INSURANCE CORPORATION OF BRITISH COLUMBIA

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2007

PRICEWATERHOUSECOOPERS

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Auditors' Report

To The 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, 2007 and the consolidated statements of operations, equity, 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 3, 2008

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, 2007 and their changes in its consolidated statement of operations 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

William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
March 3, 2008

Consolidated Statement of Financial Position

As at December 31, 2007

($ THOUSANDS)	2007	2006
ASSETS		
Cash and investments (note 4)	$ 9,641,452	$ 8,470,584
Accrued interest	67,195	64,389
Amount recoverable from reinsurers (notes 6 & 7)	19,993	29,416
Premiums and other receivables (note 8)	922,192	890,144
Deferred premium acquisition costs and prepaid expenses (note 11)	184,931	145,920
Accrued pension benefits (note 9)	76,956	58,045
Property and equipment (note 5)	78,966	79,994
	$ 10,991,685	$ 9,738,492
LIABILITIES AND EQUITY		
LIABILITIES		
Cheques outstanding	$ 38,610	$ 54,153
Accounts payable and accrued charges	217,192	209,127
Bond repurchase agreements	829,492	782,605
Accrued post-retirement benefits (note 9)	113,747	100,375
Premiums and fees received in advance	51,982	49,504
Unearned premiums	1,705,367	1,615,747
Provision for unpaid claims (note 6)	5,602,048	5,419,733
	8,558,438	8,231,244
EQUITY		
Retained earnings	2,154,272	1,507,248
Accumulated other comprehensive income	278,975	-
	2,433,247	1,507,248
	$ 10,991,685	$ 9,738,492
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

T. Michael Porter
Director

Consolidated Statement of Operations

For the year ended December 31, 2007

($ THOUSANDS)	2007	2006
REVENUES		
Net Premiums Written		
Vehicle	$ 3,554,691	$ 3,357,961
Driver	17,363	17,466
	$ 3,572,054	$ 3,375,427
Net Premiums Earned		
Vehicle	$ 3,464,938	$ 3,240,310
Driver	17,496	16,546
	3,482,434	3,256,856
Service Fees	65,949	47,154
TOTAL EARNED REVENUES	3,548,383	3,304,010
CLAIMS AND OPERATING COSTS		
Net claims incurred during the year (note 6)	2,646,360	2,544,396
Prior years' claims adjustments (note 6)	(33,779)	99,043
Net claims incurred (note 6)	2,612,581	2,643,439
Claims services	251,192	252,657
Road safety and loss management services	50,777	48,357
	2,914,550	2,944,453
Operating costs - insurance (note 10)	148,818	132,816
Premium taxes and commissions (note 11)	380,479	292,171
	3,443,847	3,369,440
UNDERWRITING INCOME (LOSS)	104,536	(65,430)
Investment income (note 4b)	611,600	512,349
Gain on sale of property and equipment	19,117	-
INCOME - INSURANCE OPERATIONS	735,253	446,919
NON-INSURANCE OPERATIONS		
Provincial licences and fines (note 12)	517,617	493,176
Licences and fines transferable to the Province (note 12)	517,617	493,176
Operating costs - non-insurance (note 10)	71,811	78,128
Commissions (note 11)	21,124	18,691
	610,552	589,995
LOSS - NON-INSURANCE OPERATIONS	(92,935)	(96,819)
NET INCOME FOR THE YEAR	$ 642,318	$ 350,100

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

Consolidated Statement of Equity

For the year ended December 31, 2007

($ THOUSANDS)	2007 Retained Earnings	2007 Accumulated Other Comprehensive Income	2007 Total Equity	2006 Total Equity
Beginning of year	$ 1,507,248	$ -	$ 1,507,248	$ 1,157,148
Transitional adjustment on adoption of new accounting standards (note 3)	4,706	482,426	487,132	-
Beginning of year, restated	1,511,954	482,426	1,994,380	1,157,148
Net income	642,318		642,318	350,100
Other Comprehensive Income				
Net change in unrealized gains on available for sale securities	-	(203,451)	(203,451)	
Comprehensive income	642,318	(203,451)	438,867	350,100
End of year	$ 2,154,272	$ 278,975	$ 2,433,247	$ 1,507,248

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2007

($ THOUSANDS)	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received for:		
Vehicle premiums and others	$ 3,924,334	$ 3,490,080
Licence fees	491,020	472,043
Social service taxes	123,066	107,472
	4,538,420	4,069,595
Collection for receivables, subrogation, and driver penalty point premiums	170,551	151,501
Salvage sales	55,212	55,293
Interest	313,512	289,068
Dividends and other investment income	37,075	40,231
Other	510	-
	5,115,280	4,605,688
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,551,308)	(2,393,543)
Province of BC for licence fees, fines, and social service taxes collected	(656,163)	(615,876)
Suppliers of goods and services	(155,408)	(181,801)
Employees for salaries and benefits	(370,973)	(355,270)
Agents for commissions	(285,681)	(260,759)
Policyholders for premium refunds	(306,118)	(286,932)
Province of BC for premium taxes	(156,048)	(140,392)
Other	-	(354)
	(4,481,699)	(4,234,927)
Cash flow from operating activities	633,581	370,761
CASH FLOW USED IN INVESTING ACTIVITIES		
Purchase of investments	(7,821,620)	(7,230,813)
Proceeds from sales of investments	7,233,322	6,847,117
Securities sold under repurchase agreements	(20,658)	133,979
Payments to vendors of property and equipment	(14,541)	(12,198)
Proceeds from sale of property and equipment	20,092	616
Cash flow used in investing activities	(603,405)	(261,299)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	30,176	109,462
Cash and cash equivalents, beginning of year	262,231	152,769
Cash and cash equivalents, end of year	$ 292,407	$ 262,231
REPRESENTED BY:		
Cash and money market securities (note 4)	$ 331,017	$ 316,384
Cheques outstanding	(38,610)	(54,153)
	$ 292,407	$ 262,231

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

Notes to Consolidated Financial Statements
For the year ended December 31, 2007

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation, not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act*, R.S.B.C. 1996 chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Motor Vehicle) Act*, and is also responsible for non-insurance services under the *Insurance Corporation Act and Motor Vehicle Act*. Non-insurance services include vehicle licensing, registration, and issuance of driver licences. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and services (note 15).

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside of the Province of British Columbia (the Province). The Corporation also offers insurance in a competitive environment (Optional), which includes the following coverages: extended third party legal liability, comprehensive, collision, loss of use, and others. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent brokers located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary auto insurer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

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

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

Premiums earned

The Corporation recognizes vehicle premiums, net of reinsurance premiums, over the term of each vehicle policy written. The driver premiums are taken over the driver's penalty point year. Unearned premiums are the portion of premiums relating to the unexpired term, net of any premium refunds.

Reinsurance

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

Deferred premium acquisition costs

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

Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of the recovery for reinsurance. 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 PFAD margins used are determined by evaluating the above considerations.

The margin for claims development is a percentage of the unpaid claims gross of reinsurance, 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 reduction from the expected rate of return per annum.

As with any insurance company, the provision for unpaid claims is an estimate subject to random volatility which could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, the 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 and other liabilities. Effective January 1, 2007, the provision for unpaid claims includes increases to the BC Supreme Court tariff of costs used to compute legal costs for indemnification of successful litigants.

Investments and investment income

The Corporation designates all financial instruments as available for sale (AFS), held for trading (HFT) or loans and receivables (Loans). The Corporation's financial assets and liabilities, including all derivatives, are recorded on the consolidated statement of financial position at fair value on initial recognition and subsequently accounted for based on their classification as follows:

Available for Sale	The Corporation has designated its bond and equity portfolios, which comprise the majority of the Corporation's assets, as AFS. AFS financial assets are measured at fair value based upon available information. When neither an active market nor independent prices are available, the Corporation applies other valuation techniques to estimate fair value. Changes in the fair value of AFS securities are recorded in other comprehensive income (OCI) in the consolidated statement of equity, until the financial asset is disposed of or becomes other than temporarily impaired, at which time it will be recognized in the consolidated statement of operations.
Held for Trading	Financial assets purchased for short term investment objectives are classified as HFT. Financial assets and derivatives classified as HFT are carried at fair value on the consolidated statement of financial position with realized and unrealized gains and losses recorded in investment income.
Loans and Receivables	Mortgages not traded in an active market are classified as loans and carried at amortized cost using the effective interest rate method.

Real estate held for investment consists of income-producing properties, which are recorded at cost.

Income on interest-bearing securities is accrued daily. Dividends on equity investments are recognized as income on their payment dates.

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

The Corporation also participates in the sale and repurchase of Government of Canada, Provincial and U.S. Treasury bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. These sale and repurchase arrangements are accounted for as financial liabilities unless they qualify as an effective hedge. The difference between the sale price and the agreed repurchase price on a repurchase contract is recorded as interest income or expense.

Hedging and derivative instruments

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation uses derivative financial instruments to hedge interest rate risk and currency risks associated with its investment portfolio. Interest rate swaps are used to create a hedge to match a liability or an asset, and may contain a cross-currency component. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount.

Cross-currency interest rate swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

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

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. Specific swap derivatives that qualify under CICA handbook section 3865, Hedges have been designated as hedging items. All derivative financial instruments that do not qualify as an effective hedge have been designated as HFT in accordance with the new handbook section 3855 “Financial Instruments – Recognition and Measurement”. These derivative financial instruments are recognized at their fair value on the statement of financial position, with changes in fair value reflected in the consolidated statement of operations during the period in which they arise.

For purposes of meeting the requirements of CICA handbook section 3865, Hedges, all hedges are hedging relationships that have been designated, and documented detailing the risk management objective and strategy for undertaking the hedge. The documentation specifically identifies the asset or liability being hedged, the type of derivative used, and the effectiveness of the hedge. All hedges are fair value hedges as they are used to hedge changes in interest rate risk. Also, there is a formal assessment at the inception of the hedge and on an ongoing basis as to whether the derivatives used in the hedges are highly effective in offsetting changes in fair values or cash flows of hedged items throughout the whole relationship.

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

Pensions and post-retirement benefits

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

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

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

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

The transitional asset, created when the Corporation adopted the recommendations of CICA handbook section 3461 in 2000, is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

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

Property and equipment

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

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

Cash and cash equivalents

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

Translation of foreign currencies

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

Use of estimates

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

New accounting pronouncements

Effective January 1, 2008, the Corporation will apply the new Canadian Institute of Chartered Accountants (CICA) handbook section 1535 “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that enables users of the financial statements to evaluate the Corporation’s objectives, policies and processes for managing capital.

Also effective January 1, 2008, the Corporation will apply the two new CICA handbook sections 3862 “Financial Instruments – Disclosure” and 3863 “Financial Instruments – Presentation” revising and enhancing actual disclosure requirements. The new sections place increased emphasis on disclosures about the significance of financial instruments in the Corporation’s financial performance, the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

3. CHANGES IN ACCOUNTING POLICY

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

In accordance with the transitional provisions, these new standards have been adopted prospectively and, accordingly, prior period balances have not been restated. The following outlines the significant changes:

a) All financial assets and liabilities were classified into the following categories (see note 2):

   i. Available for Sale (AFS)
   ii. Held for Trading (HFT)
   iii. Loans and Receivables (Loans)

b) The accumulated other comprehensive income (AOCI) is a new component of equity and represents the accumulated changes in fair values of AFS assets that are not yet recognized in the consolidated statement of operations.

c) Transitional adjustments totalling $487.1 million have been recorded in opening AOCI or in opening retained earnings as noted below.

   i. The carrying values of all AFS assets were adjusted to reflect their fair value. A transitional adjustment of $482.4 million (bonds $14.0 million; equities $468.4 million) made to the carrying value of these assets was recognized as an adjustment to opening AOCI.

   ii. Under the new reporting standards, any premium or discount on the purchase of bonds is deferred and amortized over the average term to maturity using the effective interest method. Previously, amortization was calculated using the straight line method. The resulting change in the value of investments at January 1, 2007 is $4.7 million and is recorded as a transitional adjustment to opening retained earnings.

iii. As a result of adopting the new standards on January 1, 2007, the Corporation established its discount rate using a market investment yield instead of a yield based on the previous carrying value. The impact was considered to be insignificant to opening retained earnings.

The transitional adjustments are as follows:

($ THOUSANDS)	December 31, 2006	Transitional Adjustments	January 1, 2007
CASH AND INVESTMENTS			
Cash and money market securities	$ 316,384	$ -	$ 316,384
Bonds			
Canadian			
Federal	2,256,701	(1,313)	2,255,388
Bond repurchase - Hedged	(62,900)	-	(62,900)
	2,193,801	(1,313)	2,192,488
Provincial	1,035,704	13,616	1,049,320
Municipal	40,653	2,116	42,769
Corporate	1,882,855	8,839	1,891,694
	2,959,212	24,571	2,983,783
	5,153,013	23,258	5,176,271
Global	412,891	(4,491)	408,400
Total bonds	5,565,904	18,767	5,584,671
Mortgages	663,300	-	663,300
Equities			
Canadian	924,455	303,851	1,228,306
United States	423,980	73,322	497,302
Europe, Australia, Far East	390,787	91,192	481,979
Total equities	1,739,222	468,365	2,207,587
Real estate, net of provision	185,774	-	185,774
Total cash and investments	$ 8,470,584	$ 487,132	$ 8,957,716

Real estate investments are excluded from the scope of the new standards and continue to be recorded at cost less any provision for impairment in value that is considered to be an other than temporary impairment.

4. CASH AND INVESTMENTS

a) Investment classification

($ THOUSANDS)

	2007		2006	
	Classification	Carrying Value	Carrying Value	Estimated Fair Value
FINANCIAL ASSETS				
Cash and money market securities	AFS	$ 331,017	$ 316,384	$ 316,384
Bonds				
Canadian				
Federal	AFS	2,981,622	2,256,701	2,255,388
Bond repurchase - Hedged	AFS	(19,906)	(62,900)	(62,900)
		2,961,716	2,193,801	2,192,488
Provincial	AFS	914,546	1,035,704	1,049,320
Municipal	AFS	25,662	40,653	42,769
Corporate	AFS	1,890,849	1,882,855	1,891,670
		2,831,057	2,959,212	2,983,759
		5,792,773	5,153,013	5,176,247
Global	AFS	420,380	412,891	408,400
Total bonds		6,213,153	5,565,904	5,584,647
Mortgages	Loans	800,055	663,300	664,477
Equities				
Canadian	AFS	1,260,171	924,455	1,228,306
United States	AFS	475,509	423,980	497,302
Europe, Australia, Far East	AFS	426,560	390,787	481,979
Total equities		2,162,240	1,739,222	2,207,587
Real estate, net	Other	134,987	185,774	276,865
Total cash and investments		$ 9,641,452	$ 8,470,584	$ 9,049,960

The fair value of investments for 2007 approximate their carrying value except for real estate that has a fair value of $201.0 million.

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon the net present value of the payment stream using rates currently in effect. The estimated fair value of ICBC's net real estate investments is based on independent appraisals made during the year, when available, and, when not available, on discounted cash flows. The fair value of derivatives are estimated using models common to all market participants and is not significant at December 31, 2007.

b) Investment income

($ THOUSANDS)	2007		2006
	Classification	Total	Total
Interest			
Money market	AFS	$ 12,776	$ 11,384
Bonds	AFS	254,172	220,685
Mortgages	Loans	40,754	34,108
		307,702	266,177
Gains (losses) on the sale of investments			
Equities	AFS	198,195	205,668
Bonds	AFS	(36,964)	(4,159)
Real estate	Other	39,701	2,154
Reversal of real estate provision	Other	94,795	-
Foreign exchange	AFS	(14,025)	(9,784)
		281,702	193,879
Dividends and other income (expenses)			
Equities	AFS	50,522	52,281
Real estate	Other	12,964	13,065
Investment management fees	Other	(6,744)	(4,590)
Loss on impairment in value	AFS	(30,470)	(6,687)
Other	Other	(4,076)	(1,776)
		22,196	52,293
Total investment income		$ 611,600	$ 512,349

Accumulated other comprehensive income decreased by $203.4 million which was comprised of a $56.2 million decrease in unrealized gains and $147.2 million in realized gains from the sale of investments.

During the year, the Corporation reduced its investment assets by $30.5 million (2006 - $6.7 million) for impairment which decreased net investment income as noted below.

The Corporation recognized an other than temporary impairment in the value of its equity portfolio of $2.2 million, its global bond portfolio of $21.0 million due to the changes in the U.S. exchange rate in relation to the Canadian dollar, and its bond portfolio of $7.3 million related to Asset-Backed Commercial Paper (ABCP).

The Corporation's investment portfolio includes ABCP with a total par value of $45.1 million. ABCP is a senior short-term investment vehicle secured by an interest in a diversified pool of assets. As a result of the disruption of liquidity in the ABCP market, the Corporation has reclassified its ABCP from the money market portfolio to the bond portfolio to reflect the longer expected holding period of the ABCP. The impairment of the ABCP was expected to be other than temporary and the Corporation has recognized this by decreasing net income to reflect the estimated fair value. The estimated fair value was calculated by discounting the expected cash flows of the securities based on currently available information.

During the year ended December 31, 2007, the Surrey City Central real estate investment was sold for $245.8 million. This sale resulted in a gain of $39.7 million and a reversal of the remaining provision of $94.8 million (2006 - $103.7 million) for impairment in value that was determined to be other than temporary based on an independent appraisal in a prior year.

c) Derivative financial instruments

The notional amount of interest rate swaps is $20.0 million at December 31, 2007 (2006 - $400.7 million). The notional amount of basis swaps outstanding is nil (2006 - $12.2 million). Interest rate swaps have receiving interest rates of an average of the three-month Canadian Dealer Offer Rate (CDOR) plus 42.8 basis points (2006 – 37.5 basis points), and an average pay interest rate of 4.92% (2006 – 4.34%). At December 31, 2007, all swap contracts had remaining terms under one year. The swaps had an estimated fair value of $0.1 million as at December 31, 2007 (2006 - $4.3 million). The fair value of interest rate swap contracts is determined by discounting expected future cash flows using current market interest. The values of these swaps have been reflected in the estimated fair value of bonds.

d) Fixed income – interest rate risk

	2007		2006	
	Average Yield (%)	**Duration (Years)**	**Average Yield (%)**	**Duration (Years)**
Bonds				
Canadian				
Federal	4.0	3.3	3.9	3.5
Provincial	4.3	4.2	4.4	6.9
Municipal	4.3	3.4	5.4	4.7
Corporate	5.1	2.9	4.4	3.6
Global	3.6	5.3	3.7	5.3
Total bonds	4.4	3.5	4.2	4.3
Mortgages	5.6	3.3	5.6	3.2
Total bonds and mortgages	4.5	3.4	4.3	4.2

e) 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
2007				
Bonds				
Canadian				
Federal	$ -	$ 2,871,658	$ 90,058	$ 2,961,716
Provincial	-	766,935	147,611	914,546
Municipal	-	17,516	8,146	25,662
Corporate	24,983	1,763,139	102,727	1,890,849
Global	16,268	185,896	218,216	420,380
Total bonds	41,251	5,605,144	566,758	6,213,153
Mortgages	101,360	538,295	160,400	800,055
	$ 142,611	$ 6,143,439	$ 727,158	$ 7,013,208
2006				
Bonds				
Canadian				
Federal	$ 3,915	$ 1,985,984	$ 203,902	$ 2,193,801
Provincial	-	538,988	496,716	1,035,704
Municipal	-	17,270	23,383	40,653
Corporate	42,900	1,557,057	282,898	1,882,855
Global	21,298	184,637	206,956	412,891
Total bonds	68,113	4,283,936	1,213,855	5,565,904
Mortgages	120,108	366,559	176,633	663,300
	$ 188,221	$ 4,650,495	$ 1,390,488	$ 6,229,204

f) 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, 2007 securities with an estimated fair value of $323.9 million (2006 - $352.8 million) have been loaned and securities with an estimated fair value of $339.9 million (2006 - $370.3 million) have been received as collateral.

5. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2007		2006	
	Cost	**Net Book Value**	**Cost**	**Net Book Value**
Land	$ 23,227	$ 23,227	$ 23,930	$ 23,930
Buildings	145,826	32,651	141,364	32,151
Furniture and equipment	97,697	17,300	109,185	15,724
Software	20,981	4,174	22,879	7,070
Leasehold improvements	9,334	1,614	8,467	1,119
	$ 297,065	$ 78,966	$ 305,825	$ 79,994

Amortization expense for the year ended December 31, 2007 amounted to $14.7 million (2006 - $15.0 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)	2007	2006
Unpaid claims net - beginning of year	$ 5,390,317	$ 5,031,283
Change in estimates for losses occuring in prior years		
Prior years' claims adjustments	(55,765)	89,918
Increase in claims incurred in prior years due to a reduction in the amount of discount	21,986	9,125
	(33,779)	99,043
Provision for claims occuring in the current year	2,646,360	2,544,396
Net claims incurred	2,612,581	2,643,439
Less:		
Payments on claims incurred in the current year	1,025,301	978,560
Payments on claims incurred in prior years	1,521,683	1,415,110
Recoveries on claims	(126,141)	(109,265)
	2,420,843	2,284,405
Unpaid claims net - end of year	5,582,055	5,390,317
Recoverable from reinsurers	19,993	29,416
Unpaid claims gross - end of year	$ 5,602,048	$ 5,419,733

The Corporation discounts its provision for unpaid claims at an investment rate of return of 5.24% (2006 – 5.0%). 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 effect of discounting on the provision for unpaid claims:

($ THOUSANDS)	Undiscounted	Effect of Present Value	PFADs	Discounted
2007				
Provision for unpaid claims	$ 5,678,905	$ (693,197)	$ 596,347	$ 5,582,055
Amount recoverable from reinsurers	24,279	(3,234)	(1,052)	19,993
	$ 5,703,184	$ (696,431)	$ 595,295	$ 5,602,048
2006				
Provision for unpaid claims	$ 5,448,305	$ (620,546)	$ 562,558	$ 5,390,317
Amount recoverable from reinsurers	34,270	(3,306)	(1,548)	29,416
	$ 5,482,575	$ (623,852)	$ 561,010	$ 5,419,733

The effect of the increase in the investment rate of return from 5.0% at December 2006 to 5.24% at December 2007 is to decrease the provision for unpaid claims by $31.7 million.

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, 2007 with the following terms:

a) up to $325 million in excess of $25 million annually for catastrophic occurrences;
b) up to $45 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, 2006 with the following terms:

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

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

($ THOUSANDS)	2007	2006
Premium receivables	$ 906,319	$ 872,453
Other receivables	15,873	17,691
	$ 922,192	$ 890,144

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

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). The COPE Plan is a jointly trusteed plan. Trustees of the plan are appointed by each of the Corporation and COPE Local 378. In addition, certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of the BC Public Service Pension Plan.

The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. The Corporation has no fiduciary responsibility for, or 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 2007, 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 $24.9 million (2006 - $23.6 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, 2007. This plan will be actuarially valued in early 2008 for funding purposes for the December 31, 2007 valuation date. The COPE Plan had an actuarial valuation as of December 31, 2006 which was extrapolated to December 31, 2007. The post-retirement benefits had an actuarial valuation as of December 31, 2006 which was extrapolated to December 31, 2007.

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	**2007**	**2006**	**2007**	**2006**
Plan assets				
Fair value at beginning of year	$ 980,772	$ 859,544	$ -	$ -
Actual return on plan assets	23,382	106,884	-	-
Employer contributions	21,702	20,671	2,212	1,900
Employees' contributions	17,215	16,511	-	-
Net transfers	196	9	-	-
Benefits paid	(25,694)	(22,847)	(2,212)	(1,900)
Fair value at end of year	1,017,573	980,772	-	-
Accrued benefit obligation				
Balance at beginning of year	889,498	864,974	132,261	126,830
Current service cost	28,695	29,343	6,916	6,690
Employees' contributions	17,215	16,511	-	-
Net transfers	196	9	-	-
Interest cost	47,979	44,971	7,180	6,629
Actuarial (gains) losses	(44,660)	(43,463)	(16,092)	(5,988)
Benefits paid	(25,694)	(22,847)	(2,212)	(1,900)
Balance at end of year	913,229	889,498	128,053	132,261
Funded status - plan (deficit) surplus	104,344	91,274	(128,053)	(132,261)
Unamortized net actuarial losses	29,506	32,650	15,713	33,494
Unamortized plan adjustments	-	-	(1,407)	(1,608)
Unamortized transitional asset	(56,894)	(65,879)	-	-
Accrued benefit asset (liability)	$ 76,956	$ 58,045	$ (113,747)	$ (100,375)

The pension plans' assets consist of:

	Percentage of Plan Assets	
	2007	2006
Cash and accrued interest	3%	2%
Equities		
Canadian	33%	25%
Foreign	19%	24%
Fixed Income		
Government	26%	29%
Corporate	7%	6%
Pooled fixed income funds	0%	4%
Mortgages	5%	5%
Real estate	7%	5%
	100%	100%

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	2007	2006	2007	2006
Accrued benefit obligation and plan deficit	$ 7,761	$ 7,764	$ 128,053	$ 132,261

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

	Pension Plans		Post-Retirement Benefits	
($ THOUSANDS)	2007	2006	2007	2006
Current service cost	$ 28,695[1]	$ 29,343[1]	$ 6,916	$ 6,690
Interest cost	47,979	44,971	7,180	6,629
Expected return on plan assets	(64,941)	(56,979)	-	-
Amortization of transitional asset	(8,985)	(8,985)	-	-
Plan adjustments	-	-	(201)	(201)
Amortization of net actuarial loss	43	3,223	1,689	2,436
Net expense	$ 2,791	$ 11,573	$ 15,584	$ 15,554

[1] net of employees' contributions of $17,215 (2006 - $16,511)

The Corporation contributed $1.0 million in 2007 (2006 - $1.0 million) to the BC Public Service Pension Plan.

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

	Pension Plans		Post-Retirement Benefits	
	2007	2006	2007	2006
Discount rate	5.45%	5.20%	5.45%	5.20%
Expected long-term rate of return on plan assets	6.6%	6.6%	n/a	n/a
Rate of compensation increase	3.8%	3.8%	3.8%	3.8%
Inflation rate	2.5%	2.5%	2.5%	2.5%
Medical Services plan trend rate	n/a	n/a	0.0%	0.0%

In 2007 the extended healthcare trend rate is assumed to be 10.7% in the first year, decreasing linearly over 7 years to 6.0% per year thereafter. In 2006 the extended healthcare trend rate was assumed to be 11.4% in the first year, decreasing linearly over 9 years to 6.0% per year.

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)		2007		2006
Operating costs - insurance				
Administrative and other expenses	$	92,934	$	86,785
Insurance services		55,884		46,031
	$	148,818	$	132,816
Operating costs - non-insurance				
Administrative and other expenses	$	30,561	$	31,092
Payment to the Province of BC for Compliance Operations		-		6,240
Driver services		41,250		40,796
	$	71,811	$	78,128

11. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

($ THOUSANDS)		2007		2006
Deferred premium acquisition costs	$	176,650	$	138,000
Prepaid expenses		8,281		7,920
	$	184,931	$	145,920

As at December 31, 2007 there were premium acquisition costs of $199.4 million (2006 - $187.3 million) related to future periods. An actuarial valuation determined that $176.7 million (2006 - $138.0 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

($ THOUSANDS)		2007		2006
Optional	$	129,145	$	122,300
Basic		47,505		15,700
	$	176,650	$	138,000

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

($ THOUSANDS)	Commissions	Premium Taxes	Total
2007			
Amount payable	$ 283,425	$ 156,828	$ 440,253
Amortization of prior year deferred premium acquisition costs	85,608	52,392	138,000
Deferred premium acquisition costs	(110,164)	(66,486)	(176,650)
Premium taxes and commission expense	$ 258,869	$ 142,734	$ 401,603
Represented as:			
Insurance	237,745	142,734	380,479
Non-insurance	21,124	-	21,124
	$ 258,869	$ 142,734	$ 401,603
2006			
Amount payable	$ 261,743	$ 148,519	$ 410,262
Amortization of prior year deferred premium acquisition costs	24,100	14,500	38,600
Deferred premium acquisition costs	(85,608)	(52,392)	(138,000)
Premium taxes and commission expense	$ 200,235	$ 110,627	$ 310,862
Represented as:			
Insurance	$ 181,544	$ 110,627	$ 292,171
Non-insurance	18,691	-	18,691
	$ 200,235	$ 110,627	$ 310,862

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 these are 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 those noted in investments (note 4), amount recoverable from reinsurers (note 6), provision for unpaid claims (note 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, 2007 is approximately $1.15 billion (2006 - $0.9 billion). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

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

($ THOUSANDS)		
2008	$	9,379
2009		7,400
2010		5,918
2011		4,032
2012		2,319
	$	29,048

c) Subsequent to December 31, 2007, the Corporation became aware that the registration of certain vehicles repaired through its Material Damage Research and Training facility and sold between 2002 and 2008 do not properly reflect their rebuilt status. The Corporation has identified the subject vehicles and notified the current owners and is currently investigating the impact of providing proper redress to all affected parties. At this time the financial impact is not known, but is not expected to be material to the financial statements.

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. In addition, BCUC sets rates for Basic insurance that allow it to achieve the legislated capital targets and is responsible for directing ICBC to achieve legislated targets for total Corporation and Optional insurance.

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

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

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

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

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

Allocation of Basic and Optional amounts

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

Included in Basic are non-insurance costs, as the Corporation is required to provide non-insurance services such as driver and vehicle licensing and vehicle registration. The Corporation also provided funding for Compliance Operations until March 31, 2006.

($ THOUSANDS)	Basic Coverage 2007	Basic Coverage 2006	Optional Coverage 2007	Optional Coverage 2006	Total 2007	Total 2006
Revenues						
Premiums written	$ 2,013,721	$ 1,896,685	$ 1,558,333	$ 1,478,742	$ 3,572,054	$ 3,375,427
Premiums earned	$ 1,957,078	$ 1,824,477	$ 1,525,356	$ 1,432,379	$ 3,482,434	$ 3,256,856
Service fees	36,140	25,652	29,809	21,502	65,949	47,154
Total earned revenues	1,993,218	1,850,129	1,555,165	1,453,881	3,548,383	3,304,010
Claims and operating costs						
Net claims incurred during the year (note 6)	1,706,220	1,653,550	940,140	890,846	2,646,360	2,544,396
Prior years' claims adjustments (note 6)	(35,059)	594	1,280	98,449	(33,779)	99,043
Claims services, road safety and loss management services	199,565	197,608	102,404	103,406	301,969	301,014
	1,870,726	1,851,752	1,043,824	1,092,701	2,914,550	2,944,453
Operating costs - insurance (note 10)	74,623	66,046	74,195	66,770	148,818	132,816
Premium taxes and commissions (note 11)	86,049	40,693	294,430	251,478	380,479	292,171
	2,031,398	1,958,491	1,412,449	1,410,949	3,443,847	3,369,440
Underwriting income (loss)	(38,180)	(108,362)	142,716	42,932	104,536	(65,430)
Investment income	408,714	342,864	202,886	169,485	611,600	512,349
Gain on sale of property and equipment	12,374	-	6,743	-	19,117	-
Income - Insurance operations	382,908	234,502	352,345	212,417	735,253	446,919
Loss - Non-insurance operations	(92,935)	(96,819)	-	-	(92,935)	(96,819)
Net income for the year	289,973	137,683	352,345	212,417	642,318	350,100
Equity						
Retained earnings, beginning of year	$ 690,247	$ 452,564	$ 817,001	$ 704,584	$ 1,507,248	$ 1,157,148
Transitional adjustment on adoption of new accounting standards (note 3)	3,145	-	1,561	-	4,706	-
Transfer of retained earnings	-	100,000	-	(100,000)	-	-
Retained earnings, end of year	983,365	690,247	1,170,907	817,001	2,154,272	1,507,248
Accumulated other comprehensive income	186,431	-	92,544	-	278,975	-
Total equity	$ 1,169,796	$ 690,247	$ 1,263,451	$ 817,001	$ 2,433,247	$ 1,507,248

A government directive in February 2007, effective for December 31, 2006, directed the Corporation to transfer $100.0 million of its Optional insurance retained earnings to its Basic insurance business.

($ THOUSANDS)	Basic Coverage 2007	Basic Coverage 2006	Optional Coverage 2007	Optional Coverage 2006	Total 2007	Total 2006
Liabilities						
Unearned premiums	$ 957,620	$ 901,646	$ 747,747	$ 714,101	$ 1,705,367	$ 1,615,747
Provision for unpaid claims	$ 4,242,722	$ 4,128,278	$ 1,359,326	$ 1,291,455	$ 5,602,048	$ 5,419,733

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.