Insurance Corporation of British Columbia

2005 ANNUAL REPORT

Management's Responsibility for Financial Statements

SCOPE OF RESPONSIBILITY

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

INTERNAL CONTROLS

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

BOARD OF DIRECTORS AND AUDIT COMMITTEE

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

INDEPENDENT AUDITORS AND ACTUARY

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

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

Paul Taylor

President and Chief Executive Officer
February 3, 2006

Geri Prior

Chief Financial Officer
February 3, 2006

Auditors' Report

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

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2005 and the consolidated statements of operations, retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
February 3, 2006

Actuary's Report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2005 and their changes in its consolidated statements of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
February 3, 2006

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
ASSETS		
Cash and investments (note 3)	$ 7,180,746	$ 7,055,237
Accrued interest	58,388	55,378
Amount recoverable from reinsurers (notes 6 & 7)	21,825	29,347
Premiums and other receivables (note 8)	647,599	47,832
Deferred premium acquisition costs and prepaid expenses (note 11)	45,933	154,474
Accrued pension benefit (note 9)	48,947	36,243
Property and equipment (note 4)	82,811	83,444
	$ 8,086,249	$ 7,461,955
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 45,497	$ 32,416
Accounts payable and accrued charges	197,683	216,776
Accrued post-retirement benefits (note 9)	86,721	76,703
Premiums and fees received in advance	48,916	37,980
Unearned premiums	1,497,176	1,467,316
Provision for unpaid claims (notes 5 & 6)	5,053,108	4,671,540
	6,929,101	6,502,731
RETAINED EARNINGS (note 5)	1,157,148	959,224
	$ 8,086,249	$ 7,461,955

Contingent liabilities and commitments (note 14)

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

Approved by the Board

T. Richard Turner
Chair of the Board of Directors

Bob Quart
Vice-Chair of the Board of Directors

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
REVENUES		
Net Premiums Written		
Vehicle	$ 3,132,116	$ 3,077,043
Driver	15,156	12,292
	$ 3,147,272	$ 3,089,335
Net Premiums Earned		
Vehicle	$ 3,103,658	$ 3,013,049
Driver	13,754	13,432
	3,117,412	3,026,481
Service Fees	37,479	36,633
TOTAL EARNED REVENUES	3,154,891	3,063,114
CLAIMS AND OPERATING COSTS		
Net claims incurred during the year (note 6)	2,444,515	2,242,334
Prior years' claims adjustments (note 6)	80,662	(4,740)
Net claims incurred (note 6)	2,525,177	2,237,594
Claims services	236,905	237,605
Road safety and loss management services	47,486	43,086
	2,809,568	2,518,285
Operating costs – insurance (note 10)	139,600	138,659
Premium taxes and commissions (note 11)	478,476	323,184
	3,427,644	2,980,128
UNDERWRITING (LOSS) / INCOME	(272,753)	82,986
Investment income (note 3c)	579,436	395,319
INCOME – INSURANCE OPERATIONS	306,683	478,305
NON-INSURANCE OPERATIONS		
Provincial licences and fines (note 12)	469,021	450,446
Licences and fines transferable to the Province (note 12)	469,021	450,446
Operating costs – non-insurance (note 10)	91,060	88,402
Commissions (note 11)	17,699	16,944
	577,780	555,792
LOSS – NON-INSURANCE OPERATIONS	(108,759)	(105,346)
NET INCOME FOR THE YEAR (note 5)	$ 197,924	$ 372,959

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004 (Restated - note 5)
RETAINED EARNINGS		
Beginning of year	$ 959,224	$ 535,879
Prior period adjustment (note 5)	-	50,386
Beginning of year, 2004 restated	959,224	586,265
Net income for the year (note 5)	197,924	372,959
End of year, 2004 restated	$ 1,157,148	$ 959,224

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

($ THOUSANDS)	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 2,772,853	$ 3,259,098
Licence fees	450,145	444,161
Social service taxes	90,204	91,717
	3,313,202	3,794,976
Collection for receivables, subrogation, and driver penalty point premiums	274,132	277,873
Salvage sales	54,901	56,723
Interest	281,894	299,078
Capital gains realized	167,559	82,646
Dividends and other investment income	23,490	30,279
Other	(327)	528
	4,114,851	4,542,103
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,225,935)	(2,148,807)
Province of BC for licence fees, fines, and social service taxes collected	(573,966)	(555,455)
Suppliers of goods and services	(234,749)	(209,251)
Employees for salaries and benefits	(347,590)	(341,250)
Agents for commissions	(248,507)	(237,941)
Policyholders for premium refunds	(317,885)	(276,632)
Province of BC for premium taxes	(148,762)	(125,175)
	(4,097,394)	(3,894,511)
Cash flow from operating activities	17,457	647,592
CASH FLOW USED IN INVESTING ACTIVITIES		
Purchase of investment securities	(6,734,100)	(5,126,970)
Proceeds from sales of investment securities	6,243,768	4,494,745
Securities sold under resale agreements	458,505	(98,687)
Payments to vendors of property and equipment	(13,161)	(14,335)
Proceeds from sale of property and equipment	65	6,832
Cash flow used in investing activities	(44,923)	(738,415)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(27,466)	(90,823)
Cash and cash equivalents, beginning of year	193,903	284,726
Cash and cash equivalents, end of year	$ 166,437	$ 193,903
REPRESENTED BY:		
Cash and money market securities (note 3)	$ 211,934	$ 226,319
Cheques outstanding	(45,497)	(32,416)
	$ 166,437	$ 193,903

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

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2005

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation incorporated in 1973 and continued under the *Insurance Corporation Act,* R.S.B.C. 1996 chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Motor Vehicle) Act,* and is also responsible for non-insurance services under the *Insurance Corporation Act and Motor Vehicle Act.* Non-insurance services include vehicle licensing, registration, and issuance of driver licences. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and services (note 15).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles as required by the *Insurance Corporation Act.* The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. As required by the *Insurance Corporation Act,* the Corporation reports the revenues and expenses attributable to universal compulsory automobile insurance and non-insurance separately from the other operations of the Corporation (note 15).

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

Premiums earned

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

Reinsurance

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

Deferred premium acquisition costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and, to the extent recoverable from unearned premiums, are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The method followed in determining the deferred premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a total corporate basis in the statement of financial position.

Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of reinsurance recoverable. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis (note 6) and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

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

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

The provision for unpaid claims is an estimate subject to random volatility and, as with any insurance company, could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, timing of claims payments, the recoverability of reinsurance and future rates of investment return. All changes to the estimate are recorded as incurred claims and prior years' claims adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

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

The ultimate cost of long settlement liability claims is challenging to predict for several reasons, including some claims not being reported until many years after a policy term, or changes in the legal environment. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments (note 14a).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims (note 14c) and other liabilities.

Investments and investment income

Bonds are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Mortgages are valued at principal amounts adjusted to reflect any principal repayments. Equities are valued at cost. Real estate held for investment consists of income-producing properties, which are recorded at cost less accumulated amortization and provision for impairment in value (note 3).

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

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

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

Hedging and derivative instruments

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation uses derivative financial instruments to hedge interest rate risk associated with interest liabilities denominated in Canadian and United States currencies. Interest rate swaps are used to create a hedge to match a liability, and may contain a cross-currency component. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount. Cross-currency interest rate swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

The Corporation uses basis swaps and forward foreign exchange contracts to hedge foreign exchange risk. Basis swaps involve the exchange of principal and interest payments in two different currencies. ICBC uses short-term forward foreign exchange contracts to fix the rate of exchange of expected future foreign currency cash flows.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. All swap derivatives have been designated as hedging items that qualify under Accounting Guideline 13 (AcG-13) *Hedging Relationships* issued by the Canadian Institute of Chartered Accountants (CICA). Any costs associated with the hedge are recorded on a cash basis.

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

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

Pensions and post-retirement benefits

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

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

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

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

The transitional asset is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

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

Property and equipment

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

Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life at the following annual rates: buildings 5-10%, furniture and equipment 10-33%, and software 10-33%. Leasehold improvements are amortized over the term of each lease.

Cash and cash equivalents

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

Translation of foreign currencies

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

Use of estimates

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

3. CASH AND INVESTMENTS

($ THOUSANDS)	2005		2004	
	Carrying Value	Estimated Fair value	Carrying Value	Estimated Fair value
Cash and money market securities	$ 211,934	$ 211,934	$ 226,319	$ 226,319
Bonds				
Canadian				
Federal	2,188,511	2,175,509	2,131,406	2,161,348
Bond repurchase obligations (note 2)	(657,632)	(657,632)	(227,864)	(227,864)
	1,530,879	1,517,877	1,903,542	1,933,484
Provincial	823,422	837,284	648,741	680,937
Municipal	196,588	209,687	264,837	284,498
Corporate	1,722,708	1,730,917	1,563,386	1,607,991
	4,273,597	4,295,765	4,380,506	4,506,910
Global	392,095	356,475	382,907	364,505
Bond repurchase obligations (note 2)	(26,746)	(26,746)	-	-
	365,349	329,729	382,907	364,505
Total bonds	4,638,946	4,625,494	4,763,413	4,871,415
Mortgages	600,612	603,636	486,662	497,539
Equities				
Canadian	768,324	1,128,230	754,778	1,020,644
United States	374,600	387,917	342,579	361,480
Europe, Asia, Far East	432,525	433,087	351,296	390,119
Total equities	1,575,449	1,949,234	1,448,653	1,772,243
Real estate, net of provision	153,805	189,651	130,190	155,716
	$ 7,180,746	$ 7,579,949	$ 7,055,237	$ 7,523,232

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon the net present value of the payment stream using rates currently in effect. The estimated fair value of real estate is based on the most recent Government Assessment Authority values. The carrying value of the Surrey City Central real estate investment is net of a provision of $103.7 million for impairment in value that was determined to be other than temporary based on an independent appraisal in a prior year.

The total notional amount of interest rate swaps outstanding at December 31, 2005 is $35.0 million (2004 – $136.2 million). The notional amount of cross-currency interest rate swaps outstanding at December 31, 2005 is $55.5 million (2004 – $55.5 million). The notional amount of basis swaps outstanding at December 31, 2005 is $12.2 million (2004 – $nil). At December 31, 2005, the interest rate swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three-month Canadian Dealer Offer Rate plus 36.7 basis points (2004 – 31.7 basis points) and an average pay interest rate of 5.65% (2004 – 5.80%), and the basis swaps have an average pay floating rate of London Inter-Bank Offer Rate plus 15 basis points and an average receiving floating interest rate of the three-month Canadian

Dealer Offer Rate plus 24 basis points. The swaps had an estimated fair value of $13.1 million as at December 31, 2005 (2004 – $7.0 million). The fair value of interest rate swap contracts and foreign exchange swap contracts is determined by discounting expected future cash flows using current market interest and exchange rate instruments. The values of these swaps have been reflected in the estimated fair value of bonds. The principal of all forward foreign exchange contracts is $26.7 million as at December 31, 2005 (2004 – $nil).

a) Fixed income – interest rate risk

	2005		2004	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canadian				
Federal	3.6	3.4	4.0	3.6
Provincial	4.4	7.6	4.9	6.7
Municipal	5.7	4.3	5.8	5.6
Corporate	4.3	3.5	4.6	3.2
Global	3.5	5.5	3.4	5.3
Total bonds	4.0	4.3	4.3	4.1
Mortgages	5.7	3.1	6.7	2.5
Total bonds and mortgages	4.1	4.2	4.5	4.0

b) Fixed income – maturity profile

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

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

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
2005				
Bonds				
Canadian				
Federal	$ -	$ 1,325,795	$ 205,084	$ 1,530,879
Provincial	7,728	369,902	445,792	823,422
Municipal	-	107,610	88,978	196,588
Corporate	32,118	1,460,771	229,819	1,722,708
Global	38,987	158,895	167,467	365,349
Total bonds	78,833	3,422,973	1,137,140	4,638,946
Mortgages	97,647	283,825	219,140	600,612
	$ 176,480	$ 3,706,798	$ 1,356,280	$ 5,239,558
2004				
Bonds				
Canadian				
Federal	$ -	$ 1,597,208	$ 306,334	$ 1,903,542
Provincial	14,118	356,394	278,229	648,741
Municipal	14,145	107,360	143,332	264,837
Corporate	109,070	1,321,081	133,235	1,563,386
Global	-	205,772	177,135	382,907
Total bonds	137,333	3,587,815	1,038,265	4,763,413
Mortgages	98,136	264,458	124,068	486,662
	$ 235,469	$ 3,852,273	$ 1,162,333	$ 5,250,075

c) Investment income

($ THOUSANDS)	2005	2004
Interest		
Money market	$ 6,418	$ 10,232
Bonds	200,135	196,496
Mortgages	32,787	32,006
	239,340	238,734
Gains (losses) on the sale of investments		
Equities	236,578	86,976
Bonds	98,361	41,964
Real estate	-	7,449
Foreign exchange	(26,627)	(9,802)
	308,312	126,587
Dividend and other income (expenses)		
Equities	38,325	28,756
Real estate	7,286	3,551
Other	(3,309)	2,015
Investment management fees	(10,518)	(4,324)
	31,784	29,998
Total investment income	$ 579,436	$ 395,319

d) Securities lending

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2005 securities with an estimated fair value of $88 million (2004 – $1,383 million) have been loaned and securities with an estimated fair value of $94 million (2004 – $1,485 million) have been received as collateral.

4. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2005		2004	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 23,939	$ 23,939	$ 23,939	$ 23,939
Buildings	140,212	32,132	137,412	33,069
Furniture and equipment	102,805	17,596	99,396	17,793
Software	22,018	8,562	20,162	8,093
Leasehold improvements	7,676	582	7,426	550
	$ 296,650	$ 82,811	$ 288,335	$ 83,444

Amortization expense for the year ended December 31, 2005 amounted to $14.0 million (2004 – $11.7 million).

5. CHANGE IN ACCOUNTING POLICY

Effective December 31, 2005 the Corporation began reporting, in accordance with accepted actuarial practice in Canada, its provision for unpaid claims on a discounted basis to reflect the time value of money which includes a provision for adverse deviations (PFAD). Previously, unpaid claims were presented on an undiscounted basis.

The change in accounting policy was adopted retroactively and the prior year's financial statements were restated to give effect to the new accounting policy.

The change in accounting policy impacted previously reported amounts. To account for the cumulative effect to December 31, 2003, retained earnings as at January 1, 2004 retroactively increased by $50.4 million. At December 31, 2004, due to a decrease in the discount rate from 5.0% in 2003 to 4.9% in 2004, there was an increase in the provision for unpaid claims of $15.4 million, a decrease in the amount recoverable from reinsurers of $0.9 million, resulting in an increase in claims incurred, and decrease in net income and retained earnings of $16.3 million. In 2005, due to a decrease in discount rate from 4.9% in 2004 to 4.7% in 2005 and a 1% – 1.5% (by coverage) increase in the claims development margin used in the calculation of the PFAD, claims incurred increased, and net income and retained earnings decreased by $12.8 million.

6. PROVISION FOR UNPAID CLAIMS

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

($ THOUSANDS)	2005	2004 (Restated - note 5)
Unpaid claims net – beginning of year	$ 4,642,193	$ 4,449,965
Change in estimates for losses occuring in prior years		
Prior years' claims adjustments	38,782	(45,846)
Increase in claims incurred in prior years due to a reduction in discount rate	41,880	41,106
	80,662	(4,740)
Provision for claims occuring in the current year	2,444,515	2,242,334
	2,525,177	2,237,594
Less:		
Payments on claims incurred in the current year	938,534	932,890
Payments on claims incurred in prior years	1,314,033	1,224,261
Recoveries on claims	(116,480)	(111,785)
	2,136,087	2,045,366
Unpaid claims net – end of year	5,031,283	4,642,193
Recoverable from reinsurers	21,825	29,347
Unpaid claims gross – end of year	$ 5,053,108	$ 4,671,540

The provision for unpaid claims at December 31, 2005 includes an estimate of $84 million (2004 – $71 million) in anticipation of increases to the court tariff costs used to compute legal costs for indemnification of successful litigants.

The Corporation discounts its provision for unpaid claims at an investment rate of return of 4.7% (2004 – 4.9%). The Corporation determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

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

($ THOUSANDS)	Undiscounted	Effect Of Present Value	PFADs	Discounted
2005				
Provision for unpaid claims	$ 5,052,782	$ (545,298)	$ 523,799	$ 5,031,283
Amount recoverable from reinsurers	25,163	(2,189)	(1,149)	21,825
	$ 5,077,945	$ (547,487)	$ 522,650	$ 5,053,108
2004				
Provision for unpaid claims	$ 4,676,243	$ (494,417)	$ 460,367	$ 4,642,193
Amount recoverable from reinsurers	34,375	(3,483)	(1,545)	29,347
	$ 4,710,618	$ (497,900)	$ 458,822	$ 4,671,540

7. 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, 2005 with the following terms:

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

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

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

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

8. PREMIUMS AND OTHER RECEIVABLES

In June 2005, the Corporation implemented an internal payment plan for Autoplan premiums. Previously, the Corporation entered into finance contracts through a financing institution under its financing programs (note 14b). As a result of this change, premiums receivable by the Corporation have increased significantly over 2004.

($ THOUSANDS)	2005	2004
Premium receivables	$ 640,045	$ 41,438
Other receivables	7,554	6,394
	$ 647,599	$ 47,832

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

9. PENSION PLANS AND POST-RETIREMENT BENEFITS

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

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

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

The Corporation pays Medical Services Plan and life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. Benefit entitlements differ for management and confidential, and bargaining unit staff.

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefit plans were $25.9 million (2004 –$18.9 million).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations of the pension plans for funding purposes are prepared on a triennial basis. The Management and Confidential Plan had an actuarial valuation as of December 31, 2004 which was extrapolated to December 31, 2005. The COPE Plan had an actuarial valuation as of December 31, 2002 which was extrapolated to December 31, 2005. The COPE Plan will be actuarially valued in early 2006 for funding purposes as of a December 31, 2005 valuation date.

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	**2005**	**2004**	**2005**	**2004**
Plan assets				
Fair value at beginning of year	$ 743,381	$ 656,812	$ -	$ -
Actual return on plan assets	97,011	74,177	-	-
Employer contributions	23,286	16,397	1,667	1,588
Employees' contributions	15,964	16,229	-	-
Net transfers	843	813	-	-
Benefits paid	(20,941)	(21,047)	(1,667)	(1,588)
Fair value at end of year	859,544	743,381	-	-
Accrued benefit obligation				
Balance at beginning of year	733,299	638,478	97,592	80,733
Current service cost and employees' contributions	40,831	39,295	4,847	5,325
Net transfers	843	813	-	-
Interest cost	44,698	40,727	5,944	5,201
Actuarial losses	66,244	35,033	20,114	7,921
Benefits paid	(20,941)	(21,047)	(1,667)	(1,588)
Balance at end of year	864,974	733,299	126,830	97,592
Funded status - plan (deficit) surplus	(5,430)	10,082	(126,830)	(97,592)
Unamortized net actuarial losses	129,241	110,010	41,918	22,899
Unamortized plan adjustments	-	-	(1,809)	(2,010)
Unamortized transitional asset	(74,864)	(83,849)	-	-
Accrued benefit asset (liability)	$ 48,947	$ 36,243	$ (86,721)	$ (76,703)

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2005	2004
Cash and accrued interest	2%	3%
Equities		
Canadian	27%	29%
Foreign	22%	21%
Fixed Income		
Government	29%	30%
Corporate	6%	6%
Pooled fixed income funds	4%	4%
Mortgages	5%	4%
Real estate	5%	3%
	100%	100%

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	2005	2004	2005	2004
Accrued benefit obligation and plan deficit	$ 7,699	$ 8,028	$ 126,830	$ 97,592

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

($ THOUSANDS)	Pension Plans 2005	Pension Plans 2004	Post-Retirement Benefits 2005	Post-Retirement Benefits 2004
Current service cost	$ 24,867[1]	$ 23,066[1]	$ 4,847	$ 5,325
Interest cost	44,698	40,727	5,944	5,201
Expected return on plan assets	(52,600)	(46,410)	-	-
Amortization of transitional asset	(8,985)	(8,985)	-	-
Plan adjustments	-	-	(201)	(201)
Amortization of net actuarial loss	2,602	2,891	1,095	628
Net expense	$ 10,582	$ 11,289	$ 11,685	$ 10,953

[1] Net of employees' contributions of $15,964 (2004 - $16,229)

The Corporation contributed $0.9 million in 2005 (2004 – $0.9 million) to the BC Public Service Pension Plan.

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

	Pension Plans 2005	Pension Plans 2004	Post-Retirement Benefits 2005	Post-Retirement Benefits 2004
Discount rate	5.00%	5.85%	5.00%	5.85%
Expected long-term rate of return on plan assets	6.6%	7.0%	n/a	n/a
Rate of compensation increase	3.8%	4.5%	3.8%	4.5%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services plan trend rate	n/a	n/a	0.0%	0.0%

In 2005 the extended healthcare trend rate is assumed to be 12% in the first year, decreasing linearly over 10 years to 6% per year thereafter. In 2004 the extended healthcare trend rate was assumed to be 10% per year until 2012 and 6% per year thereafter.

10. OPERATING COSTS

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

($ THOUSANDS)	2005	2004
Operating costs – insurance		
Administrative and other expenses	$ 97,586	$ 98,507
Insurance services	42,014	40,152
	$ 139,600	$ 138,659
Operating costs – non-insurance		
Administrative and other expenses	$ 29,756	$ 29,365
Payment to the Province for Compliance Operations	24,827	23,359
Driver services	36,477	35,678
	$ 91,060	$ 88,402

11. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

($ THOUSANDS)	2005	2004
Deferred premium acquisition costs	$ 38,600	$ 146,100
Prepaid expenses	7,333	8,374
	$ 45,933	$ 154,474

As at December 31, 2005 there were premium acquisition costs of $175.4 million (2004 – $168.3 million) related to future periods. An actuarial valuation determined that $38.6 million (2004 – $146.1 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

($ THOUSANDS)	2005	2004
Optional	$ 115,400	$ 109,600
Basic	(76,800)	36,500
	$ 38,600	$ 146,100

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
2005			
Amount payable	$ 250,734	$ 137,941	$ 388,675
Amortization of prior year deferred premium acquisition costs	93,237	52,863	146,100
Deferred premium acquisition costs	(24,100)	(14,500)	(38,600)
Premium taxes and commission expense	$ 319,871	$ 176,304	$ 496,175
Represented as:			
Insurance	$ 302,172	$ 176,304	$ 478,476
Non-insurance	17,699	-	17,699
	$ 319,871	$ 176,304	$ 496,175
2004			
Amount payable	$ 239,298	$ 135,930	$ 375,228
Amortization of prior year deferred premium acquisition costs	71,546	39,454	111,000
Deferred premium acquisition costs	(93,237)	(52,863)	(146,100)
Premium taxes and commission expense	$ 217,607	$ 122,521	$ 340,128
Represented as:			
Insurance	$ 200,663	$ 122,521	$ 323,184
Non-insurance	16,944	-	16,944
	$ 217,607	$ 122,521	$ 340,128

12. RELATED PARTY TRANSACTIONS

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

The Corporation is responsible for collecting all vehicle related income for acquiring and distributing licence plates and decals including permit and other fees under the *Motor Vehicle Act* and fines under the *Offence Act* and this is remitted in full to the Province. Income from the issuance of drivers and other licences and permits, and from fines is recognized on an accrual basis. The costs associated with the licensing and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statement of operations as operating costs, non-insurance (note 10).

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

13. FAIR VALUE

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than investments (note 3), amount recoverable from reinsurers (note 6), provision for unpaid claims (notes 2 and 6), post-retirement benefits (note 9) and structured settlements (note 14a) approximate their carrying value.

14. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports, and past service history. The present value of these structured settlements at December 31, 2005 is approximately $842 million (2004 – $817 million). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) In the normal course of business, the Corporation has entered into significant finance contracts through a financial institution under its financing programs whereby policyholders finance their premiums for up to 12 months. The Corporation has provided guarantees to the financial institution for the total amount outstanding at any time. During June 2005, this arrangement with the financial institution entered into its wind down phase (note 8). At December 31, 2005, the total amount outstanding was $169.8 million (2004 – $747.2 million). In 2005 the total amount financed was approximately $850.9 million (2004 - $1.4 billion).

c) Within the past few years lawsuits have been commenced in a number of Canadian jurisdictions alleging that the common insurance practice of charging deductibles on total loss claims and retaining the salvage value for the vehicle is inappropriate. The outcome of these cases has varied based on the wording of the regulations in effect in the various jurisdictions. (Notably, however, the Ontario Court of Appeal in a June 2005 decision overturned a 2001 ruling of that same court and found that the application of deductibles in total loss cases is permissible). Such a lawsuit was started against the Corporation in early 2002. There are two aspects to this litigation; the interpretation of the regulations and whether a class action should be certified. In 2004, the decision on the issue of the interpretation of the regulations was resolved in the Corporation's favour, and the claim was dismissed. The plaintiff has since filed a Notice of Appeal. The appeal is scheduled to be heard in mid June 2006. If the plaintiff is unable to persuade the Court of Appeal on the merits of the case, there would be no claim that could be certified as a class action. The Corporation's management has determined that it is unable to assess the likely outcome of this legal action and therefore has not accrued for potential damages payable.

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

($ THOUSANDS)		
2006	$	10,898
2007		9,589
2008		8,410
2009		5,638
2010		2,279
	$	36,814

15. RATE REGULATION

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and service for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. It also ensures that the Corporation's capital available for the Basic insurance, Optional insurance and the total Corporation meets legislated targets.

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

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

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

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

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

Allocation of Basic and Optional amounts

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

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

($ THOUSANDS)	Basic Coverage 2005	Basic Coverage 2004 (Restated - note 5)	Optional Coverage 2005	Optional Coverage 2004 (Restated - note 5)	Total 2005	Total 2004 (Restated - note 5)
Revenues						
Premiums written	$ 1,761,668	$ 1,711,703	$ 1,385,604	$ 1,377,632	$ 3,147,272	$ 3,089,335
Premiums earned	$ 1,736,760	$ 1,692,314	$ 1,380,652	$ 1,334,167	$ 3,117,412	$ 3,026,481
Service fees	20,126	19,525	17,353	17,108	37,479	36,633
Total earned revenues	1,756,886	1,711,839	1,398,005	1,351,275	3,154,891	3,063,114
Claims and operating costs						
Net claims incurred during the year (note 6)	1,624,863	1,459,519	819,652	782,815	2,444,515	2,242,334
Prior years' claims adjustment (note 6)	126,428	9,167	(45,766)	(13,907)	80,662	(4,740)
Claim services, road safety and loss management services	187,624	187,759	96,767	92,932	284,391	280,691
	1,938,915	1,656,445	870,653	861,840	2,809,568	2,518,285
Operating costs – insurance (note 10)	70,961	70,507	68,639	68,152	139,600	138,659
Premium taxes and commissions (note 11)	225,857	100,235	252,619	222,949	478,476	323,184
	2,235,733	1,827,187	1,191,911	1,152,941	3,427,644	2,980,128
Underwriting (loss)/income	(478,847)	(115,348)	206,094	198,334	(272,753)	82,986
Investment income	378,740	260,254	200,696	135,065	579,436	395,319
Insurance operations (loss)/income	(100,107)	144,906	406,790	333,399	306,683	478,305
Non-insurance costs	108,759	105,346	-	-	108,759	105,346
Net (loss)/income (note 5)	$ (208,866)	$ 39,560	$ 406,790	$ 333,399	$ 197,924	$ 372,959
Retained earnings						
Beginning of year	$ 131,430	$ 25,000	$ 827,794	$ 510,879	$ 959,224	$ 535,879
Prior period adjustment (note 5)	-	66,870	-	(16,484)	-	50,386
Beginning of year, 2004 restated	$ 131,430	$ 91,870	$ 827,794	$ 494,395	$ 959,224	$ 586,265
Transfer of retained earnings	530,000	-	(530,000)	-	-	-
End of year, 2004 restated	$ 452,564	$ 131,430	$ 704,584	$ 827,794	$ 1,157,148	$ 959,224

A government directive in October 2005 directed the Corporation to transfer $530 million of its Optional insurance capital available to its Basic insurance business. The Corporation has complied with that government directive.

($ THOUSANDS)	Basic Coverage 2005	Basic Coverage 2004 (Restated - note 5)	Optional Coverage 2005	Optional Coverage 2004 (Restated - note 5)	Total 2005	Total 2004 (Restated - note 5)
Liabilities						
Unearned premiums	$ 829,438	$ 804,530	$ 667,738	$ 662,786	$ 1,497,176	$ 1,467,316
Provision for unpaid claims (note 5)	$ 3,888,600	$ 3,532,163	$ 1,164,508	$ 1,139,377	$ 5,053,108	$ 4,671,540

16. ROLE OF THE ACTUARY AND AUDITORS

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

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