. The compensation for key management is shown below:

(\$ THOUSANDS)	2019	2018
Key management compensation		
Compensation and other employee benefits including restructuring costs	\$ 4,531	\$ 4,665
Pension and post-retirement benefits	680	714
	<u>\$ 5,211</u>	<u>\$ 5,379</u>

As at March 31, 2019, \$0.8 million (2018 – \$0.7 million) was payable to key management.

The Corporation contributes to several defined benefit pension and post-retirement plans. Transactions with these entities are disclosed in note 17. During the year ended March 31, 2019, the Corporation incurred \$4.9 million (2018 – \$3.9 million) in administrative expenses and investment management fees on behalf of these plans interest-free. In addition, the Corporation provides certain administrative, investment management, and office services to the plans at no charge. As at March 31, 2019, \$0.6 million (2018 – \$0.6 million) was payable to these plans for employer contributions.

21. Capital Management

The Corporation's capital is comprised of retained earnings (deficit) and other components of equity. The Corporation's objectives for managing capital are to maintain financial strength, including the management of ongoing business risks and protection of its ability to meet the obligations to policyholders and others.

The Corporation operates two lines of insurance business, Basic and Optional. As prescribed in *Special Direction IC2 to the British Columbia Utilities Commission (IC2)* for Basic insurance and the *Insurance Corporation Act (ICA)* for Optional insurance, the Corporation has established capital targets based upon the capital management framework of the Office of the Superintendent of Financial Institutions Canada (OSFI), and OSFI's Guideline for the minimum capital test (MCT). The MCT is a ratio of capital available to capital required, and utilizes a risk-based formula to assess the capital adequacy, including financial risk and long-term financial stability, of an insurance company.

For the Basic insurance business, IC2 requires the Corporation to determine capital targets in accordance with a capital management plan approved by the BCUC (note 23) and to set Basic insurance rates in order to maintain an MCT ratio of at least 100%. If the Basic insurance capital is projected to fall below that minimum, a capital restoration plan must be filed with the BCUC. See note 23 for the capital restoration plans filed with the BCUC. To maintain Basic capital above the regulatory minimum, the Province of B.C. directed transfers from Optional insurance capital to Basic insurance capital (note 23) in fiscal year 2018. On February 26, 2018, the Province of B.C. amended IC2 to suspend the requirement for BCUC to fix rates to allow the Corporation to maintain at least 100% Basic MCT up to and including fiscal year 2022 (or policy year 2021). During this suspended requirement period, the Corporation has committed to provide the BCUC with any material changes to the policy and any related management practices for the Basic MCT.

For the Optional insurance business, the ICA requires the Corporation to determine a capital management target that either is calculated by the Corporation based on the MCT guideline and the Guideline on Stress Testing issued by OSFI, or as directed by the Province of B.C. At year end, when Optional capital is in excess of the management target, that amount, less any Treasury Board approved deduction, is to be transferred to the Province of B.C. by July 1 of the following year (note 23). In fiscal years 2019 and 2018, there were no excess capital amounts to be transferred.

The Corporation's capital has been under pressure due to worsening claims trends and Basic insurance rate increases that were insufficient to cover costs. The Province of B.C. has directed the Corporation to implement steps to help reduce claims cost pressures (note 3e).

22. Contingent Liabilities and Commitments

a) Structured settlements

Certain injury claims are settled through the use of various structured settlements which require the Corporation to provide the claimant with periodic payments.

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 risk to the Corporation is mitigated as the claimant will continue to receive payments, up to certain limits, from a not-for-profit organization that is funded by the insurance industry and endorsed by the Federal Government. The Corporation is only responsible for making payments for the excess, if any, between the claimant's annuity payments and the payment from the not-for-profit organization. At present, three federally licensed life insurance companies are approved for use by the Corporation. An insurance company is approved based on an ongoing analysis of total assets, credit rating analysis, and past service history. The present value of these structured settlements as at March 31, 2019 is approximately \$1.20 billion (2018 – \$1.17 billion), which are not recorded in the consolidated financial statements of the Corporation. Management does not believe any provision for credit risk is required in relation to these annuities as at March 31, 2019, as all approved life insurance companies are rated investment-grade and outstanding balances are backed by the not-for-profit organization. The not-for-profit organization provides guarantees of up to \$2,000 a month or 85% of the promised monthly income benefit, whichever is higher. The Corporation's exposure to credit risk beyond the guarantee is insignificant. To date, the Corporation has not experienced any losses resulting from these arrangements.

b) Lease payments

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 and beyond and the net present value are as follows:

(\$ THOUSANDS)	2019		2018	
	Lease Payments	Net Present Value	Lease Payments	Net Present Value
Up to 1 year	\$ 15,157	\$ 14,620	\$ 11,014	\$ 10,688
Greater than 1 year, up to 5 years	51,323	45,429	29,967	27,133
Greater than 5 years	25,392	20,454	12,610	10,530
	<u>\$ 91,872</u>	<u>\$ 80,503</u>	<u>\$ 53,591</u>	<u>\$ 48,351</u>

The operating lease payments recognized as an expense during the year were \$14.6 million (2018 – \$14.9 million).

c) Other

As at March 31, 2019, the Corporation is committed to seven (2018 – six) mortgage funding agreements totalling \$94.2 million (2018 – \$27.3 million).

In 2019, the Corporation invested into two USD denominated infrastructure funds in which a commitment of \$250.0 million USD was made. As at March 31, 2019, \$109.9 million USD of the commitment was funded.

In 2019, the Corporation committed to a five year software services agreement totalling \$16.0 million. As at March 31, 2019, \$2.8 million of the commitment was funded.

In 2017, the Corporation invested into a real estate fund in which a commitment of \$69.7 million was made. As at March 31, 2019, \$59.6 million (2018 – \$56.5) of the commitment was funded.

In 2017, the Corporation made a commitment to invest \$100.0 million in a limited partnership for bonds. In 2019, the Corporation increased its commitment to \$250.0 million. As at March 31, 2019, \$162.3 million (2018 – \$90.9 million) of the commitment was funded.

In 2017, the Corporation made a commitment to invest \$150.0 million USD in a limited partnership for mezzanine debt. As of March 31, 2019, \$51.1 million USD (2018 – \$23.0 million USD) of the commitment was funded.

In 2019, the Corporation made an additional commitment of \$175.0 million USD into another limited partnership for mezzanine debt. As at March 31, 2019, \$84.8 million USD of the commitment was funded.

In 2015, the Corporation entered into an annually managed mainframe hosting services contract until 2022, with a total contract value of \$34.5 million.

In 2014, the Corporation made a commitment to invest \$75.0 million in a limited partnership for real estate. As at March 31, 2019, \$75.0 million (2018 – \$67.9 million) of the commitment was funded.

In 2011, the Corporation entered into a commitment for annual telecommunication services until 2021, with a total contract value of \$50.6 million.

23. Regulation over Basic Insurance

As discussed in note 1, the Corporation is subject to regulation by the BCUC. BCUC has jurisdiction over the Corporation's rates and services for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business.

For the regulation of the Corporation's Basic insurance rates, the 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 so that these rates allow the Corporation to collect sufficient revenue, to pay for certain specified costs, to ensure the Corporation maintains and/or builds the required Basic insurance capital, to ensure rates are not based on age, gender or marital status, and to ensure increases or decreases in rates are phased in, in a stable and predictable manner.

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 reimburse a portion of the

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.

As required by the regulatory framework, the Corporation maintains a Basic insurance capital management plan that is reviewed and approved by the BCUC. The rate smoothing framework limits Basic insurance rate increases to a range of allowable rate changes, and uses Basic insurance capital to smooth the volatility in Basic insurance rates (note 10).

If circumstances should arise where, despite the capital management plan, Basic insurance capital is projected to fall below the regulatory minimum, the Corporation is directed to immediately report to the Treasury Board and, in conjunction with the Treasury Board, develop a plan to address Basic insurance capital levels. This plan is then filed with the BCUC. Over the past several years, the Corporation has filed such a plan on a number of occasions. Amendments to IC2 in calendar year 2016 suspended the capital build and release provisions of the existing capital management plan and kept the capital maintenance provision stable so that it had no impact on the Basic insurance rate change. These amendments are effective up to and including fiscal year 2021 (or policy year 2020).

The restoration plan filed with the BCUC on August 31, 2016 reflected a transfer of \$99.0 million of income from the Optional insurance business to the Basic insurance business which occurred on April 1, 2017. The transfer of income, which is for the sole purpose of rate setting under the BCUC regulation, allows the Corporation to reduce the Basic insurance rates required under the framework.

The Corporation filed another plan with the BCUC on August 29, 2017, as the Basic insurance capital was projected to be below the 100% MCT regulatory minimum. The plan stated that the Corporation would transfer \$470.0 million of capital from Optional insurance to Basic insurance, which was completed on September 15, 2017. The Corporation filed for a 6.4% rate increase in the 2017 revenue requirements application, which was at the ceiling of the rate smoothing framework (notes 10 and 21).

At December 31, 2017, the Basic MCT ratio was below the regulatory minimum and was projected to fall further by March 31, 2018. On February 26, 2018, the Province of B.C. amended IC2 to suspend the requirement for BCUC to fix rates to allow the Corporation to maintain at least 100% Basic MCT up to and including fiscal year 2022 (or policy year 2021).

The plan was filed with the BCUC on March 1, 2018 which has since been accepted by the BCUC. This plan referred to the suspension of the requirement to meet the 100% MCT regulatory minimum. During this suspended requirement period, the Corporation has committed to provide the BCUC with any material changes to the policy and any related management practices for MCT. The Corporation also filed for a 6.3% rate increase in the 2019 revenue requirements application on December 14, 2018.

Allocation of Basic and Optional amounts

The Corporation operates its business using an integrated business model. The majority of premium revenues and costs are specifically identifiable as Basic or Optional (see note 1).

The Corporation also delivers non-insurance services on behalf of the Province of B.C. Non-insurance activities include driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection all of which are reported as Basic costs.

BCUC requires the Corporation to follow an approved financial allocation methodology with respect to allocating costs between the Basic insurance business, the Optional insurance business, and non-insurance services. For those revenues and costs that are not specifically identified, a pro-rata method is used to allocate 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.

(\$ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2019	2018	2019	2018	2019	2018
Net premiums written	\$ 3,476,763	\$ 3,268,865	\$ 2,601,803	\$ 2,275,314	\$ 6,078,566	\$ 5,544,179
Revenues						
Net premiums earned	\$ 3,390,016	\$ 3,149,312	\$ 2,433,518	\$ 2,179,626	\$ 5,823,534	\$ 5,328,938
Service fees and other income	74,335	69,046	50,829	44,252	125,164	113,298
Total earned revenues	3,464,351	3,218,358	2,484,347	2,223,878	5,948,698	5,442,236
Claims and operating expenses						
Provision for claims occurring in the current year (note 14)	3,620,981	3,451,207	1,686,868	1,633,027	5,307,849	5,084,234
Change in estimates for losses occurring in prior years (note 14)	718,210	218,191	503,171	344,766	1,221,381	562,957
Claim services, road safety and loss management services	280,240	273,807	138,840	128,687	419,080	402,494
	4,619,431	3,943,205	2,328,879	2,106,480	6,948,310	6,049,685
Operating expenses – insurance (note 18)	120,031	121,887	159,040	138,701	279,071	260,588
Premium taxes and commissions – insurance (notes 18 and 19)	(136,609)	446,808	442,679	345,875	306,070	792,683
	4,602,853	4,511,900	2,930,598	2,591,056	7,533,451	7,102,956
Underwriting loss	(1,138,502)	(1,293,542)	(446,251)	(367,178)	(1,584,753)	(1,660,720)
Investment income (note 11)	396,662	324,642	160,878	137,561	557,540	462,203
Loss – insurance operations	(741,840)	(968,900)	(285,373)	(229,617)	(1,027,213)	(1,198,517)
Loss – non-insurance operations	(126,382)	(126,645)	-	-	(126,382)	(126,645)
Net loss for the year before income transfer	(868,222)	(1,095,545)	(285,373)	(229,617)	(1,153,595)	(1,325,162)
Net income transfer from Optional to Basic business	-	99,000	-	(99,000)	-	-
Net loss for the year after income transfer	\$ (868,222)	\$ (996,545)	\$ (285,373)	\$ (328,617)	\$ (1,153,595)	\$ (1,325,162)
Net (loss) income attributable to:						
Non-controlling interest	\$ (54)	\$ 225	\$ (22)	\$ 95	\$ (76)	\$ 320
Owners of the corporation	(868,168)	(996,770)	(285,351)	(328,712)	(1,153,519)	(1,325,482)
	\$ (868,222)	\$ (996,545)	\$ (285,373)	\$ (328,617)	\$ (1,153,595)	\$ (1,325,162)
Equity (Deficit)						
Retained earnings, beginning of year	\$ 933,109	\$ 1,459,879	\$ 199,889	\$ 998,601	\$ 1,132,998	\$ 2,458,480
Net loss for the year, owners of the corporation	(868,168)	(996,770)	(285,351)	(328,712)	(1,153,519)	(1,325,482)
Capital transfer from Optional to Basic business (note 21)	-	470,000	-	(470,000)	-	-
Retained earnings (deficit), end of year	64,941	933,109	(85,462)	199,889	(20,521)	1,132,998
Other components of equity, beginning of year	(112,436)	(17,552)	(48,904)	(14,313)	(161,340)	(31,865)
Net change in available for sale assets	218,321	(185,232)	88,546	(78,489)	306,867	(263,721)
Pension and post-retirement benefits remeasurements (note 17)	(14,232)	90,348	(6,978)	43,898	(21,210)	134,246
Other components of equity, end of year	91,653	(112,436)	32,664	(48,904)	124,317	(161,340)
Total equity (deficit) attributable to owners of the corporation	156,594	820,673	(52,798)	150,985	103,796	971,658
Non-controlling interest, beginning of year	10,373	13,415	5,132	6,156	15,505	19,571
Change in net assets for the year, non-controlling interest	(366)	(3,267)	(133)	(1,119)	(499)	(4,386)
Net (loss) income for the year, non-controlling interest (note 7)	(54)	225	(22)	95	(76)	320
Total equity attributable to non-controlling interest, end of year (note 7)	9,953	10,373	4,977	5,132	14,930	15,505
Total Equity (Deficit)	\$ 166,547	\$ 831,046	\$ (47,821)	\$ 156,117	\$ 118,726	\$ 987,163

(\$ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2019	2018	2019	2018	2019	2018
Liabilities						
Unearned premiums (note 15)	\$ 1,636,300	\$ 1,549,552	\$ 1,248,476	\$ 1,080,192	\$ 2,884,776	\$ 2,629,744
Provision for unpaid claims (note 14)	\$ 10,338,132	\$ 8,607,916	\$ 3,949,778	\$ 3,287,780	\$ 14,287,910	\$ 11,895,696

24. Indirect Method Cash Flow Details

The following table illustrates the details of the consolidated statement of cash flows:

(\$ THOUSANDS)	March 31 2019	March 31 2018
a) Items not requiring the use of cash		
Bad debt expense	\$ 7,404	\$ 6,060
Pension and post-retirement benefits (notes 17 and 18)	77,956	88,701
Amortization and depreciation of:		
Investment properties (note 6)	31,241	32,928
Property, equipment and intangibles (notes 12 and 13)	59,105	55,384
Retirement of property, equipment and intangibles (notes 12 and 13)	933	136
Impairment loss on financial investments (note 11)	13,506	12,495
Impairment loss on investment properties (notes 6 and 11)	10,170	1,441
Interest on finance lease obligations	309	-
Interest on mortgages payable	350	-
Unrealized loss on foreign currency investments (note 8)	1,114	-
Gain on sale of investment properties (note 11)	(104,165)	(6,198)
Gain on investments	(59,841)	(342,405)
	\$ 38,082	\$ (151,458)
b) Changes in non-cash working capital		
Accrued interest	\$ (3,878)	\$ 12,866
Assets held for sale	-	31,910
Derivative financial instrument asset	1,855	(2,744)
Derivative financial instrument liability	-	(10,702)
Premium and other receivables	(180,793)	(165,206)
Reinsurance assets	(5,337)	(5,347)
Accrued pension benefits	(20,214)	(36,637)
Deferred premium acquisition costs and prepaids	(323,942)	15,525
Accounts payable and accrued charges	21,463	1,959
Bond repurchase agreements and other liabilities	(56)	(8,591)
Premium deficiency	(117,623)	117,623
Premiums and fees received in advance	15,872	15,954
Unearned premiums	255,032	215,241
Pension and post-retirement benefits	(26,240)	(25,270)
Provision for unpaid claims	2,392,214	1,377,725
	\$ 2,008,353	\$ 1,534,306
c) Supplemental information		
Interest and dividends received	\$ 290,552	\$ 299,159

The table below details the changes in the Corporation's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing are those for which cash flows were, or future cash flows will be, classified in the Corporation's consolidated statement of cash flows as cash flows from financing activities.

(\$ THOUSANDS)	March 31, 2018	Financing cash flows	Non-cash changes	March 31, 2019
Bond repurchase agreements (note 9)	\$ 1,310,249	\$ 139,206	\$ -	\$ 1,449,455

(\$ THOUSANDS)	March 31, 2017	Financing cash flows	Non-cash changes	March 31, 2018
Bond repurchase agreements (note 9)	\$ 1,180,060	\$ 129,163	\$ 1,026	\$ 1,310,249

25. Subsequent Events

Civil claims were filed in April 2019 against the Province of B.C. regarding legislation amendments over the Corporation's Basic insurance product that became effective on April 1, 2019 (note 3e) and changes to the rules of court limiting the number of experts and expert reports used (note 14). Although the claims are against the Province of B.C., should the plaintiff be successful, this may have a material financial impact on the Corporation, as both the legislation and rules of court change have been included as assumptions in the provision for unpaid claims calculation as at March 31, 2019 (note 14a) and in the determination of the amount of DPAC allowable for deferral. Should the plaintiff be fully successful, the DPAC asset would be written off and a premium deficiency liability recorded. Given the early stage of the legal actions, the probability of success cannot be determined and the financial effect can vary depending on the outcome.

Appendix A: Additional Information

(Unaudited)

Corporate Governance

ICBC is governed by a Board of Directors, CEO and management team. They are guided by the public sector guidelines for corporate governance, and must act in accordance with the provisions of the [Insurance Corporation Act](#), the [Insurance \(Vehicle\) Act](#) and the [Motor Vehicle Act](#), and other legislation applicable to ICBC.

Changes to ICBC's Basic insurance rates are regulated by the [BC Utilities Commission](#). They ensure that Basic insurance rates are justified and reasonable.

For additional information, please refer to the [Corporate Governance section](#) of ICBC's website.

This includes links to information regarding:

- Executive Committee
- Board of Directors
- ICBC Board of Directors Committees
- ICBC Code of Ethics
- Mandate Letter

Organizational Overview

The Insurance Corporation of British Columbia is a provincial Crown corporation that provides universal compulsory auto insurance (Basic insurance) to drivers in B.C. with rates regulated by the BCUC. ICBC also sells Optional auto insurance in a competitive marketplace.

ICBC's insurance products are available across B.C. through a network of independent brokers. Claims services are provided at ICBC facilities and approved suppliers located in communities throughout the province. ICBC also invests in road safety programs to reduce traffic-related deaths, injuries and crashes, as well as loss management programs to help reduce auto crime and fraud. In addition, ICBC provides driver licensing, secure B.C. Government photo identification and B.C. Services Card, vehicle registration and licensing services, and fine collection on behalf of the Provincial Government at locations across the province.

Contact Information

- See page 2 for full contact information or visit ICBC's website at icbc.com.

Appendix B: Nominee Companies

(Unaudited)

The Corporation does not have any active operating subsidiary companies.

All of the fully-owned nominee holding companies listed below hold investment properties for the purpose of generating investment income. All of the nominee holding companies are consolidated into our financial statements, the basis of which is explained in note 2b in the accompanying consolidated financial statements. A consolidated summary of the income from investment properties can be found in note 11 to the accompanying consolidated financial statements.

Nominee Holding Companies
596961 B.C. Ltd
2050376 Ontario Ltd.
1141268 Alberta Ltd.
2091053 Ontario Ltd.
1263146 Alberta Ltd.
2134529 Ontario Ltd.
2140940 Ontario Ltd.
2154855 Ontario Ltd.
2159355 Ontario Ltd.
2166025 Ontario Ltd.
1394626 Alberta Ltd.
2176758 Ontario Ltd.
1467288 Alberta Ltd.
2209079 Ontario Ltd.
1476459 Alberta Ltd.
2210344 Ontario Ltd.
1476288 Alberta Ltd
2209079 Ontario Ltd
0866691 B.C. Ltd.
2225888 Ontario Ltd.
2232027 Ontario Ltd.
0869391 B.C. Ltd.
1535992 Alberta Ltd.
0879948 B.C. Ltd.
2228366 Ontario Ltd.
0881157 B.C. Ltd.
1575160 Alberta Ltd.
2272811 Ontario Ltd.
2272807 Ontario Ltd.

Nominee Holding Companies
2277479 Ontario Ltd.
1611527 Alberta Ltd.
2306519 Ontario Ltd.
1648020 Alberta Ltd.
2309092 Ontario Ltd.
1662170 Alberta Ltd.
1672904 Alberta Ltd.
2329075 Ontario Ltd.
1688141 Alberta Ltd.
1685611 Alberta Ltd.
2353777 Ontario Ltd.
1746615 Alberta Ltd.
1796824 Alberta Ltd.
1884419 Alberta Ltd.
2468434 Ontario Ltd.
1930933 Alberta Ltd.
2496976 Ontario Ltd.
Plaza Tacoma Centre Ltd.
1961735 Alberta Ltd.
2530694 Ontario Ltd.
2542170 Ontario Ltd.
SWBC MEC 1 Ltd.
SWBC MEC 2 Ltd.
SWBC MEC 3 Ltd.
SWBC MEC 4 Ltd.
2543053 Ontario Ltd.
5757 CSF Inc.
5757 CSF GP Inc.
2553178 Ontario Ltd.
140 Main Hamilton Ltd.
2599056 Ontario Ltd.