## 2017

# Annual Report

WORKPLACE SAFETY
AND INSURANCE BOARD

wsib
ONTARIO

Workplace Safety & Insurance Board
ONTARIO

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April 30, 2018

The Honourable Kevin Flynn
Minister of Labour
400 University Avenue, 14th Floor
Toronto, ON M7A 1T7

Dear Minister,

On behalf of our Board of Directors, I am pleased to submit the Workplace Safety and Insurance Board's (WSIB) 2017 Annual Report. This document includes the 2017 consolidated financial statements submitted by the WSIB's external auditors, under the direction of the Auditor General, as appointed by the Lieutenant Governor in Council.

2017 saw continued progress in how we serve the people of Ontario as we worked toward delivering on our 2016-2018 Strategic Plan. We introduced new tools and programs to improve workplace health and safety and, at our Annual General Meeting, we presented the first-ever Small Business Health and Safety Awards.

We also implemented the first reduction to the average premium rate for employers in over 15 years and announced a second reduction to the average premium rate that will be implemented in 2018. Combined, these reductions enable approximately $780 million to remain in our provincial economy for investment in jobs, technology and improvements to workplace health and safety.

With these efforts underway, we ended 2017 with our unfunded liability on a Sufficiency Ratio basis at an all-time low of $1.3 billion, corresponding to a Sufficiency Ratio of 95.8 per cent and we continue to be confident that we will reach full funding well ahead of legislated timelines.

With this strengthened financial footing and an energized team of committed staff, we look forward to continuing to find ways to help Ontario become a healthier and safer place to work.

Sincerely,

Elizabeth Witmer

Elizabeth Witmer

Chair

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# MESSAGE FROM CHAIR AND PRESIDENT & CEO

At the WSIB, our promise is to help make Ontario's workplaces healthier and safer, and get people who are injured at work back to work safely. It's a promise we take very seriously. Providing no-fault insurance to Ontario's businesses and an environment where everyone can feel safe at work, motivates every decision we make. We are proud that our 2017 results demonstrate our continued commitment to this promise.

Some highlights for Schedule 1 include:

- nearly 93 per cent of eligibility decisions were made within two weeks for claims registered this year;
- nearly 91 per cent of people who lost time at work due to an injury or illness returned to work within one year without any loss of income; and
- eighty-eight per cent of people unable to return to their pre-injury job were able to find work after completing a Work Transition plan.

We also made great strides to improve the service we offer to the people who rely on us. We completed the first full year working with our new Accounts and Claims Enterprise System. This has improved our ability to respond to people's needs and resulted in the faster processing of claims.

2017 was also significant because we helped launch the Investment Management Corporation of Ontario (IMCO), in partnership with the Ontario Pension Board (OPB). This allows us to achieve greater economies of scale, wider access to investment opportunities, increased diversification and enhanced overall risk management.

This all comes at a time when we've made significant improvements to our financial situation. We are now almost fully funded, with a Sufficiency Ratio of 95.8 per cent as of December 31, 2017.

As well, 2017 saw a great deal of preparation to implement work-related chronic mental stress legislation in 2018 and changes to the indexation and calculation of certain benefits. We also continued extensive outreach with Ontario businesses about the new rate framework that will be introduced in 2020, aimed at increasing transparency and fairness in the premium rate-setting process.

As we reflect on 2017, we want to extend our sincere appreciation to our stakeholders, the Board of Directors and our staff for their hard work and commitment to helping those injured at work, their families and the employers of Ontario.

**Elizabeth Witmer,**
Chair

**Thomas Teahen,**
President & CEO

> *"Whether you were injured at work and need to submit a WSIB claim or you're an employer who is registered with us and must pay premiums, we're always trying to find ways to better help you interact with us so we can achieve our shared goal of making Ontario's workplaces healthier and safer."*
>
> **– Thomas Teahen,**
> President & CEO

# KEY HIGHLIGHTS

### Timely eligibility decisions

We continue to make timely eligibility decisions, so that people who become injured or ill at work may get the care they need to recover and return to work and have their benefits paid as soon as possible. In 2017, 93 per cent of eligibility decisions were made within two weeks of the claim being registered with us, well above our 90 per cent target.

### Fewer incoming appeals

The number of claims being appealed to the WSIB continues to decline. Approximately 6,000 new appeals came in to our Appeals Services Division during 2017, down from 6,979 in 2016. Fewer incoming appeals, plus ongoing timeliness in appeals decision making, have meant that the inventory of active appeals also continues to decrease. There were 1,072 active appeals at the end of 2017, compared to 1,867 at the end of 2016.

### Fewer claims being "locked-in"

The number of claims being locked-in at 72-months continued to decrease. In 2017, 1,153 claims were locked-in at 72-months compared to 1,383 in 2016, a decrease of 17 per cent.

### Success of the Work Transition program continues to improve

For the second year in a row, we are seeing more injured workers employed after completing a Work Transition plan through this WSIB program. Eighty-eight per cent of those completing plans in 2017 are back at work, an increase from 84 per cent in 2016.

### Published 'Your Guide' to the WSIB

We created two guides – one for people injured at work and the other for businesses – both aimed at helping people understand what services and benefits are available to them.

### Noise induced hearing loss and hearing aids

This year saw the launch of the WSIB's first awareness campaign on noise induced hearing loss. The campaign is aimed at increasing awareness of noise induced hearing loss. We also made changes to our hearing aid providers. These new contracts are designed to secure high quality hearing aid devices that help us provide the best possible care and support for people with work-related hearing loss.

### Joined the Investment Management Corporation of Ontario (IMCO)

The WSIB was a driving force behind the creation of IMCO. In July, IMCO officially launched and began managing WSIB invested assets.

### Increased our Sufficiency Ratio

The WSIB continued to make strong progress in reducing the unfunded liability on a Sufficiency Ratio basis, which now stands at $1.3 billion, a reduction of $2.7 billion from year-end 2016 ($4.0 billion). Similarly, the Sufficiency Ratio increased to 95.8 per cent, from 87.4 per cent at the end of 2016.

### Average employer premium rate reduced for the second year in a row

After lowering the average premium rate paid by employers by 6.2 per cent for 2017, the WSIB announced that rates will again be reduced for 2018. The average rate will be 3.3 per cent lower in 2018.

### Increased fairness in how we index benefits

We made great strides preparing to implement legislation that took effect on January 1, 2018 that increased fairness and transparency in the indexing process. Our accomplishments in 2017 included, but were not limited to, system updates, stakeholder outreach and advance posting of policies needed to comply with the legislation.

# FIRST-EVER SMALL BUSINESS HEALTH AND SAFETY AWARDS

Helping small businesses instill a culture of health and safety is a top WSIB priority. In 2017, we launched the Small Business Health and Safety Leadership Awards to recognize outstanding commitment and achievement in establishing health and safety programs in businesses employing fewer than 50 people. Congratulations to the award winners...

**GOLD LEVEL:** JTR & Custom Works Inc., Timmins

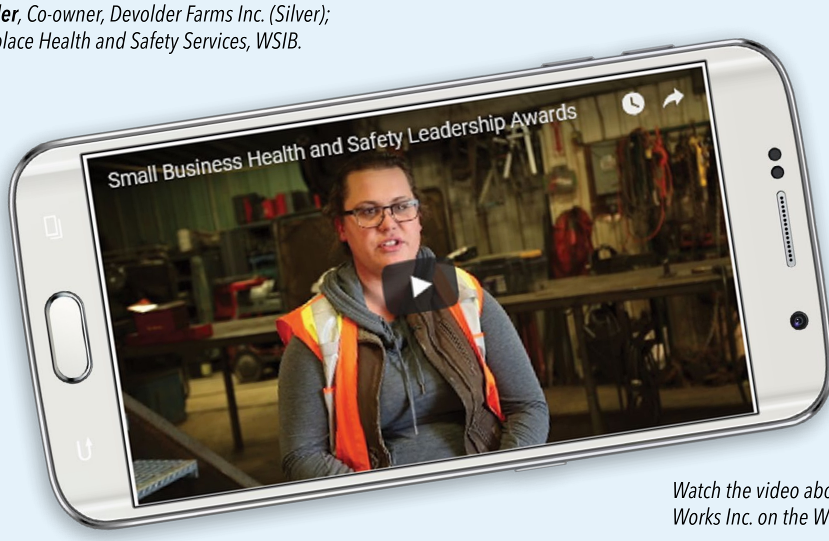
**SILVER LEVEL:** Devolder Farms Inc., Dover Centre

**BRONZE LEVEL:** Mike Moore Construction Ltd., Sault Ste. Marie

The panel of judges included representatives from the Canadian Federation of Independent Business, the Ontario Chamber of Commerce, the Ministry of Economic Development and Growth, the Ministry of Labour, and the WSIB.

*L-R: **Joanne Gordon**, Director, Service Delivery, Workplace Health and Safety Services, WSIB; **Jason Shuttleworth**, Safety Director, on behalf of Mike Moore Construction Ltd. (Bronze); **Joëlle and Jean Charbonneau**, Owners, JTR & Custom Works Inc. (Gold); **Diane Devolder**, Co-owner, Devolder Farms Inc. (Silver); **Rod Cook**, Vice President, Workplace Health and Safety Services, WSIB.*

***Kayla Corkill**, Welder, JTR & Custom Works Inc.*




*Watch the video about JTR & Custom Works Inc. on the WSIB website*

# MEASURING OUR OPERATIONAL RESULTS

This past year, we worked hard to accomplish the goals set out in our 2017 Corporate Business Plan. Monitoring our performance and remaining accountable to the people we serve is key to being a more responsive and customer-focused organization. Here's how we measured up…

| STRATEGIC GOAL | MEASURE | TARGET | STATUS |
|---|---|---|---|
| **Promote health and safety in Ontario workplaces** | Lost-Time Injury (LTI) Rate | 0.85* | 0.92 |
| | While the lost-time injury rate was above our ambitious target in 2017, it has remained well below historic levels and low compared to other jurisdictions in Canada. We continue to work with our partners and employers to lower the LTI rate. In 2017, we increased our efforts to promote workplace health and safety through new initiatives such as the Small Business Health and Safety Leadership Awards, the Health and Safety Index and Compass, all of which are discussed further within this report. | | |
| **Achieve better return-to-work and recovery outcomes and administer benefits fairly** | Return to work at 100 per cent of pre-injury earnings within 12 months | 92 per cent* | 90.6 per cent |
| | In 2017, almost 91 per cent of injured workers returned to work with no wage loss within 12 months, just below our target of 92 per cent. While strong, we are striving to improve these return-to-work results to meet or exceed our target going forward. Our results were driven by positive performance in programs such as Work Transition. More people than ever (88 per cent in 2017) are employed after completing a Work Transition plan. We also continue to support research into innovative ways to help people recover and get back to work safely. In 2017 we awarded funding to six researchers to conduct studies that may further improve return-to-work and recovery outcomes. | | |
| **Eliminate the unfunded liability and make the workers' compensation system financially sustainable** | Sufficiency Ratio | 86.5 per cent | 95.8 per cent |
| | The WSIB remains ahead of the schedule required under legislation in eliminating the unfunded liability. As described in the WSIB's 2017 Economic Statement, Ontario's workplace compensation system should reach 100 per cent funding well ahead of the 2027 deadline. In 2017 alone, the unfunded liability on a Sufficiency Ratio basis was reduced by $2.7 billion to $1.3 billion and the Sufficiency Ratio increased by 8.4 per cent to 95.8 per cent. | | |
| **Deliver service excellence, quality and care through innovation** | Rate framework Implementation | On target at milestones | On target at milestones |
| | The rate framework is on track to be implemented on January 1, 2020. The WSIB is working hard to engage businesses in Ontario to ensure employers will be prepared. This fall, we mailed rate framework letters with new classification information to employers, launched an extensive outreach campaign and consulted on draft policies to support the implementation of the rate framework. | | |
| **Reach shared goals as a dedicated and collaborative team** | Overall satisfaction:<br>1) Injured workers<br>2) Employers | 1) 70 per cent<br>2) 79 per cent | 1) 73 per cent<br>2) 77 per cent |
| | The WSIB recognizes the importance of skilled, dedicated and engaged staff to deliver service excellence to people injured at work and employers. In 2017 we were active in increasing employee engagement in response to results from our latest organization-wide employee experience survey. We also continued to implement our comprehensive new employee mental health strategy, achieving Excellence Canada Silver certification for this program in 2017. | | |

*Schedule 1 only

# TOOLS TO HELP

As we work towards accomplishing our objectives, we are also always looking for ways we can use data to help make it easier for Ontarians to accomplish our shared goal – improved health and safety outcomes.

In 2017, we launched two new online tools that give businesses the power to harness our data to help make decisions about health and safety.

## The Health and Safety Index

In May, we launched the Health and Safety Index, which shows whether Ontario's workplaces are getting safer from year to year. It is an evidence-based tool that can help us, Ontario businesses, and other partners in the safety system to identify areas for improvement and track progress. The index was designed so that it can be adapted by other workers' compensation boards across Canada.

## Compass

October saw the launch of Compass, another new health and safety tool. For the first time, Ontarians are able to compare health and safety statistics for businesses across the province.

This tool can also help businesses make decisions about health and safety and return-to-work strategies. Businesses can see how they compare to other companies in their sector or rate group and get a sense of where they fall on LTI rates, leading part-of-body injured statistics, and lost-time claims receiving wage loss benefits at one year. This data can then be used as information to help them take steps to becoming a safer workplace. Future phases of Compass will give businesses even more information to help make decisions about health and safety.

*These new tools will drive change and change lives – creating healthier and more resilient workplaces – by putting the power of the data in the hands of every Ontarian.*

– **Susanna Zagar,**
*Chief Strategy and Analytics Officer*

# A RENEWED FOCUS ON MENTAL HEALTH

*Supporting mental health is integral to having healthy and productive workplaces. At the WSIB, we're committed to leading by example with a strong focus on mental health awareness in our culture, with the goal to eliminate the stigma that surrounds mental health issues – not only for our employees, but for their families as well.*

– **Kate Lamb,**
*Chief Corporate Services Officer*

Good mental health is key to having healthy and productive workplaces in Ontario.

## Work-related chronic mental stress legislation

As we prepared for the legislation allowing for entitlement for work-related chronic mental stress, the WSIB developed a number of initiatives to help support those we serve. These include:

- A new chronic mental stress policy which is guided by the principle that early intervention and support will contribute to better recovery and return-to-work outcomes.
- Specialized teams that are experienced in providing timely and quality care in these often complex cases, so those dealing with chronic mental stress can recover and return to work as soon as it is safely possible to do so. This expertise includes a network of psychiatrists and psychologists in communities across Ontario to expedite appropriate clinical assessments, diagnosis and treatment.

A work environment that promotes good mental health is socially responsible and helps everyone in the workplace. It's also cost effective and can help businesses reach higher employee engagement, productivity and job satisfaction.

## Mental wellness at the WSIB

We recognize mental health is an important part of the health, safety and wellness of our employees. To-date we have:

- Launched a Mental Health Strategy, which will help reduce the stigma around mental illness and build a strong foundation for mental health training and peer support for our staff.
- Started to equip our management and staff with tools and resources to be able to identify, manage and accommodate mental health concerns in the workplace. Specifically, we've trained all senior leaders and over 60 per cent of people leaders through a workplace mental health leadership certificate program.

# BUILDING A STRONG AND SUSTAINABLE FINANCIAL FOUNDATION

Now that we're 95.8 per cent funded on a Sufficiency Ratio basis as of December 31, 2017, what's next?

## Reviewing Funding Policy

To safeguard Ontarians' benefits and offer premium rate stability for employers, we must ensure that we can withstand future economic shocks. The current funding policy provides direction to the WSIB when making funding decisions to provide for the costs of the workers' compensation system through employer premiums and investment earnings. In 2017, we began reviewing this policy with the goal of making updates that can provide guidance to us in making decisions in support of achieving and maintaining full funding.

## Transforming how premium rates are set

We are set to transform how we classify and calculate premium rates for approximately 300,000 registered businesses across Ontario. Work is underway on a new premium rate-setting model that is more transparent and fair, and will be more reflective of individual claims experience. This model, known as the rate framework, is a big step forward in making it easier to understand how businesses are classified and premium rates are calculated.

You can visit our website at wsibrateframeworkreform.com for more information and updates about the rate framework.

WSIB *Rate Framework* booklet

> *We've been working closely with businesses to develop a new model for premium rate-setting that enhances fairness and transparency and better reflects their inherent risk.*
>
> – **Pamela Steer,** *Chief Financial Officer*

# BOARD OF DIRECTORS' BIOGRAPHIES

## Elizabeth Witmer,

**Chair, May 17, 2012 - May 16, 2020**

Elizabeth has served the Ontario public for 36 years, including 22 years as the Kitchener-Waterloo Member of Provincial Parliament (MPP) and now Chair of the WSIB. As an MPP, she also served as the Deputy Premier of Ontario, Minister of Labour, Minister of Health and Long-Term Care, Minister of Environment and Minister of Education.

Her leadership has been acknowledged with many awards such as the Queen's Golden Jubilee Medal, the Queen's Diamond Jubilee Medal, the Social Work Doctors Award for her commitment to a just and caring society, the Kitchener-Waterloo Citizen of the Year Award and the Asthma Society of Canada Innovation in Public Policy Award.

Elizabeth is a graduate of the University of Western Ontario, Althouse College of Education and the Rotman School of Management's Institute of Corporate Directors program.

## Thomas Teahen,

**President and Chief Executive Officer (CEO), February 1, 2016 - January 31, 2021**

Tom has devoted most of his professional life to bringing together the interests of workers, employers and all Ontarians. He began his career as a labour and employment lawyer and then served as Chief of Staff to the Minister of Labour, and later the Minister of Education.

Tom joined the WSIB in 2010 as Chief of Corporate Services, leading seven business divisions. In 2013, he returned to government, this time as Chief of Staff to the Premier of Ontario. And then, in 2016, Tom returned to the WSIB as President and CEO.

A native of St. Marys, Ontario, Tom has a Bachelor of Arts degree from the University of Western Ontario, and received his law degree from Queen's University.

## Lynda Bowles,

**November 14, 2012 - November 13, 2018**

Lynda, a Fellow of the Chartered Professional Accountants, retired in May 2012 after working as a Senior Audit and Advisory Partner of Deloitte LLP for over 33 years, where she specialized in Audit, Governance, Quality Reviews and Financial Advisory Services.

Currently, she is a Director of Technical Standards and Safety Authority for Cryptomills Technology Inc. and the Maple Leaf Sports and Entertainment Foundation. Lynda also volunteers for the Canadian Executive Service Organization in northern Canada working with the Inuit and First Nations.

Lynda has served on several Boards including the University of Guelph, Zoological Society of Metropolitan Toronto, Bloorview Children's Hospital and Foundation, Women's College Hospital Ambulatory Care Centre and West Park Health Care Centre.

She holds a Master of Science degree from the University of Guelph.

## Dr. Alice Dong,

**October 17, 2015 - October 16, 2018**

A graduate of the University of Toronto, Alice is an Occupational Health physician with professional expertise in the public and private sectors. Both Canadian and American Board certified, Alice has training and practical experience in health and safety, disability management, and return to work.

She is past chair of the Ontario Medical Association Committee on Work and Health, a former vice chair of the Governing Council of the University of Toronto, and is a former board member of Women's College Hospital. She is currently a medical consultant to Disability Management Services at Royal Bank of Canada Insurance.

## Michael Gallagher,

**March 26, 2014 - March 25, 2019**

Michael is the General Vice President of the Executive Board of the International Union of Operating Engineers and Business Manager for the International Union of Operating Engineers, Local 793.

Currently, he is the Chair of the Operating Engineers, Training Trust Fund, and a trustee on Local 793's Pension Trust Fund and Life and Health Benefits Trust fund. Previously, he has served as President of the Construction Safety Association and Director of the Multi-Employer Benefit Council of Ontario.

Michael has been awarded the Queen's Golden Jubilee Medal, the Queen's Diamond Jubilee Medal and the Roy Phinnemore Award for the Infrastructure Health and Safety Association.

## Raymond Hession,

**October 19, 2016 - October 18, 2019**

Raymond is a director of HDR Inc., an Omaha-based engineering and architectural firm and is Chair of the Board of eHealth Ontario.

A graduate of the Royal Military College, following military service, he worked at IBM Canada before joining the Canada Mortgage and Housing Corporation, later becoming its President and Chief Executive Officer. Thereafter, he was a deputy minister in the federal government. Raymond has served as the founding Chair of both the Agency for Cooperative Housing and the Ontario Health Quality Council. He was also chair of the Board of the Ottawa Hospital, the Rehabilitation Centre of Eastern Ontario and the Royal Canadian Mint.

Furthermore, Raymond has served as a trustee of the Royal Ottawa Health Care Group and Fairness Commissioner for the development of the new Royal Ottawa Health Care Group facilities and the new Ottawa Convention Centre Corporation.

### P. Morgan McCague,

**August 21, 2008 - August 12, 2018**

Morgan has over 40 years of work experience establishing new investment operations and new programs and has worked at a senior level with the Ontario Teachers' Pension Plan, the Alberta Teachers' Retirement Fund and various financial institutions.

Morgan is a graduate of the Institute of Corporate Directors, was a Director of GCAN Insurance Company, and served as President of the Buy-Side Investment Management Association.

### Lea Ray,

**December 3, 2008 - December 2, 2019**

Lea is a certified director of the ICD.D at the University of Toronto's Rotman School of Management and is a Chartered Professional Accountant.

Lea currently serves as the Vice Chair of Tarion Warranty Corporation and a Director of Street Capital Bank of Canada and Pro-Demnity Insurance Company. Her financial career began with PricewaterhouseCoopers and she is a former executive, Vice-President Corporate Finance, of Warner Bros. Entertainment Canada Inc., where she was employed for 19 years.

She has served on the Professional Conduct Committee of the Chartered Professional Accountants (Ontario) and has served as a board member and volunteer of several non-profit health, conservation, and other charitable institutions.

Lea holds a Bachelor of Commerce Degree from the Odette School of Business, University of Windsor.

### Sari Sairanen,

**September 24, 2008 - September 16, 2019**

Sari is National Health and Safety Director at Unifor, responsible for the content of health and safety training programs, submissions for better laws, information on workplace substances, the establishment of programs to eliminate hazardous workplace conditions and the publication of the Health and Safety and Environment newsletter.

Sari comes to the national union from the Airline Division, which represents members from coast to coast to coast in Canada.

Sari began her union activism as a health and safety representative in a call centre where she confronted ergonomic and working condition issues such as computer workstations, task design, stress and electronic monitoring. In addition, she served on the Air Canada bargaining committee as a regional representative and as President of Local 2002 during the Companies' Creditors' Arrangement Act (CCAA) bankruptcy proceedings.

Sari also sits on Employment and Social Development Canada's Occupational Health and Safety Advisory Committee, the Canadian Labour Congress' Occupational Health and Safety Committee, the Occupational Health Clinics for Ontario Workers' Board of Directors and the National Institute of Disability Management and Research and Pacific Coast University's Board of Directors.

### Bryce Walker,

**January 23, 2013 - January 22, 2020**

Bryce brings with him a wealth of experience in healthcare and education governance. He is the Chair of FaithLife Financial, the past Chair of the Board of Trustees of the Healthcare of Ontario Pension Plan and the past Chair of both Wilfrid Laurier University's Board of Governors and Grand River Hospital's Board of Directors. Grand River Hospital is one of Ontario's largest community hospitals located in the Waterloo region.

Bryce's professional experience includes his role as Senior Vice President of Group Benefits for Manulife Financial, from which he has retired.

He has a Bachelor of Math degree from the University of Waterloo, is a Fellow of the Canadian Institute of Actuaries, a Chartered Financial Analyst and holds an ICD.D designation from the University of Toronto's Rotman School of Management.

### Scott Wilson,

**December 5, 2012 - December 4, 2019**

Scott is Executive Director of the Kitchener, Waterloo, Cambridge Injured Workers Group.

For over 15 years, Scott has provided peer support and guidance to injured workers and has been an active voice on WSIB issues. A former glazier metal mechanic for over 20 years, he suffered a severe injury in 1999. Scott is a licensed Paralegal.

*"Throughout 2017, the WSIB made significant progress in meeting the strategic objectives set by the Board of Directors. The WSIB's commitments to workplace healthy and safety, service excellence and financial sustainability have remained paramount. I want to thank the Board of Directors, dedicated staff and stakeholders for their collective efforts in assisting the WSIB meet the needs of Ontario's employers and workers."*

– **Elizabeth Witmer,**
Chair

## Management's Responsibility for Financial Reporting

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the consolidated financial statements have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and, where appropriate, reflect management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information included in the Annual Report and ensuring its consistency with the consolidated financial statements.

The Audit and Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and reviews the consolidated financial statements and the independent auditors' report. The Audit and Finance Committee also reports its findings to the Board of Directors for consideration in approving the WSIB's Annual Report and its submission to the Minister of Labour (the "Minister") pursuant to a Memorandum of Understanding between the Ministry of Labour (the "MoL") of the Province of Ontario (the "Province") and the WSIB.

In this MD&A, the "WSIB" or the words "our", "us" or "we" refer to the WSIB. This MD&A is dated as of the date below, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, and involve assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from forward-looking statements in cases in which future events and circumstances do not occur as expected.

The consolidated financial statements have been examined by the WSIB's independent auditors, Ernst & Young LLP, and their report is provided herein.

**Thomas Teahen**
President and Chief Executive Officer
April 19, 2018
Toronto, Ontario

**Pamela Steer**
Chief Financial Officer

## Management's Discussion and Analysis

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## 1. Operational Year in Review

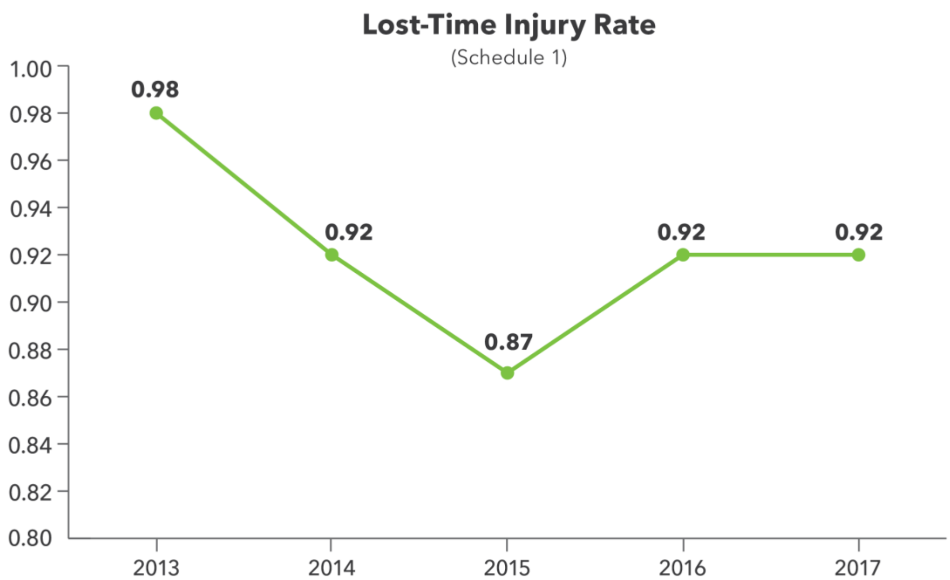
*Highlights of our operational performance for the year ended December 31, 2017 compared to 2016.*

**Operational Highlights**

***Higher registered claim volume.*** Schedule 1 registered claim volume increased by 3%, from 193,215 claims in 2016 to 199,927 claims in 2017. The increase was mainly a result of higher no-lost-time claim volume, which increased 5% from 135,091 claims in 2016 to 141,227 claims in 2017. Lost-time claim volume increased by 1%, from 58,124 claims in 2016 to 58,700 claims in 2017. The increase in claims came alongside economic and job growth in Ontario during 2017.

Registered claim volume among Schedule 2 employers increased by 4% due to increases in lost-time and no-lost-time volumes of 6% and 2%, respectively.

***Lost-time injury rate holds steady.*** The Schedule 1 lost-time injury ("LTI") rate, the number of allowed lost-time claims per 100 workers, was 0.92 in 2017. The rate was unchanged compared to 2016 and remained low by historic standards. Even though registered and lost-time claim volumes increased in 2017, higher levels of employment in Ontario balanced the increase in claims to keep the LTI rate stable.




Among Schedule 2 employers, the LTI rate increased from 1.99 in 2016 to 2.05 in 2017. The 2017 result was the highest since 2009.

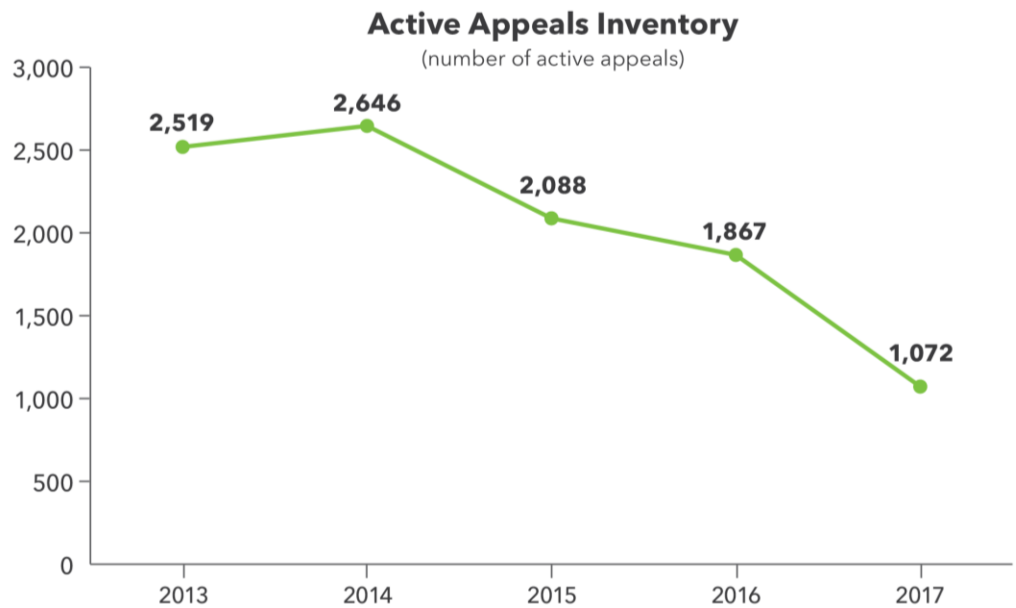
***Increases to short-term and medium-term durations.*** During each quarter of 2017, the percentages of claims continuing to require benefits increased, for each time interval up to 24 months. These increases began in 2016, after historically low durations in 2015. It had been expected that durations would continue to rise during 2017. Short-term and medium-term durations remained low by historical standards and when compared to other workers' compensation boards in Canada.

In 2017, the WSIB established a "risk corridor" for durations. Durations may fluctuate within this corridor each quarter without impacting the WSIB's overall financial position. Results from each quarter of 2017 have remained well within the corridor.

***Ongoing improvement in long-term duration.*** The percentage of claims that continued to require benefits at 72 months decreased from 2.4% in 2016 to 2.0% in 2017. Seventy-two months is the point at which claims may be "locked in" until age 65. With fewer claims reaching 72 months, 17% fewer claims were locked in during 2017 (from 1,383 claims in 2016 to 1,153 claims in 2017).

Lower long-term durations are supported by initiatives such as the WSIB's Work Transition program, which has had steadily growing success since 2015. The program assists workers whose injury or illness prevents them from returning to their previous position. In 2017, 88% of those completing a Work Transition plan went on to find employment, up from 84% in 2016 and 79% in 2015.

***Appeals volume and inventory remain low.*** For the third consecutive year, the number of appeals coming into the WSIB's Appeals Services Division has decreased. There were approximately 6,000 incoming appeals in 2017, down from 6,979 appeals in 2016. With fewer new appeals, the inventory of active appeals has also declined for the third year in a row, from 1,867 at the end of 2016 to 1,072 at the close of 2017.




While the percentage of appeals resolved within six months decreased slightly to 88% in 2017 compared to 90% in 2016, it remained well above our 85% target. In 2017, it took an average of 102 calendar days to resolve an appeal, compared to 101 days in 2016. Much of this time was needed to allow sufficient opportunity for the parties to provide submissions and prepare rebuttals if applicable.

The percentages of appeals allowed and allowed in part have stayed stable in recent years. In 2017, the total reversal rate on appeals was 28% compared to 30% in 2016 and 29% in 2015. The 28% of appeals reversed in 2017 was comprised of 16% of cases allowed in full and 12% of cases allowed in part.

***Continued emphasis on service excellence.*** Increasing service excellence continued to be an area of focus at the WSIB during 2017. A dedicated Service Excellence group was created earlier this year for this purpose and to ensure that we take into account the customer perspective in all that we do. The head of this new group reports directly to the WSIB's President and Chief Executive Officer.

Injured workers' and employers' satisfaction with their overall experience with the WSIB has remained stable; 73% of injured workers and 77% of employers reported satisfaction in 2017, compared to 71% and 77%, respectively, in 2016. Efforts to improve the overall experiences and reduce burden to our customers are ongoing.

Please refer to the Measuring our Operational Results section of the Annual Report for more details on our 2017 performance targets and status.

## 2. Our Business

*An overview of our business.*

### Our mandate

The WSIB, a board-governed trust agency under the Agencies and Appointments Directive of the Government of Ontario, is legislated to administer the Province's no-fault workplace injury and illness insurance system under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA").

We are here to help. When an injury or illness happens on the job, we move quickly to provide wage-loss benefits, medical coverage and help getting back to work. We support the promotion of workplace health and safety and strive to make Ontario a province where there are zero work-related injuries or illnesses.

We cover over five million people in more than 300,000 workplaces across Ontario. Our goal is to maximize the public value we deliver each day through the services we offer.

### How we are funded

Revenues to fund the operation of the WSIB and delivery of benefits and services come through employers' premium payments and investment returns.

### Premiums

As per *Ontario Regulation 175/98,* the WSIB collects premiums from employers classified under Schedule 1 of the WSIA and administration fees from the employers listed in Schedule 2. Over 75% of the Province's labour force is covered by the WSIB under either Schedule 1 or Schedule 2. Each year, the WSIB adjusts both premium rates for Schedule 1 employers and administration fee rates for Schedule 2 employers.

***Schedule 1 employers*** contribute to the collective liability insurance fund. Each Schedule 1 firm is assigned to one or more of 155 rate groups according to the nature of their business. The premium rate for each rate group reflects costs associated with claims, administration and legislative obligations and past claims costs, including funds explicitly allocated to reduce the unfunded liability. Employer premiums may also be adjusted as a result of mandatory and voluntary incentive programs.

- ***Mandatory employer incentive programs*** adjust premiums paid by a firm based on their claims experience. Firms with over $1,000 but less than $25,000 in average annual premiums are assigned to the Merit Adjusted Premium ("MAP") plan. Firms that pay $25,000 or more are assigned to the New Experimental Experience Rating ("NEER") program or, if in the construction industry, the Council Amended Draft #7 ("CAD7") program.

***Schedule 2 employers*** are individually responsible for the full cost of their respective claims. Schedule 2 employers include federal and provincial governments and their agencies, municipalities and school boards, and other enterprises such as major railways with operations in the Province. Schedule 2 employers reimburse the WSIB for the costs of their claims plus a fee to cover overhead and administrative costs and, in the case of provincially-regulated employers, legislative obligations.

### Investment returns

The WSIB also generates income through investment returns on our approximately $34 billion in invested assets as at December 31, 2017.

On July 24, 2017, the Investment Management Corporation of Ontario ("IMCO") officially began managing WSIB invested assets. Having our funds managed by IMCO allows us to achieve economies of scale, have wider access to investment opportunities, increase diversification, enhance our risk management, and optimize our use of internal and external investment management.

## Investments

### Our governance process

We invest the portion of premiums collected but not required to be paid to or on behalf of injured workers in the current year or to fund current operating expenses. As at December 31, 2017, we held $34 billion in investments to fund all future claims including the WSIB employee pension benefit obligations. Our investment strategy for these funds involves a prudent balance of income generation and capital appreciation until the funds are required to pay benefits for injured workers.

The following is a summary of our investment governance process:

- Our governance framework operates in accordance with best practices for good governance. Investment decisions that have the most impact on investment outcomes remain at the Board of Directors level. These decisions include our investment beliefs, establishing our overall governance framework, and approving our Statements of Investment Policies and Procedures ("SIPPs"). With appropriate reporting and oversight, the Board of Directors delegates certain investment decisions to our Investment Committee and our senior management. The Investment Committee is appointed by the Board of Directors and consists of Board members and external advisers who have the requisite degree of financial expertise with sufficient knowledge and skill to advise on the development and implementation of our investment strategy.
- WSIB's SIPPs require that a detailed review of the benefit liabilities and capital market assumptions be conducted no less frequently than every four years. This is to ensure that the policy asset mix and other provisions of the SIPPs remain relevant to the current and forecasted nature of the liabilities. The Strategic Investment Plan ("SIP") review and asset/liability study inform policy changes including changes to the SIPPs.
- The Investment Committee approves operational investment policies. Effective July 24, 2017, through an Investment Management Agreement, IMCO was delegated authority to implement WSIB's investment strategy. Within well-defined investment mandates, security selection or manager selection decisions are delegated to IMCO to execute through external managers consistent with our belief that external investment management is most compatible with our objectives. Our investment program is monitored by senior staff members under the direction of our Chief Investment Officer, President and Chief Executive Officer, the Investment Committee and, ultimately, our Board of Directors.
- Risk is inherent in each element of the investment decision making process. Hence, risk measurement is an integral component of our governance program. We believe the most significant investment risks to which we are exposed include currency, interest rate, price and other risks. A discussion of our investment risks and mitigating strategies is contained in Section 15 – Risk Factors in this MD&A and in note 12 in our consolidated financial statements. We use various financial and non-financial methods to assess, measure and monitor risk, including an investment risk measurement system.

### What we invest in

We invest in a wide range of assets to provide a target level of investment return over the long term given the level of risk we are prepared to assume. The investment strategies we invest in include:

- ***Fixed income securities.*** Our fixed income portfolio includes bonds, debentures, and other fixed income investments. Our government and short-term bond portfolios are designed to track the performance of their respective Canadian bond indices. Bonds provide safety, diversification and liquidity, particularly when economic conditions are weak, or when market or economic shocks precipitate a flight to lower risk investments.
- ***Public equity securities.*** We invest in a diversified portfolio of domestic and international equities, or securities convertible into equity, to provide broad equity market exposure. Public equities are expected to provide higher investment returns than other asset classes over the long run, but exhibit a higher degree of variability in investment returns from year to year.

- ***Absolute return.*** Our absolute return portfolio includes investments in hedge funds, funds of hedge funds as well as foreign currency trading mandates. The objective of the absolute return strategy is to reduce overall investment volatility while maintaining return targets.
- ***Diversified markets.*** Our diversified markets portfolio provides a risk-controlled source of broad market returns across five asset classes. The strategy is executed through physical and derivative holdings of global equities, nominal bonds (developed and emerging markets), real return bonds, credit instruments and commodities.
- ***Real estate related investments.*** We invest in real estate properties and investment funds diversified across office, retail, industrial and mixed-use properties located throughout Canada, the United States and internationally. Real estate provides us with a predictable source of income and is expected to keep pace over time with inflation, both beneficial attributes.
- ***Infrastructure related investments.*** Our global infrastructure portfolio consists of assets which provide essential services and facilities, many of which operate with regulated or monopolistic market positions. Revenues are generated typically under long-term contracts which offer stable long-term cash flows. Similar to real estate, the long-term inflation sensitivity of infrastructure assets is a beneficial attribute for the WSIB.

## Claim costs

### Types of claim payments

A number of different benefits are administered by the WSIB in accordance with the WSIA and predecessor legislation, the *Workers' Compensation Act*. These benefits relate to compensating wage loss, and providing for health care treatments and other benefits to injured and ill workers and survivors. Each type of benefit is described in more detail below:

- ***Loss of earnings benefits*** compensate injured workers for earnings lost due to a work-related injury or illness occurring subsequent to 1997, starting the day after the injury or illness occurred. The benefit rate is based on 85% of the worker's pre-injury net average earnings, subject to legislated minimum and maximum amounts of compensation.
- ***Workers' pensions*** represent pensions for injured workers suffering a workplace injury prior to January 1, 1990 based on the degree of the injured worker's disability.
- ***Health care costs*** are payments for professional services provided by health care practitioners, hospitals and health facilities as well as the cost of drugs that are required to facilitate recovery. They may also include attendant services, home or vehicle modifications, assistive devices and prostheses, extraordinary transportation costs to obtain health care and other measures to improve the quality of a worker's life.
- ***Future economic loss or FEL benefits*** compensate workers injured after January 1, 1990, and prior to January 1, 1998, who cannot restore their pre-injury earnings as a result of a permanent impairment or temporary disability for 12 continuous months.
- ***Survivor pensions*** represent monthly benefits provided to the spouse, dependent children and other dependents of a worker whose death was the result of a workplace injury or occupational disease.
- ***External provider costs*** associated with our work reintegration program include payments to external agencies providing rehabilitation services, such as training programs to assist an injured worker's return to work and the costs of work transition assessments and plans. They are incurred when accommodations with the pre-injury employer are not available.
- ***Non-economic loss or NEL benefits*** represent compensation to a worker who suffers a permanent impairment as a result of an injury. Benefits are based on the severity of the permanent impairment. Non-economic loss benefits recognize the physical, functional or psychological loss resulting from a permanent impairment, beyond wage loss.

- ***Loss of Retirement Income benefits contributions*** are payable on behalf of an injured worker who has received loss of earnings benefits for 12 continuous months or future economic loss benefits and was under the age of 64 at the date of injury. At age 65, the injured worker receives a benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.

**Provision for claims**

Benefit liabilities are established on a quarterly basis and represent the present value of the expected future cost to satisfy all claims occurring prior to but still outstanding as at the consolidated statements of financial position date. The liability consists of expected costs for reported claims, expected costs on outstanding claims that have been incurred but not yet been awarded, as well as increases in benefits resulting from deterioration of an existing injury, and a provision for future occupational disease claims.

Data and other factors that can influence the amount and timing of future payments are considered when calculating benefit liabilities. Some factors include historical trends, our governing legislation, as well as our policies, claims adjudication practices and appeal decisions. We also consider the development of future claim payment trends, which may be impacted by management actions, legislative changes, judicial decisions and economic conditions. Where possible, we apply multiple techniques to estimate the required benefits liability provision. This approach provides additional insight into the trends inherent in the claims data being used to project the future payments valued in the benefits liability. Between the reporting and final disposition of a claim, circumstances may change which may result in changes to the established liability. For example, changes in the provisions of the WSIA or medical costs could substantially affect the ultimate cost of a claim. Accordingly, we review and re-evaluate claims and their impact on the estimate of the benefit liabilities on a regular basis.

Provisions made for future occupational diseases recognize that workers exposed to hazardous substances or conditions in their workplaces may develop occupational diseases after long latency periods. These provisions are significant and are expected to increase in future years due to increasing causal evidence and projected increases in claim costs. Claim costs will vary depending on the type and characteristics of the disease, and the timing and management of the claim. Given the inherent uncertainties, the eventual cost to satisfy outstanding claims can vary substantially from the initial estimates.

## Administration and other expenses

Administration and other expenses include the expenses necessary to support our various business activities.

## Legislated obligations and funding commitments

***Legislative obligations.*** The WSIB is required to make payments to defray the cost of administering the *Occupational Health and Safety Act* (the “OHSA”) and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the Workplace Safety and Insurance Appeals Tribunal (“WSIAT”). Furthermore, it is required to pay for the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser.

***Grants program.*** The WSIB has a grants program, which supports practical, expert research studies and training initiatives delivered by professional individuals and organizations that address current and emerging challenges aimed at strengthening Ontario's workplace injury and illness insurance system now and in the future. In 2017, the WSIB awarded six researchers funding to conduct studies that may improve return-to-work and recovery outcomes for people who were injured or made ill at work.

More information about the program is available on the WSIB website.

***Voluntary employer health and safety incentive programs.*** The WSIB offers Small Business Health and Safety Programs which raise general awareness of workplace health and safety obligations and help employers build health and safety programs. Participants can receive a one-time 5% premium rebate for participating in a training program. The Safety Groups Program also awards a rebate of up to 6% of premiums to employers that successfully implement new return to work and health and safety elements, and reduce injuries and illnesses.

## 3. Our Strategy

The WSIB's *2016-2018 Strategic Plan* provides a balanced and comprehensive approach towards ensuring better outcomes for people injured at work and employers.

The plan sets the direction of the WSIB and serves as a critical guide as we continue to deliver better outcomes and service. It includes five themes, each supported by objectives and performance measures to track our progress toward achieving each goal:

1. Promoting health and safety in Ontario workplaces;
2. Achieving better return-to-work and recovery outcomes and administering benefits fairly;
3. Eliminating the unfunded liability and making Ontario's workers' compensation system financially sustainable;
4. Delivering service excellence, quality and care through innovation; and
5. Reaching shared goals with our people as a dedicated and collaborative team.

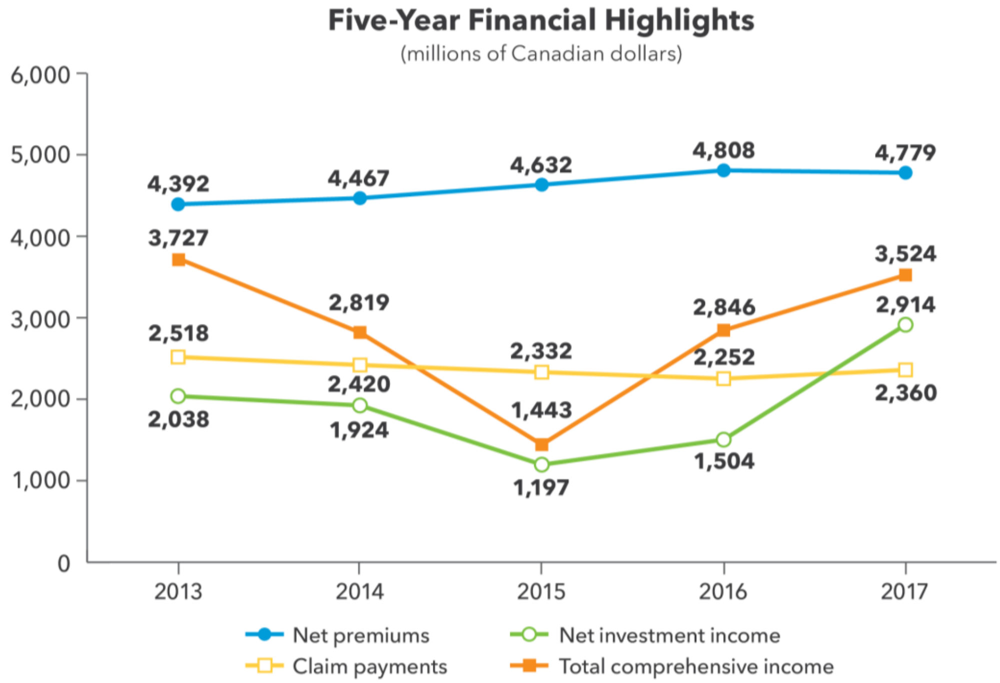
These strategic themes are designed to promote further improvements in the WSIB's operational and financial results, which are monitored and published on a quarterly basis on the WSIB website.

Throughout 2017, the WSIB focused on executing our strategic objectives, which are designed to improve the public value we provide to Ontarians every day.

## 4. Financial Highlights

*Highlights of our financial performance for the year ended December 31, 2017 compared to 2016.*

The following section should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2017 (the "consolidated financial statements").




**Financial highlights for the year ended December 31, 2017 compared to the year ended December 31, 2016:**

- In 2017, we generated $3,524 million of total comprehensive income primarily reflecting a net investment income of $2,914 million and continued strong operating performance partially offset by other comprehensive loss of $305 million. For the seventh consecutive year, we generated positive cash flow in our business as our premium revenues exceeded our operating expenses, thereby allowing us to transfer $1,265 million of cash generated from operating activities to our investment fund in 2017.
- Net premiums decreased $29 million or 0.6% primarily reflecting lower gross Schedule 1 premiums attributable to the 6.2% reduction in the published 2017 premium rates, partially offset by a 4.2% increase in insurable earnings due to strong growth in the construction, health care, manufacturing, services and transportation industries, lower net payouts for mandatory employer incentive programs and higher reimbursement of administrative fees from Schedule 2 employers.
- Net investment income increased by $1,410 million from $1,504 million to $2,914 million. The return on investments was 10.7% in 2017 compared to 6.3% in 2016. Despite recent positive results, we caution readers that current investment returns are not a reflection of expected future performance and caution should be exercised in projecting investment income results into the future based on our current results.
- Claim payments increased $108 million or 4.8% primarily reflecting higher loss of earnings payments and health care costs, partially offset by lower workers' pensions and future economic loss claim payments.

- The change in actuarial valuation of benefit liabilities was $370 million reflecting a legislative amendment and the refinement of valuation assumptions and methodologies, partially offset by the continuation of favourable experience results.
- Administration and other expenses, before allocation to claim costs, increased by $42 million or 5.5%, reflecting $15 million of higher employee benefit plans expenses, $13 million of higher depreciation and amortization expenses, $8 million of higher salaries and short-term benefits expenses, and $6 million of higher other operating expenses.
- Other comprehensive loss was $305 million primarily attributed to the decrease in the discount rate and new assumptions adopted as at December 31, 2017 for the pension plan liabilities, and translation losses from net foreign investments, partially offset by better than expected returns on pension plan assets.
- Our unfunded liability on a Sufficiency Ratio basis was $1,349 million as at December 31, 2017, a decrease of $2,655 million or 66.3% since December 31, 2016.

## 5. Financial Results

*A more detailed discussion of our financial performance for the year ended December 31, 2017 compared to 2016.*

The following table sets forth our annual financial results for the years ended December 31:

| (millions of Canadian dollars) | 2017 | 2016[5] | Change $ | Change % |
|---|---|---|---|---|
| **Revenues** | | | | |
| Premiums | 4,879 | 4,989 | (110) | (2.2) |
| Net mandatory employer incentive programs | (100) | (181) | 81 | 44.8 |
| **Net premiums** | **4,779** | **4,808** | **(29)** | **(0.6)** |
| Investment income | 3,092 | 1,662 | 1,430 | 86.0 |
| Investment expenses | (178) | (158) | (20) | (12.7) |
| **Net investment income** | **2,914** | **1,504** | **1,410** | **93.8** |
| **Total revenues** | **7,693** | **6,312** | **1,381** | **21.9** |
| **Expenses** | | | | |
| Claim payments | 2,360 | 2,252 | 108 | 4.8 |
| Claim administration costs | 417 | 405 | 12 | 3.0 |
| Change in actuarial valuation of benefit liabilities | 370 | 90 | 280 | 100+ |
| **Total claim costs** | **3,147** | **2,747** | **400** | **14.6** |
| Loss of Retirement Income Fund contributions | 56 | 56 | - | - |
| Administration and other expenses | 409 | 376 | 33 | 8.8 |
| Legislated obligations and funding commitments | 252 | 244 | 8 | 3.3 |
| **Total expenses** | **3,864** | **3,423** | **441** | **12.9** |
| **Excess of revenues over expenses** | **3,829** | **2,889** | **940** | **32.5** |
| **Other comprehensive loss** | | | | |
| Item that will not be reclassified subsequently to income | | | | |
| Remeasurements of employee benefit plans | 273 | 35 | 238 | 100+ |
| Item that will be reclassified subsequently to income | | | | |
| Translation losses from net foreign investments | 32 | 8 | 24 | 100+ |
| **Total other comprehensive loss** | **305** | **43** | **262** | **100+** |
| **Total comprehensive income** | **3,524** | **2,846** | **678** | **23.8** |
| **Total comprehensive income attributable to:** | | | | |
| WSIB stakeholders | 3,215 | 2,674 | 541 | 20.2 |
| Non-controlling interests | 309 | 172 | 137 | 79.7 |
| | **3,524** | **2,846** | **678** | 23.8 |
| **Other measures** | | | | |
| Core Earnings[1] | 1,285 | 1,475 | (190) | (12.9) |
| Return on investments[2] | 10.7% | 6.3% | n/a | 4.4 |
| Unfunded liability[3, 4] | (710) | (3,925) | 3,215 | 81.9 |
| Unfunded liability – Sufficiency Ratio basis[4] | (1,349) | (4,004) | 2,655 | 66.3 |
| Sufficiency Ratio[4] | 95.8% | 87.4% | n/a | 8.4 |

1. Core Earnings is calculated as total comprehensive income, excluding the impacts of investment related items, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 16 – Non-IFRS Financial Measure.
2. Return on investments is the investment income (loss), net of transaction costs and withholding taxes, generated over a given period of time as a percentage of the capital invested taking into account capital contributions and withdrawals.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $2,518 million as at December 31, 2017 (December 31, 2016 – deficiency of $996 million) is allocated between the WSIB stakeholders and the non-controlling interests ("NCI") on the basis of their proportionate interests in the net assets of the WSIB. NCI represent the proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100% interest. NCI of $3,228 million as at December 31, 2017 (December 31, 2016 – $2,929 million) exclude benefit liabilities since the holders of NCI, the WSIB Employees' Pension Plan and other investors, are not liable for those obligations. The proportionate share of the total deficiency of assets attributable to WSIB stakeholders as at December 31, 2017 was $710 million (December 31, 2016 – $3,925 million) which includes benefit liabilities. Refer to the consolidated statements of financial position for further details.
4. Refer to Section 7 – Reconciliation of the Change in the Unfunded Liability for further details.
5. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

**Premiums**

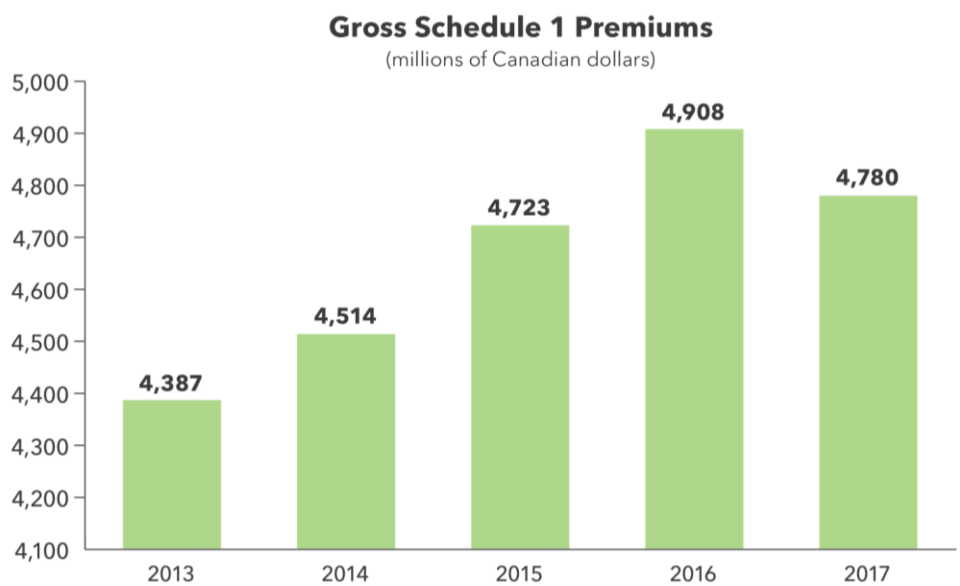
A summary of premiums for the years ended December 31 is as follows:

| (millions of Canadian dollars) | 2017 | 2016[1] | Change $ | Change % |
|---|---|---|---|---|
| Gross Schedule 1 premiums | 4,780 | 4,908 | (128) | (2.6) |
| Bad debts | (43) | (55) | 12 | 21.8 |
| Interest and penalties | 64 | 58 | 6 | 10.3 |
| Other income | - | 5 | (5) | (100.0) |
| **Schedule 1 employer premiums** | **4,801** | **4,916** | **(115)** | **(2.3)** |
| Schedule 2 employer administration fees | 78 | 73 | 5 | 6.8 |
| **Premiums** | **4,879** | **4,989** | **(110)** | **(2.2)** |
| Net mandatory employer incentive programs | (100) | (181) | 81 | 44.8 |
| **Net premiums** | **4,779** | **4,808** | **(29)** | **(0.6)** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Gross Schedule 1 premiums decreased $128 million or 2.6% reflecting a $319 million or 6.5% reduction in the realized average premium rate collected from employers as a result of the 6.2% reduction in the published 2017 premium rates, partially offset by a $191 million or 4.2% increase in insurable earnings driven by strong growth in the construction, health care, manufacturing, services and transportation industries.

The following chart displays the gross Schedule 1 premiums for the five consecutive years ended December 31:




Net payouts for mandatory employer incentive programs decreased due to higher surcharges and lower rebates required under the retrospective experience-rating programs, principally the NEER program, reflecting employer claims experience.

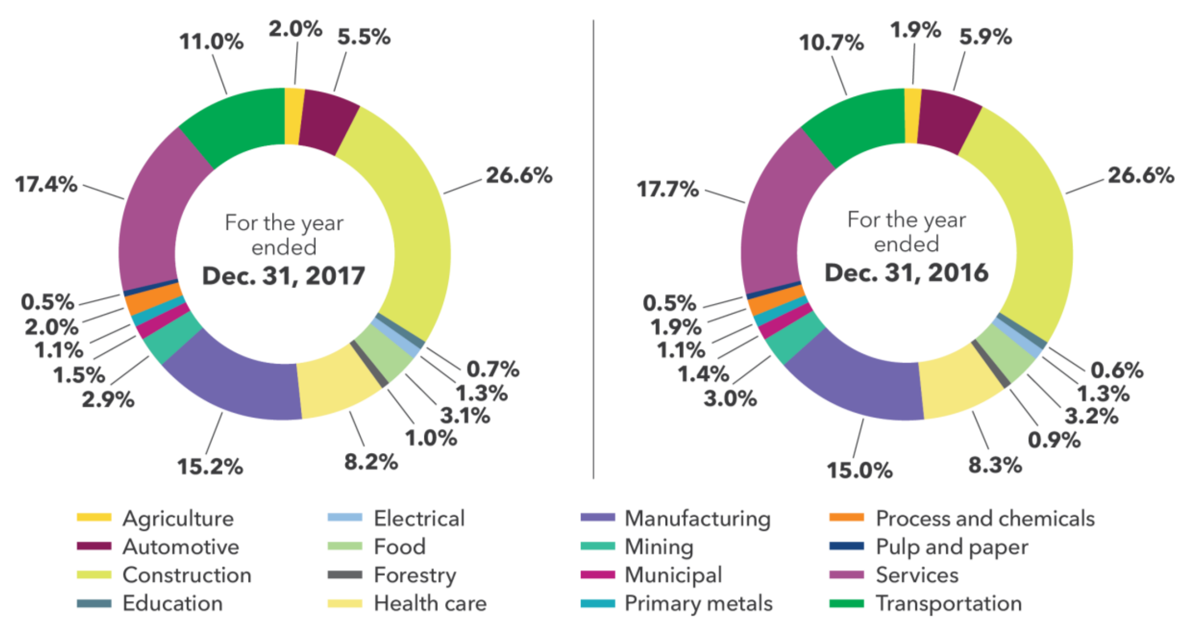
A comparison of employment, insurable earnings and gross premiums for the year ended December 31, 2017, along with the percentage change from the prior year is as follows:

| | Employment[1] | | Insurable earnings | | Gross premiums | | |
|---|---|---|---|---|---|---|---|
| **(millions of Canadian dollars)** | **#** | **Change** | **$** | **Change** | **$** | **Change** | **% of total** |
| **Industry Sector** | | | | | | | |
| Agriculture | 67,120 | 4.7% | 2,172 | 8.4% | 87 | 7.5% | 2.0% |
| Automotive | 159,832 | (2.8)% | 7,165 | (1.1)% | 233 | (8.5)% | 5.5% |
| Construction | 423,708 | 7.2% | 19,910 | 8.0% | 1,134 | (1.5)% | 26.6% |
| Education | 172,005 | (3.9)% | 6,997 | 3.3% | 28 | 2.9% | 0.7% |
| Electrical | 87,048 | (3.9)% | 5,402 | 2.9% | 56 | (3.2)% | 1.3% |
| Food | 132,406 | 0.7% | 4,922 | 3.9% | 134 | (2.9)% | 3.1% |
| Forestry | 10,492 | (0.9)% | 455 | 6.7% | 42 | 4.7% | 1.0% |
| Health care | 604,323 | 1.6% | 23,343 | 2.8% | 350 | (2.5)% | 8.2% |
| Manufacturing | 968,068 | 2.0% | 38,375 | 4.1% | 648 | (0.4)% | 15.2% |
| Mining | 29,666 | (1.2)% | 1,950 | 4.0% | 122 | (5.7)% | 2.9% |
| Municipal | 43,952 | 8.1% | 2,176 | 6.1% | 66 | 12.4% | 1.5% |
| Primary metals | 32,587 | (1.1)% | 1,659 | 4.8% | 47 | 2.7% | 1.1% |
| Process and chemicals | 110,011 | 4.0% | 4,552 | 3.1% | 86 | 2.3% | 2.0% |
| Pulp and paper | 17,235 | 7.8% | 739 | 3.6% | 23 | 3.7% | 0.5% |
| Services | 1,568,718 | 3.1% | 49,278 | 5.4% | 744 | (2.7)% | 17.4% |
| Transportation | 256,404 | 3.8% | 10,243 | 4.9% | 471 | 2.1% | 11.0% |
| **Total** | **4,683,575** | **2.4%** | **179,338** | **4.5%** | **4,271** | **(1.3)%** | **100.0%** |
| Premiums accrued but not reported | | | 17,750 | 1.0% | 509 | (12.6)% | |
| **Total** | | | **197,088** | **4.2%** | **4,780** | **(2.6)%** | |

1. We derive employment levels based on reported insurable earnings divided by an estimated average wage for each industry sector.

The following charts display gross premiums by sector for the years ended December 31, 2017 and 2016:

**Gross Schedule 1 Premiums by Sector[1]**




1. For employers who have not reported, premiums are estimated and included in the "Premiums accrued but not reported" category. This category has been excluded for the purpose of determining the industry sector mix.

### Net investment income

A summary of investment income for the years ended December 31 is as follows:

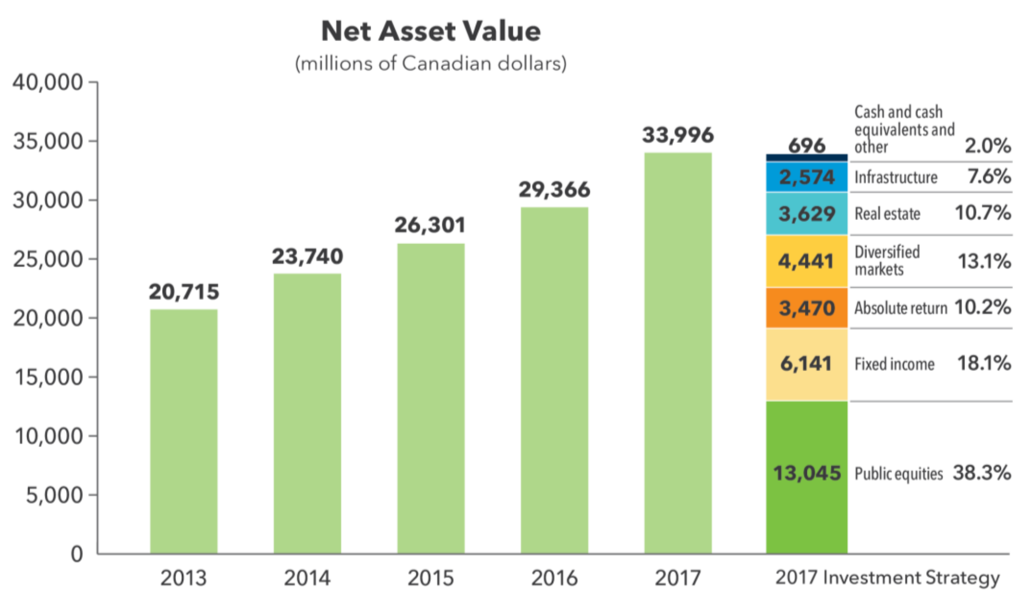
| Investment strategy | 2017 | | | | 2016[2] | | | |
|---|---|---|---|---|---|---|---|---|
| (millions of Canadian dollars) | Investment income (loss) | Return % | Net asset value[1] | % | Investment income (loss) | Return % | Net asset value[1] | % |
| Public equities | 1,833 | 17.0 | 13,045 | 38.3 | 900 | 8.8 | 11,108 | 37.8 |
| Fixed income | 50 | 1.0 | 6,141 | 18.1 | 97 | 1.7 | 6,712 | 22.9 |
| Absolute return | 220 | 5.7 | 3,470 | 10.2 | 115 | 4.6 | 3,120 | 10.6 |
| Diversified markets | 460 | 13.2 | 4,441 | 13.1 | 230 | 7.8 | 3,288 | 11.2 |
| Real estate | 210 | 6.8 | 3,629 | 10.7 | 74 | 3.6 | 2,432 | 8.3 |
| Infrastructure | 314 | 15.8 | 2,574 | 7.6 | 242 | 15.6 | 1,955 | 6.7 |
| Cash and cash equivalents | 5 | 0.9 | 627 | 1.8 | 4 | 0.8 | 679 | 2.3 |
| Other | - | - | 69 | 0.2 | - | - | 72 | 0.2 |
| **Investment income** | **3,092** | **10.7** | **33,996** | **100.0** | **1,662** | **6.3** | **29,366** | **100.0** |
| Investment expenses | (178) | | | | (158) | | | |
| **Net investment income** | **2,914** | | | | **1,504** | | | |

1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives within investment strategies.
2. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

In 2017, we generated $2,914 million of net investment income compared to $1,504 million in 2016. Over 10 and 15 years, our investment returns prior to investment expenses were 6.2% and 7.2% per annum, respectively. Net investment income increased by $1,410 million over last year, reflecting an overall return of 10.7% compared to 6.3% in 2016. Public equity returns of 17.0% were driven by strong returns on foreign equities outside of North America. Infrastructure returns of 15.8% were driven by both capital and income returns. Diversified markets returns of 13.2% were primarily driven by equities.

Past performance may not be indicative of future results. Our financial performance is heavily reliant on the amount of investment income we are able to generate as each 1% rate of return on investments represents approximately $340 million of net investment income equating to $0.17 of premium per $100 of insurable earnings or about 7% of annual premiums.

The following chart displays the net asset values for the five consecutive years ended December 31 and the different components of net asset value for 2017:



### Claim costs

Claim costs consist of: (i) claim payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the dates of the consolidated statements of financial position. A summary of claim costs for the years ended December 31 is as follows:

| | | | Change | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2017** | **2016** | **$** | **%** |
| Claim payments | 2,360 | 2,252 | 108 | 4.8 |
| Claim administration costs | 417 | 405 | 12 | 3.0 |
| Change in actuarial valuation of benefit liabilities | 370 | 90 | 280 | 100+ |
| **Total claim costs** | **3,147** | **2,747** | **400** | **14.6** |

### Claim payments

Claim payments represent cash paid during the year to or on behalf of injured workers. Claim payments are comprised of the following:

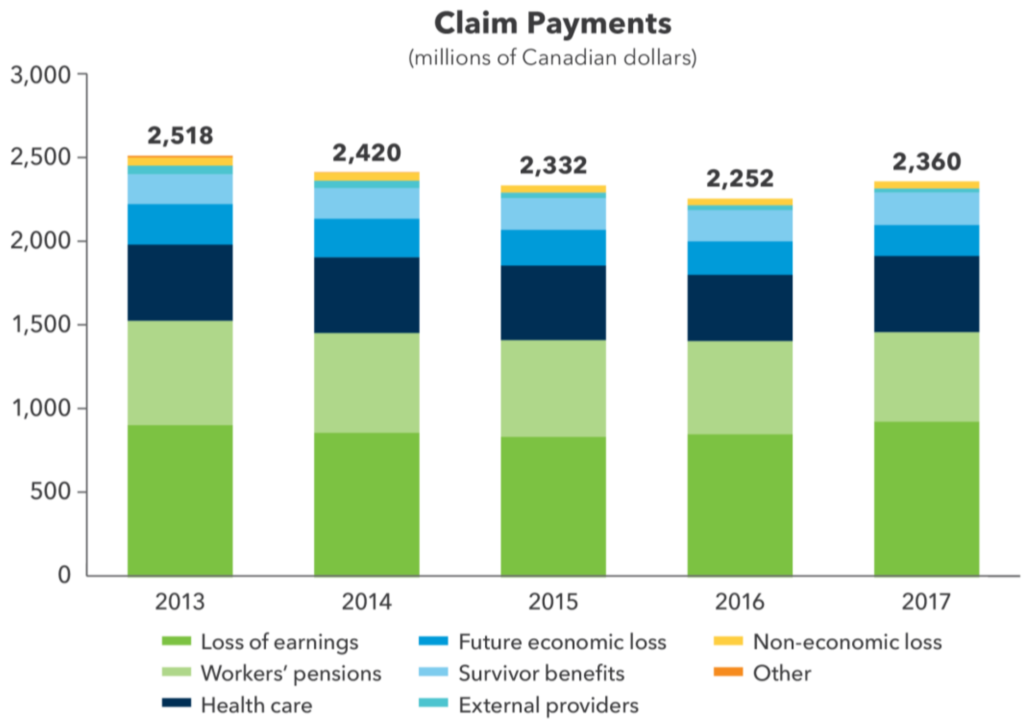
| | | | Change | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2017** | **2016[1]** | **$** | **%** |
| Loss of earnings | 929 | 854 | 75 | 8.8 |
| Workers' pensions | 526 | 542 | (16) | (3.0) |
| Health care | 455 | 395 | 60 | 15.2 |
| Survivor benefits | 194 | 187 | 7 | 3.7 |
| Future economic loss | 189 | 205 | (16) | (7.8) |
| External providers | 24 | 29 | (5) | (17.2) |
| Non-economic loss | 43 | 40 | 3 | 7.5 |
| **Total claim payments** | **2,360** | **2,252** | **108** | **4.8** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

A summary of the significant changes in claim payments for 2017 is as follows:

- Loss of earnings benefits increased primarily due to higher durations for current injury year claims as well as higher volume of claims from prior years.
- Workers' pensions decreased reflecting the natural reduction of claims due to mortality.
- Health care expenses increased reflecting the liability adjustments for health care costs in the prior year based on estimates of amounts owing at the time.
- Future economic loss benefits decreased reflecting the natural reduction in the number of claimants reaching age 65, the age at which these benefits cease. This program has been discontinued.

The following chart displays claim payments for the years ended December 31:



### Claim administration costs

Claim administration costs reflect the portions of administration and other expenses and legislated obligations and funding commitments expenses allocated to claim costs. A summary of claim administration costs is as follows:

| (millions of Canadian dollars) | 2017 | 2016 | Change $ | Change % |
|---|---|---|---|---|
| Allocation from administration and other expenses | 391 | 382 | 9 | 2.4 |
| Allocation from legislated obligations and funding commitments expenses | 26 | 23 | 3 | 13.0 |
| **Total claim administration costs** | **417** | **405** | **12** | **3.0** |

The change was attributed to higher costs for those expense items that are allocated to claim administration costs.

### Change in actuarial valuation of benefit liabilities

Change in actuarial valuation of benefit liabilities represents the change in the present value of future payments for loss of earnings and other disability benefits, health care, survivor, labour market re-entry and claim administration related to claims that occurred on or before December 31, 2017, and for occupational disease claims expected to arise in the future as a result of exposures which were incurred in the workplace on or before December 31, 2017 in respect of occupational diseases currently recognized by the WSIB.

| (millions of Canadian dollars) | 2017 | 2016 | Change $ | Change % |
|---|---|---|---|---|
| Change in actuarial valuation of benefit liabilities | 370 | 90 | 280 | 100+ |

Change in actuarial valuation of benefit liabilities was $370 million. The change is detailed as follows:

| (millions of Canadian dollars) | |
|---|---|
| **Benefit liabilities as at December 31, 2016** | **27,920** |
| Payments made in 2017 for prior injury years | (2,465) |
| Interest accretion[1] | 1,224 |
| Liabilities incurred for the 2017 injury year[2] | 1,639 |
| Experience gains | (630) |
| Valuation assumptions and methodologies change[3] | 131 |
| Impact of legislative amendment[2] | 471 |
| **Benefit liabilities as at December 31, 2017** | **28,290** |
| **Change in actuarial valuation of benefit liabilities** | **370** |

1. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the year.
2. On December 14, 2017, passage of Bill 177 titled *Stronger, Fairer Ontario Act (Budget Measures), 2017* amended section 13 of the WSIA to provide Chronic Mental Stress (“CMS”) benefits for diagnoses on or after April 29, 2014 and before January 1, 2018. The total impact of CMS amounts to $647 million, of which $176 million relates to the current injury year and is included in liabilities incurred for the 2017 injury year. The remaining $471 million relates to prior injury years and is included in impact of legislative amendment.
3. Change in valuation basis includes:
   a. Updated loss of earnings data assumptions and methodologies, an increase of $36 million;
   b. Updated methods and assumptions for future awards, a decrease of $65 million; and
   c. Updated methods and assumptions for occupational diseases, an increase of $160 million.

### Administration and other expenses

A summary of changes in administration and other expenses for the years ended December 31 is as follows:

| (millions of Canadian dollars) | 2017 | 2016[1] | Change $ | Change % |
|---|---|---|---|---|
| Salaries and short-term benefits | 427 | 419 | 8 | 1.9 |
| Employee benefit plans | 158 | 143 | 15 | 10.5 |
| Depreciation and amortization | 31 | 18 | 13 | 72.2 |
| Other | 184 | 178 | 6 | 3.4 |
| | 800 | 758 | 42 | 5.5 |
| Claim administration costs allocated to claim costs | (391) | (382) | (9) | (2.4) |
| **Total administration and other expenses** | **409** | **376** | **33** | **8.8** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

A summary of the significant changes in administration and other expenses, before allocation to claim costs, for 2017 is as follows:

- Salaries and short-term benefits increased $8 million primarily reflecting inflationary pressures.
- Employee benefit plans increased $15 million primarily due to a gain recorded in 2016 to reflect changes to the post-retirement benefit plan provisions for new retirees and a 15 basis point decrease in the discount rate used to value our pension obligations.
- Depreciation and amortization increased $13 million as the new accounts and claims management systems became operational.
- Other operating expenses increased $6 million primarily reflecting new initiatives as part of our transformational efforts.

### Legislated obligations and funding commitments expenses

A summary of legislated obligations and funding commitments expenses for the years ended December 31 is as follows:

| (millions of Canadian dollars) | 2017 | 2016 | Change $ | Change % |
|---|---|---|---|---|
| **Legislated obligations** | | | | |
| Occupational Health and Safety Act | 102 | 96 | 6 | 6.3 |
| Ministry of Labour Prevention Costs | 110 | 108 | 2 | 1.9 |
| | 212 | 204 | 8 | 3.9 |
| Workplace Safety and Insurance Appeals Tribunal | 29 | 26 | 3 | 11.5 |
| Workplace Safety and Insurance Advisory Program | 16 | 15 | 1 | 6.7 |
| **Total legislated obligations** | **257** | **245** | **12** | **4.9** |
| | | | | |
| **Funding commitments** | | | | |
| Grants | 1 | 1 | - | - |
| Safety program rebates | 20 | 21 | (1) | (4.8) |
| **Total funding commitments** | **21** | **22** | **(1)** | **(4.5)** |
| | **278** | **267** | **11** | **4.1** |
| Claims administration costs allocated to claim costs | (26) | (23) | (3) | (13.0) |
| **Total legislated obligations and funding commitments** | **252** | **244** | **8** | **3.3** |

Legislated obligations and funding commitments expenses, before allocation to claim costs, increased by $11 million, primarily reflecting higher costs of the MoL to administer and enforce the OHSA and higher costs by the WSIAT for its caseload reduction initiative.

## 6. Financial Condition

*A discussion of the significant changes in our December 31, 2017 consolidated statements of financial position.*

Changes in our consolidated statements of financial position are as follows:

| (millions of Canadian dollars) | 2017 | 2016 | Change $ | Change % | Commentary |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 2,586 | 2,496 | 90 | 3.6 | Increase primarily reflects investment program cash flows and strong operating performance. Refer to the consolidated statements of cash flows and Section 9 – Liquidity and Capital Resources for more details. |
| Receivables and other assets | 1,387 | 1,644 | (257) | (15.6) | Decrease primarily reflects lower investment receivables and lower net premium receivables partially offset by higher surcharges on employer incentive programs. |
| Public equity securities | 13,414 | 11,382 | 2,032 | 17.9 | Net increase reflects strong performance of these assets and cash contribution from operating activities in 2017. |
| Fixed income securities | 6,800 | 6,865 | (65) | (0.9) | |
| Derivative assets | 342 | 72 | 270 | 100+ | |
| Investment properties | 1,340 | 1,315 | 25 | 1.9 | |
| Investments in associates and joint ventures | 1,641 | 581 | 1,060 | 100+ | |
| Other invested assets | 7,910 | 6,820 | 1,090 | 16.0 | |
| Property, equipment and intangible assets | 302 | 316 | (14) | (4.4) | Decrease primarily reflects depreciation related to the new accounts and claims management systems. |
| **Liabilities** | | | | | |
| Payables and other liabilities | 1,185 | 1,112 | 73 | 6.6 | Increase primarily reflects higher refunds on experience rating and higher administration payable. |
| Derivative liabilities | 88 | 243 | (155) | (63.8) | Decrease reflects changes in our currency and futures positions within the investment portfolio. |
| Long-term debt | 115 | 132 | (17) | (12.9) | Decrease reflects partial reclassification of current portion of debt. |
| Loss of Retirement Income Fund liability | 1,915 | 1,790 | 125 | 7.0 | Increase reflects investment income, partially offset by disbursements in excess of contributions. |
| Employee benefit plans liability | 1,611 | 1,290 | 321 | 24.9 | Increase reflects a reduction in the discount rate used for valuation. |
| Benefit liabilities | 28,290 | 27,920 | 370 | 1.3 | Increase reflects a legislative amendment, changes in valuation assumptions and methodologies, partially offset by favourable experience results. |
| Unfunded liability | (710) | (3,925) | 3,215 | 81.9 | Changes reflect total comprehensive income attributable to WSIB stakeholders. |
| Unfunded liability - Sufficiency Ratio basis | (1,349) | (4,004) | 2,655 | 66.3 | Strengthening due to continued strong operating results. |
| Sufficiency Ratio | 95.8% | 87.4% | | 8.4 | |

## 7. Reconciliation of the Change in the Unfunded Liability

*An explanation and discussion about the changes to the 2017 unfunded liability.*

Premiums charged to employers are designed to offset the expected claims and associated administrative costs for injuries occurring in the current fiscal year and to retire our unfunded liability ("UFL") in accordance with *Ontario Regulation 141/12* and as amended by *Ontario Regulation 338/13* (collectively, the "Ontario Regulations"). Accordingly, we assess our financial results for both the current injury year to ensure we are funding all current year costs as well as those of prior injury years to ensure we are taking appropriate steps to retire our UFL in accordance with our statutory requirements.

Set forth below is a segmentation of our financial results between the "Current injury year" for 2017 and "Prior injury years".

| (millions of Canadian dollars) | Total | Current injury year | Prior injury years |
|---|---|---|---|
| **Revenues** | | | |
| Premiums[1] | 4,879 | 2,833 | 2,046 |
| Net mandatory employer incentive programs[2] | (100) | - | (100) |
| | 4,779 | 2,833 | 1,946 |
| Net investment income[3] | 2,914 | 97 | 2,817 |
| | **7,693** | **2,930** | **4,763** |
| **Expenses** | | | |
| Claim payments[4] | 2,360 | 180 | 2,180 |
| Claim administration costs[5] | 417 | 188 | 229 |
| Change in actuarial valuation of benefit liabilities[6] | 370 | 1,601 | (1,231) |
| | 3,147 | 1,969 | 1,178 |
| Loss of Retirement Income Fund contributions[7] | 56 | - | 56 |
| Administration and other expenses[8] | 409 | 409 | - |
| Legislated obligations and funding commitments[8] | 252 | 252 | - |
| | **3,864** | **2,630** | **1,234** |
| Remeasurements of employee benefit plans[9] | 273 | 9 | 264 |
| Translation losses from net foreign investments | 32 | - | 32 |
| **Total comprehensive income** | **3,524** | **291** | **3,233** |
| Non-controlling interests[10] | 309 | 10 | 299 |
| **Total comprehensive income attributable to WSIB stakeholders** | **3,215** | **281** | **2,934** |

1. Calculated based on new claim and administration and other costs for the 2017 injury year.
2. Represents retrospective refunds arising from favourable experience for prior years.
3. The estimated current injury year's net investment income is calculated based on net cash flow reflecting premium revenues not required for claim payments and related expense in the current injury year.
4. Determined based on injury year for each payment.
5. Current year claim administration costs are calculated by applying appropriate expense factors to actual claims cash flows for the 2017 injury year.
6. Determined based on opening and closing liabilities by injury year.
7. Payments relate to prior years as Loss of Retirement Income Fund contributions are only made once a worker has been injured and on benefits for more than one year.
8. Relates entirely to current year.
9. Relates primarily to prior injury years.
10. Same proportionate split as net investment income.

As noted above, premium revenues for the current injury year were sufficient to offset current year injury and administration costs. We believe this result reflects our disciplined approach to premium rate setting and strong oversight of benefits and administration cost management. In addition, as a result of favourable claims experience and investment returns, we were able to make demonstrable progress towards retiring the UFL.

### Reconciliation of the unfunded liability on an IFRS basis

Set forth below is a reconciliation of the movement in the UFL in 2017 reflecting actuarial gains and losses as well as assumption and actuarial standard changes. A more detailed discussion of the actuarial gains and losses is contained in note 18 of the consolidated financial statements.

| **(millions of Canadian dollars)** | |
|---|---|
| Unfunded liability as at December 31, 2016 | 3,925 |
| Interest carrying charge on UFL[1] | 177 |
| Premium payment to reduce UFL | (2,046) |
| Expected UFL as at December 31, 2017 | 2,056 |
| | |
| Experience (gains)/losses | |
| Gain from investment return higher than expected[2] | (1,471) |
| Loss from remeasurements of employee benefit plans | 264 |
| Translation losses from net foreign investments | 32 |
| Gains and losses on claims/operations | |
| Current year claims cost lower than expected | (281) |
| Net mandatory employer incentive programs | 100 |
| Prior year claims cost lower than expected | (592) |
| Net actual gains | (1,948) |
| | |
| Changes in assumptions for future cost | |
| Changes in methods and assumptions for loss of earnings benefits | 36 |
| Changes in methods and assumptions for future awards | (65) |
| Changes in methods and assumptions for occupational diseases | 160 |
| Net liability increase from assumption changes | 131 |
| | |
| Actuarial standard change | |
| Increased liability for CMS | 471 |
| **Unfunded liability as at December 31, 2017** | **710** |

1. The UFL represents the shortfall of current asset values from the discounted value of expected future payments in respect of injuries occurring in previous injury years. This shortfall represents an interest cost and must be taken into account in this reconciliation.
2. The discount rate at 2016 year-end was 4.5%. Investment experience, on an actuarial basis, was better than the discount rate during 2017, leading to additional investment gains which also contributed to a reduction in the UFL.

As noted above, the UFL decreased $3,215 million in 2017 reflecting both strong operating performance and employer claims experience relative to our long-term expectations. We continue to closely monitor these factors to ensure we achieve our legislated funding obligations.

**Reconciliation of the unfunded liability on a Sufficiency Ratio basis**

The Sufficiency Ratio is calculated by comparing Sufficiency Ratio assets to Sufficiency Ratio liabilities, using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Sufficiency Ratio assets consist of total assets of the WSIB less the asset adjustment and the interests in those assets held by third parties (non-controlling interests). Sufficiency Ratio liabilities include all liabilities as shown in the consolidated financial statements, prepared under a going concern basis.

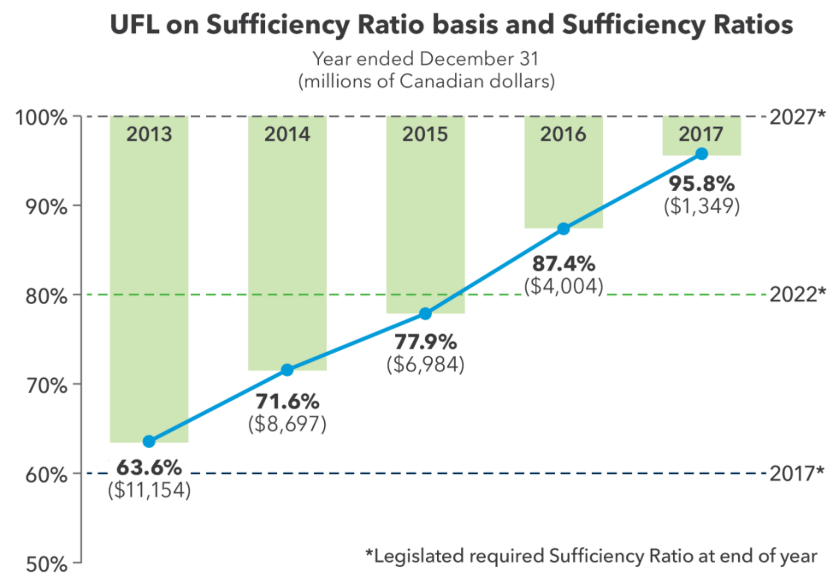
Assets used in the Sufficiency Ratio calculation which are invested in the financial markets are valued at fair value; however, only a portion of the investment gains or losses is included in the asset value. Specifically, the current period's investment gains and losses above a net expected long-term annual return are deferred and recognized over the next five years on a straight-line basis. After five years, those past investment gains and losses are fully recognized in the asset value. This procedure moderates the effect of investment market return volatility and is known as the asset adjustment.

Liabilities used in the Sufficiency Ratio calculation are prepared under a going concern basis. Specifically, the employee benefit plans liabilities are determined using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Employee benefit obligations are calculated by an actuarial valuation with a discount rate of 5.20% (2016 – 5.20%) per annum, which differs from the IFRS basis used in preparing the WSIB's consolidated financial statements with a weighted average discount rate of 3.45% (2016 – 3.90%) per annum.

As at December 31, 2017, the Sufficiency Ratio, as defined in the Ontario Regulations, was 95.8% (December 31, 2016 – 87.4%). Set forth below is the reconciliation of the unfunded liability between the IFRS and Sufficiency Ratio basis:

| (millions of Canadian dollars) | December 31 2017 | December 31 2016 |
|---|---|---|
| UFL attributable to WSIB stakeholders on an IFRS basis | 710 | 3,925 |
| Add/(Less): Adjustments per Ontario Regulations: | | |
| Change in valuation of invested assets | 1,720 | 779 |
| Change in valuation of employee benefit plans liability | (925) | (626) |
| Change in valuation of invested assets attributable to non-controlling interests | (156) | (74) |
| **UFL attributable to WSIB stakeholders on a Sufficiency Ratio basis** | **1,349** | **4,004** |
| **Sufficiency Ratio** | **95.8%** | **87.4%** |

The following chart displays the UFL on a Sufficiency Ratio basis and Sufficiency Ratios for the five consecutive years ended December 31:



## 8. Summary of Quarterly Results

*A summary view of our quarterly financial performance.*

Selected financial information for the eight consecutive quarters ended December 31, 2017 is as follows:

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **(millions of Canadian dollars)** | **Q4** | **Q3** | **Q2[5]** | **Q1[5]** | **Q4[5]** | **Q3[5]** | **Q2[5]** | **Q1[5]** |
| Net premiums | 1,142 | 1,243 | 1,276 | 1,118 | 1,177 | 1,223 | 1,265 | 1,143 |
| Net investment income (loss) | 1,036 | 581 | 403 | 894 | 260 | 953 | 556 | (265) |
| Claim payments | 603 | 575 | 587 | 595 | 518 | 566 | 586 | 582 |
| Claim administration costs | 103 | 105 | 107 | 102 | 102 | 100 | 101 | 102 |
| Change in actuarial valuation of benefit liabilities | 296 | (1) | (35) | 110 | (7) | (5) | (28) | 130 |
| **Total claim costs** | **1,002** | **679** | **659** | **807** | **613** | **661** | **659** | **814** |
| Loss of Retirement Income Fund contributions | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Administration and other expenses | 113 | 99 | 103 | 94 | 95 | 96 | 92 | 93 |
| Legislated obligations and funding commitments | 63 | 55 | 67 | 67 | 54 | 54 | 65 | 71 |
| **Excess (deficiency) of revenues over expenses** | **986** | **977** | **836** | **1,030** | **661** | **1,351** | **991** | **(114)** |
| Total other comprehensive income (loss) | (306) | 317 | (243) | (73) | 464 | (39) | (308) | (160) |
| **Total comprehensive income (loss)** | **680** | **1,294** | **593** | **957** | **1,125** | **1,312** | **683** | **(274)** |
| **Total comprehensive income (loss) attributable to WSIB stakeholders** | **574** | **1,231** | **551** | **859** | **1,098** | **1,203** | **620** | **(247)** |
| **Other measures** | | | | | | | | |
| Core Earnings[1] | 246 | 395 | 398 | 246 | 394 | 393 | 407 | 281 |
| Return on investments (%)[2] | 3.5 | 2.0 | 1.5 | 3.4 | 1.1 | 3.8 | 2.3 | (1.0) |
| Unfunded liability[3, 4] | (710) | (1,284) | (2,515) | (3,066) | (3,925) | (5,023) | (6,226) | (6,846) |
| Unfunded liability – Sufficiency Ratio basis[4] | (1,349) | (1,777) | (2,621) | (3,482) | (4,004) | (4,799) | (5,633) | (6,420) |

1. Core Earnings is calculated as total comprehensive income excluding the impacts of investment related items, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 16 – Non-IFRS Financial Measure.
2. Return on investments is the investment income (loss), net of transaction costs and withholding taxes, generated over a given period of time as a percentage of the capital invested taking into account capital contributions and withdrawals.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $2,518 million as at December 31, 2017 (December 31, 2016 – deficiency of $996 million) is allocated between the WSIB stakeholders and the non-controlling interests ("NCI") on the basis of their proportionate interests in the net assets of the WSIB. NCI represent the proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100% interest. NCI of $3,228 million as at December 31, 2017 (December 31, 2016 – $2,929 million) exclude benefit liabilities since the holders of NCI, the WSIB Employees' Pension Plan and other investors, are not liable for those obligations. The proportionate share of the total deficiency of assets attributable to WSIB stakeholders as at December 31, 2017 was $710 million (December 31, 2016 – $3,925 million) which includes benefit liabilities. Refer to the consolidated statements of financial position for further details.
4. Refer to Section 7 – Reconciliation of the Change in the Unfunded Liability for further details.
5. Certain comparative amounts have been reclassified to be consistent with the current period's presentation.

Notable items affecting our fourth quarter 2017 results compared to the fourth quarter 2016 results are as follows:

- Net premiums were $1,142 million compared to $1,177 million, a decrease of $35 million or 3.0%, reflecting a $114 million decrease in gross Schedule 1 premiums, partially offset by a $73 million decrease in net payouts for mandatory employer incentive programs and a $6 million net change in other items.
- Net investment income was $1,036 million representing a 3.5% return on investments compared to $260 million and a 1.1% return, an increase of $776 million primarily attributed to higher income from public equities and diversified markets.
- Claim payments were $603 million compared to $518 million, an increase of $85 million or 16.4%, primarily due to liability adjustments for health care costs in the prior year based on estimates of amounts owing at the time.
- Claim administration costs were $103 million compared to $102 million, an increase of $1 million or 1.0%, representing the allocations of administration and other expenses and legislated obligations and funding commitments expenses to claim costs.
- Administration and other expenses, before allocation to claim costs, were $208 million compared to $189 million, an increase of $19 million or 10.1%, reflecting a $7 million increase in employee benefit plans expenses, $6 million increase in depreciation and amortization expenses, $4 million increase in salaries and short-term benefits expenses and $2 million increase in other operating expenses.
- Legislated obligations and funding commitments, before allocation to claim costs, were $71 million compared to $62 million, an increase of $9 million or 14.5%, reflecting higher safety program rebates and higher costs by the MoL to administer and enforce the OHSA.

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by volatile global capital markets. We anticipate the volatility in net investment income will continue in 2018.

Refer to Section 5 – Financial Results for a discussion of the current annual results.

## 9. Liquidity and Capital Resources

*A discussion of cash flow, liquidity, credit facilities and other arrangements.*

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy claim payments and operating expenses. As at December 31, 2017, we held $2,586 million of cash and cash equivalents of which $2,434 million was held for investing purposes and $152 million was held for operating purposes.

| (millions of Canadian dollars) | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents, beginning of year | 2,496 | 1,581 |
| Cash provided by operating activities | 1,260 | 1,364 |
| Cash required by investing activities | (1,154) | (417) |
| Cash required by financing activities | (16) | (32) |
| **Cash and cash equivalents, end of year** | **2,586** | **2,496** |

For the year ended December 31, 2017, cash provided by operating activities was $1,260 million compared to $1,364 million in 2016 reflecting continuing efforts to direct resources to investment return generating initiatives. Cash required by investing activities was $1,154 million compared to $417 million in 2016 primarily reflecting an increase in investments in associates and joint ventures, partially offset by a decrease in the net purchase of investments and an increase in dividends and interest received. Cash required by financing activities was $16 million compared to $32 million in 2016.

### Credit facilities

We maintain and use a $150 million unsecured line of credit with a commercial bank for general operating purposes. There were no outstanding borrowings under this credit facility as at December 31, 2017.

**Commitments**

(a) Lessee

The future aggregate minimum lease payments are as follows:

| (millions of Canadian dollars) | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Simcoe Place | 4 | 17 | 20 | **41** |
| Investment properties | 2 | 8 | 75 | **85** |
| Office space and computer equipment | 6 | 19 | 9 | **34** |

(i) Simcoe Place

The WSIB has a finance lease related to the land at Simcoe Place. The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2 million. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council's approval.

(ii) Investment properties

The WSIB has three operating leases for investment properties. Two of the leases have remaining lease terms of 35 years; the other has a remaining lease term of 71 years.

(iii) Office space and computer equipment

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

(b) Lessor

(i) Investment properties

The WSIB is the lessor of a number of operating leases of its investment properties. These leases typically have a term of 5 to 15 years, with an option to renew. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

| (millions of Canadian dollars) | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Investment properties | 67 | 214 | 166 | **447** |

(c) Mortgages

As at December 31, 2017, future principal payments on mortgages were as follows:

| (millions of Canadian dollars) | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Mortgages | 17 | - | 69 | **86** |

(d) Investment commitments

The WSIB had the following commitments for capital calls as at December 31 related to its investment portfolio:

| (millions of Canadian dollars) | 2017 | 2016 |
|---|---|---|
| Investment funds, infrastructure and real estate related investments | 2,142 | 1,748 |
| Investments in associates and joint ventures | 88 | 97 |
| Purchases or development of investment properties | 48 | 45 |
| **Total investment commitments** | **2,278** | **1,890** |

There was no specific timing requirement to fulfill these commitments during the investment period.

(e) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2017 were approximately $269 million for 2018.

(f) Other commitments

As at December 31, 2017, the WSIB had additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $159 million (2016 - $149 million).

## 10. Critical Accounting Estimates and Judgments

*A description of the critical accounting estimates and judgments that affect the measurement and presentation within the consolidated financial statements.*

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates and assumptions have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements. The WSIB has based its estimates and assumptions on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the WSIB. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

The most significant estimation processes relate to the assumptions used in measuring benefit liabilities, assessing fair value of certain financial instruments and investment properties, and the determination of employee benefit obligations. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

**Benefit liabilities and claim costs**

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions related to workers of Schedule 1 employers. These estimates and assumptions include claim duration, mortality rates, wage and health care escalations, general inflation, and discount rates. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. Changes in the estimates and assumptions could have a significant impact on the measurement of benefit liabilities and claim costs.

The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future claim payments are recognized in claim costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Claim costs consist of: (i) claim payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the dates of the consolidated statements of financial position.

**Employee benefit plans**

The WSIB sponsors a registered defined benefit pension plan, supplemental defined benefit pension plan, and other benefits. Other benefits include post-retirement benefits for health, dental, vision and life insurance benefits, and other employment benefits for disability income, vacation and attendance programs. Refer to note 16 to the consolidated financial statements for more information on these plans.

The cost of employee benefit plans is recognized as the employees provide services to the WSIB. The obligations for these plans are measured as the present value of the employee benefit obligations less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the employee benefit plans is actuarially determined using the projected unit credit method and includes management's estimates and assumptions of compensation increases, health care cost trend rates, mortality, retirement ages of employees, and discount rates. The discount rate used to value the obligations is based on high-quality corporate bonds that have approximately the same term as the obligation. These estimates are reviewed annually with the WSIB's external actuaries. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

The changes in the employee benefit obligations and plan assets are recognized when they occur as follows:

(a) Service costs and the net interest cost are recognized in administration and other expenses; and

(b) Remeasurements, actual experience which differs from assumptions which result in actuarial gains or losses, are recognized in other comprehensive income.

**Fair value measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction (not a forced liquidation or distress sale) between market participants at the measurement date, that is, an exit value. Refer to note 7 to the consolidated financial statements for further details.

The carrying amounts of cash and cash equivalents, public equity securities, fixed income securities, derivative assets and derivative liabilities are their fair values. Due to their short-term nature, the carrying amounts of investment receivables and investment payables approximate their fair values.

Where possible, the fair value of publicly traded financial instruments is based on quoted prices in active markets.

Where quoted prices in active markets are not available for financial instruments such as fixed income securities, the fair value is based on valuation models that use observable market inputs, broker quotes, consensus pricing and the fair value of other similar financial instruments.

The other invested assets include investment funds, infrastructure related investments and real estate related investments. Investment funds are valued on the basis of net asset values provided by investment managers. Infrastructure and real estate related investment funds are valued using acceptable industry valuation methods, including discounted cash flow methods using unobservable inputs such as expected future cash flows, terminal values, and discount rates and market comparable approaches.

The fair value of infrastructure related investments is provided by investment managers who use acceptable industry valuation methods, which incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Due to the estimation process and the need to use judgment, the aggregate fair value amounts may not be realizable in the settlement of assets or liabilities.

The fair values of real estate related investments and investment properties are based on the periodic valuations performed by independent qualified appraisers using valuation models incorporating available market evidence, including discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the properties. When determining the fair value of these investments, estimates and assumptions are made that may have a significant effect on the reported values of these investments.

## 11. Changes in Accounting Standards

*A discussion of new and amended IFRS standards that are reflected in the consolidated financial statements.*

### (a) Standards adopted during the current year

**IAS 7 *Statement of Cash Flows*** ("IAS 7")

The WSIB adopted the amendments to IAS 7 effective for annual periods beginning on or after January 1, 2017. The amendments require that companies provide information about changes in their financing liabilities. The adoption of these amendments did not have a significant impact on the WSIB's consolidated financial statements.

***Annual Improvements to IFRSs 2014 - 2016 Cycle***

In December 2016, the International Accounting Standards Board ("IASB") issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") effective January 1, 2017. The amendment provides clarification guidance to the scope of IFRS 12. The adoption of the amendment did not have a significant impact on the WSIB's consolidated financial statements.

### (b) Future changes in accounting standards

The following new or amended accounting standards have been issued by the IASB. These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on our consolidated financial statements.

**IFRS 15 *Revenue from Contracts with Customers*** ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for items such as financial instruments, insurance contracts and leases.

The impact of IFRS 15 will be limited to the WSIB's revenue from the account and claims management services provided to Schedule 2 employers, one-time gains on disposal of investment properties and property and equipment. The WSIB will adopt the standard on the effective date of January 1, 2018. Based on the nature of the WSIB's revenues, IFRS 15 is not expected to have a material impact on the WSIB's consolidated financial statements.

**IFRIC 22 *Foreign Currency Transactions and Advance Consideration*** ("IFRIC 22")

In December 2016, the IASB issued IFRIC 22, which clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The amendments will be effective for the WSIB beginning on January 1, 2018 and may be applied retrospectively or prospectively. IFRIC 22 is not expected to have a material impact on the WSIB's consolidated financial statements.

***Annual Improvements to IFRSs 2014 - 2016 Cycle***

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") that is effective for annual periods beginning on or after January 1, 2018. The adoption of this amendment is not expected to have a significant impact on the WSIB's consolidated financial statements.

**Amendments to IAS 40 *Investment Property*** ("IAS 40")

In December 2016, the IASB issued amendments to IAS 40, which clarify that an entity shall transfer property to, or from, an investment property when, and only when, there is evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

**IFRS 16 *Leases*** ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a retrospective or a modified retrospective basis. The WSIB is currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

**Amendments to IAS 28 *Investments in Associates and Joint Ventures*** ("IAS 28")

In October 2017, the IASB issued amendments to IAS 28, which clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for following the requirements of IFRS 9 *Financial Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

***Annual Improvements to IFRSs 2015 - 2017 Cycle***

In December 2017, the IASB issued *Annual Improvements to IFRSs 2015 – 2017 Cycle*, which includes minor amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

**IFRS 17 *Insurance Contracts*** ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. The WSIB will adopt the standard on the effective date of January 1, 2021. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

**IFRS 9 *Financial Instruments*** (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

A new principles-based model is introduced for classifying and measuring financial assets, based on the business model and the contractual cash flow characteristics of the financial assets held. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated at fair value through profit or loss, fair value changes attributable to the changes in an entity’s own credit risk are reflected in other comprehensive income.

The standard also introduces a new forward-looking expected loss model which replaces the incurred loss model under IAS 39 for the recognition and measurement of impairment on all financial instruments not measured at fair value. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

The WSIB will defer IFRS 9 until January 1, 2021, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4. Based on the nature of the WSIB’s financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB’s consolidated financial statements as most of the WSIB’s financial instruments are measured at fair value.

## 12. Legal Contingencies

*A discussion of our legal proceedings, claims and other legal contingencies.*

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB’s financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors’ and officers’ liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

## 13. Outlook for the Year Ending December 31, 2018

*The outlook for our business for the year ending December 31, 2018.*

The following contains forward-looking statements about the outlook for our business. Reference should be made to Section 18 – Forward-Looking Statements at the end of this MD&A. For a description of risk factors that could cause our actual results to differ materially from the forward-looking statements, please also see Section 15 – Risk Factors in this MD&A and note 12 in our consolidated financial statements.

### Premiums

Premium revenues are anticipated to decrease in 2018 reflecting a 3.3% reduction in the average premium rate, partially offset by an assumed 1.0% increase in employment growth and a 1.0% increase in average wages and lower net payouts for mandatory employer incentive programs. While average premium rates in 2018 are anticipated to decrease from 2017, employers continue to contribute towards retiring the unfunded liability.

### Net investment income

Net investment income is planned at a 4.75% net return on investments, consistent with our long-term investment return objective within an expected range of 3.5% to 6.5%. We will continue to implement our SIP in a way that permits us to take advantage of investment opportunities without exposing us to a higher level of volatility and corresponding investment risk.

### Claim payments

Claim payments are anticipated to be higher than the level of claim payments in 2017. We caution readers that the level of claim payments may rise in part due to new types of compensable claims being promulgated.

### Administration and other expenses

Administration and other expenses are anticipated to increase in 2018 reflecting increases to information technology costs, increases to the pension liability and higher salary expenses.

### Legislated obligations and funding commitments

Legislated obligations and funding commitments are anticipated to increase reflecting higher safety program rebates.

### Unfunded liability

We anticipate the unfunded liability will continue to decrease, based on current funding and benefit levels and employer contributions toward retiring this liability, as measured under current accounting and actuarial standards.

### Core Earnings

Although Core Earnings are expected to decrease as a result of the reduction in average premium rate, we anticipate continued contribution towards retiring the unfunded liability through continued operational excellence.

## 14. Internal Control over Financial Reporting

*A statement of responsibilities regarding internal control over financial reporting.*

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the annual report and ensuring its consistency with the consolidated financial statements.

## 15. Risk Factors

*A discussion of the more significant risk factors affecting our business.*

**Introduction**

The WSIB faces a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider not to be material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected.

The WSIB, and its Enterprise Risk Management ("ERM") function, closely monitors enterprise risks that may impact the achievement of strategic objectives and undertakes continuous engagement with leaders to assess and adjust risk mitigations and controls.

The ERM Branch provides enterprise risk oversight leadership to the WSIB through its reporting relationship to the Board of Directors, the Governance Committee and senior executives with quarterly-based monitoring and reporting of significant enterprise risks. Highlights of some of these risks are discussed below.

**Reporting in accordance with IFRS 7**

The shaded text in the following sections represents our disclosures on investment, liquidity, credit and market risks in accordance with IFRS 7 *Financial Instruments: Disclosure*, and includes a discussion on how we measure risk and our objectives, policies and methodologies for managing these risks. The shaded text represents an integral part of our consolidated financial statements for the year ended December 31, 2017 and does not imply that these disclosures are of any greater importance than the non-shaded text.

**Insurance funding risk**

Insurance funding risk is the risk that the WSIB's funded status falls short of Ontario Regulations due to:

- insufficient premium revenue to cover costs, and/or
- increases in the benefit liabilities, and/or
- insufficient investment revenue.

The WSIB is currently reviewing some of the key parameters that govern funding, pricing and investment decisions, in alignment with a revised risk appetite statement approved by the Board of Directors in December 2017. This exercise will culminate with a revised Funding Policy in 2018 that will set out the governance of insurance funding risk. Our mitigation of the risk includes but is not limited to the below discussion.

**(a) Premium revenue:**

- Conducting regular modeling and monitoring of economic scenarios, including stress testing, to better understand the impact of economic risks and to determine the adequacy of our financial assumptions, budget updates, sufficiency planning, and rate setting.

**(b) Benefit liabilities:**

- Determining benefit liabilities based on assumptions that gradually incorporate emerging experience, thus providing a relatively stable basis for pricing and sufficiency measurement; and
- Monitoring for potential legislative changes that could impact benefit liabilities or claim costs.

**(c) Investment revenue:**

- Coordinating asset-liability management processes including consideration of the impacts of economic and other risk factors on the funding position and desired level of margin funding;
- Assessing actual investment performance relative to expectations of the WSIB's strategic investment allocation policy;
- Executing the SIP to ensure strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of invested assets; and
- Conducting periodic Asset-Liability Studies and implementing a comprehensive investment risk model.
- Additional Investment risks which could impact Investment revenue are Liquidity risk, Credit risk and Market risk. These risks are discussed below.

**(i) Liquidity risk**

Liquidity risk is the risk that we will encounter difficulty in liquidating financial assets in order to fund obligations associated with financial liabilities.

We mitigate this risk by:

- investing the majority of our assets in readily marketable instruments (publicly traded equity and fixed income securities);
- maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements and fund investment-related obligations and commitments; and
- maintaining a $150 million unsecured credit facility, which we can utilize to manage our liquidity needs.

**(ii) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

We are exposed to several types of credit risk including:

- risk that our fixed income investments, consisting primarily of investment grade debt instruments, may become impaired;
- counterparty risk relating to our securities lending, foreign currency and diversified markets programs;
- credit loss due to Schedule 1 employers not settling their premiums receivable and Schedule 2 employers not reimbursing us for their respective claim costs; and
- the risk that the Canadian life insurance companies, that enter into annuity agreements with us to provide for fixed and recurring payments to claimants, may fail to fulfill their obligations.

We mitigate our credit risk by:

- reducing concentration risk by holding a diversified portfolio of debt instruments including a predominant component that is invested in government-issued and short-term Canadian bank-issued bonds;
- appointing an experienced agent to manage the securities lending program including the management of borrower credit risk by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety; and receiving an indemnity from the financial institution that manages the securities lending program;
- adopting an approved list of foreign currency and other financial instrument counterparties, credit rating limits, and managing counterparty diversification and frequency of settlements; and
- holding collateral from some Schedule 2 employers in the form of either letters of credit issued by highly rated financial institutions, or surety bonds issued by highly rated insurance companies.

**(iii) Market risk**

There are three types of market risk to which we are exposed:

- currency risk is the risk of loss due to adverse movements in foreign currency rates relative to the Canadian dollar;
- interest rate risk is the potential for financial loss arising from changes in interest rates; and
- price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

We apply various measures to mitigate these risks, which include:

- using foreign exchange contracts to hedge a portion of currency exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception;
- reviewing interest rate risk through periodic asset and liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify our exposure to the impact of changes in interest rate levels; and
- diversifying our investment portfolio in accordance with our investment policies to reduce the concentration of the portfolio. Diversification minimizes the impact of a change in price in any one particular issuer, a group of issuers, a geographic region, or a sector component of the market on the overall portfolio. Diversification ensures that the exposure of the investment portfolio to a group which shares similar characteristics such as type of industry and economic and political conditions, which may impact the issuers' ability to meet contractual commitments, is managed at a prudent level.

**Management of claims**

We strive to be operationally efficient and effective in the management of claims to enable optimal outcomes for injured workers. Any increases in claims complexity and volumes places pressure on the existing claims management model. In addition, delays in accessing timely health care treatment and return to work services would increase the potential for longer claim durations, development of permanent impairments and ultimately increased claims costs.

Over the past 12 months, focus was placed on ensuring operational preparedness for CMS claims by January 1, 2018 while also incrementally improving elements of the existing service model. Over the past year, mitigations of this risk included:

- Implementing the claims management model for CMS claims;
- Identifying the priorities of the new customer-centric program aimed at maturing service delivery; and
- Assessing if core competencies are in place to support the evolving nature of claims.

**Enterprise compliance**

There is a risk of non-compliance with laws, regulations, government policies and directives or organizational standards and policies, which may lead to reputational/brand damage, adverse events that significantly disrupt business operations, financial costs, or criminal or civil fines and penalties. The WSIB has developed an overarching compliance framework to monitor and provide assurance with respect to the WSIB's level of compliance with requirements such as laws and regulations. The following are key risk mitigation activities undertaken in the course of the year:

- Legislative mapping was completed;
- Monitoring and testing of higher risk compliance requirements are in progress;
- Responding to identified issues through proactive management action; and
- The Enterprise Compliance Program has been fully implemented.

**Privacy**

Due to the nature of WSIB business, the collection, use and disclosure of personal information is a necessary and regular occurrence. Inherent in any transactions involving personal information is the risk of a privacy breach through inappropriate collection, use, disclosure, or loss of the information. Any privacy breach may lead to significant reputational harm, regulatory review, or legal action. This risk is significant due to the largely manual processes and operations for handling personal information and the highly sensitive nature of the personal information.

These risks are mitigated by:

- Developing and maintaining a comprehensive enterprise privacy and Information Technology ("IT") security framework and corresponding policies, including digitization of the Freedom of Information processes;
- Conducting on-going privacy and IT risk assessments on any new or changing business line or program and enhancing IT risk mitigation capabilities;
- Building privacy safeguards into the business lines where personal information is handled (incorporating privacy into the design at the concept stage and initiation of procurements and contracts, including contract language enforcing IT security and privacy standards); and
- Enhancing privacy and IT security awareness program to increase education and accountability for all staff.

**Large scale projects**

Our aim is to continuously deliver projects on time, on budget, and within effectively identified scope. Successfully delivering, prioritizing, and extracting the full benefits of complex projects is a common challenge for organizations. Over the past 12 months, focus was placed on strengthening the project management approach to ensure the realization of benefits. Over the past year, our mitigations have included:

- Identifying the common portfolio risks and constraints and assessing them against individual projects;
- Continuously improving the portfolio governance and project oversight; and
- Enhancing collaboration between enterprise risk management and enterprise portfolio management.

**Workforce**

Our operations are exposed to the risk that we may not be able to attract and retain an engaged workforce with the right capabilities to match the needs of the future workplace. The following are key risk mitigation activities undertaken in the course of the year:

- Implementation of succession management and leadership development programs continue;
- Performance management program improvements have been carried out;
- A Human Resources ("HR")/Business Integrated Leadership Team to work on HR programming has been created;
- An Employee Experience team to improve employee engagement has been created; and
- Implementation of strategic workforce planning to ensure we are proactively planning for a future workforce with the requisite skills and competencies to deliver strategic and business plans.

**Business continuity management**

Our stakeholders rely on our ability to provide services and operate our system without interruption. During the course of the past year, we continued to mature our business continuity capabilities by conducting numerous emergency management exercises with senior leadership. These exercises have strengthened our action and communication plans, which bolster our operational resiliency towards disruptive incidents. Our mitigation of the risk includes but is not limited to:

- Updating of Business Continuity Management Plans that assist with preventing and minimizing potential operational risks and disruptions;
- Updating and reviewing the Emergency Response Plan including conducting annual exercises and scenarios with senior leadership; and
- Continuing to refine and mature Disaster Recovery ("DR") plans including modernizing our IT Security Incident Management process and ensuring all new systems are built with multiple redundancies within a secured secondary datacentre with disaster recovery capabilities for critical applications.

**Information technology**

We rely on multiple technologies and third parties to provide key components of our infrastructure. At the beginning of 2017, concerns associated with this risk included the pace of legacy IT system decommissioning which may hinder business growth objectives, and the deficiencies in the WSIB's IT security posture resulting in loss. In addition, heightened reliance is expected on IT to continue to support and advance technologies to meet new business requirements. The following are key risk mitigation activities undertaken in the course of the year:

- Applications have been migrated to Consultants to Government and Industries ("CGI"), and network and email migrations have been completed;
- IT has decommissioned 23 legacy systems with significant issues and moved data to Guidewire;
- IT Policy Framework roll-out to all Clusters is on track for completion in the first quarter of 2018;
- An enhanced IT Procurement Intake form is being piloted;
- IT Architecture Policy was conditionally approved by the Information Technology Leadership Team; and
- DR testing was carried out for Guidewire infrastructure.

**Third party vendors**

Third party vendors are an inherent part of the WSIB's business delivery model. The vendors extend our organizational capability and capacity, but also extend risk exposure. There is a risk that the lack of an adequate enterprise-wide approach to management of all significant third party relationships may result in failure of third party performance, compliance, or delivery. These risks are mitigated by:

- A maturing vendor management framework that provides greater due diligence to identify and select well qualified vendors through a fair, open and transparent process, which includes assessment of technical capabilities, experience, pricing and where appropriate privacy impact assessments, and technology risk assessments;
- Written contracts that clearly outline pricing, duties, obligations and responsibilities of the parties involved and usage of subcontractors;
- A Vendor Code of Conduct which is aligned to the WSIB Business Code of Ethics, and outlines expectations for ethical behavior that respects our values, principles, standards, and policies; and
- Ongoing monitoring through continuous oversight and rigorous contract management practices.

## 16. Non-IFRS Financial Measure

*A definition of our non-IFRS financial measure.*

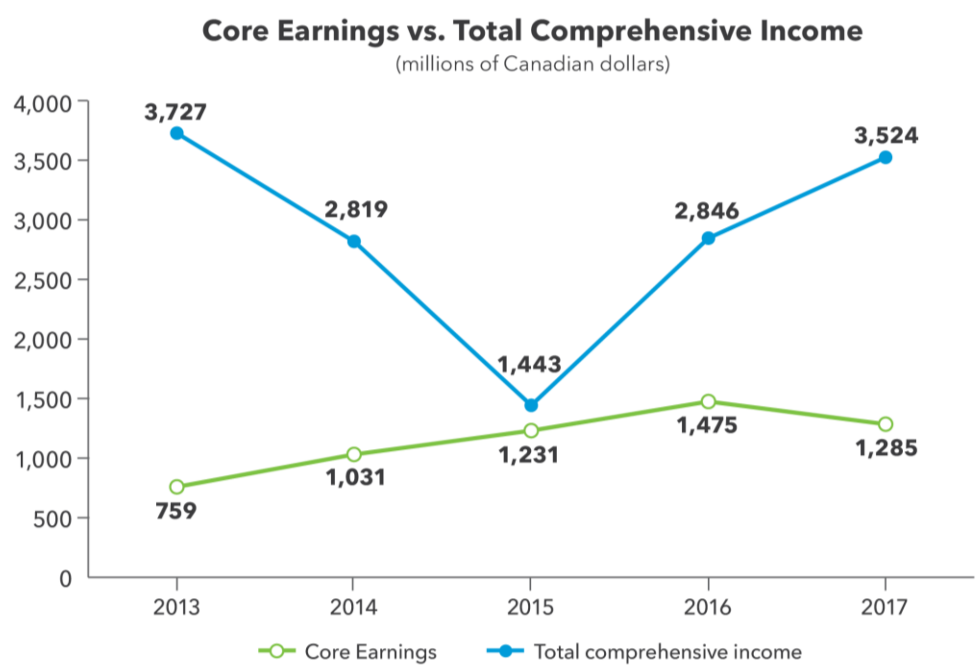
### Core Earnings

The WSIB utilizes "Core Earnings", a non-IFRS financial measure, to help stakeholders better understand our underlying operating performance. This measure is relevant to our operations management and offers a consistent methodology in evaluating our underlying performance. Core Earnings is defined as total comprehensive income, excluding the impacts of investment related items, changes in actuarial valuations and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other organizations.

Set forth below is the reconciliation of Core Earnings and total comprehensive income, the most directly comparable financial measure calculated and presented consistent with IFRS:

| **(millions of Canadian dollars)** | **2017** | **2016** |
|---|---|---|
| Total comprehensive income for the year | 3,524 | 2,846 |
| *Add/(Less)*: Net investment loss (income) | (2,914) | (1,504) |
| *Add/(Less)*: Translation losses (gains) from net foreign investments | 32 | 8 |
| *Add/(Less)*: Change in actuarial valuation of benefit liabilities | 370 | 90 |
| *Add/(Less)*: Change in actuarial valuation of employee benefit plans | 273 | 35 |
| **Core Earnings** | **1,285** | **1,475** |

The following chart displays the Core Earnings measurement versus the IFRS measurement for the five consecutive years ended December 31:



## 17. Related Party Transactions

*A discussion of related party transactions and their relationship to our business.*

The WSIB's related parties include the Government of Ontario and related entities, key management personnel, subsidiaries, associates, joint ventures, and post-retirement benefit plans for the WSIB's employees. The transactions are in the ordinary course of business and at arms-length.

**Government of Ontario and related entities**

The WSIB is a board-governed trust agency under the Agencies and Appointments Directive, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser. The WSIB also provides various grants and funding to carry on investigations, research and training. The total of this funding for the year ended December 31, 2017 was $258 million (2016 – $246 million) and is included in legislated obligations and funding commitments expenses.

In addition to the above, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

Included in investments are $1,171 million of marketable fixed income securities issued by the Government of Ontario and related entities (2016 – $1,562 million).

Reimbursements paid to the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers are included in claim payments. Administrative fees paid to the MOHLTC are included in administration and other expenses.

**Investment Management Corporation of Ontario**

In 2016, the WSIB was named in *Ontario Regulation 251/16* as one of the initial members of IMCO. Created by the Ontario Government and enacted by legislation, IMCO is a new entity that will provide investment management and advisory services to participating organizations in Ontario's public sector.

On July 27, 2016, IMCO entered into a Funding Agreement with WSIB, which was amended on September 30, 2016, to fund IMCO's operations during the start-up period as defined in the Funding Agreement. The Funding Agreement sets out the basis on which monies could be advanced by the WSIB to IMCO through promissory notes during the start-up period. The promissory notes bore interest at prime rate plus 2%, calculated daily. The promissory note payable to WSIB totaled $4.3 million (2016 - $1.5 million) and was repaid in full as at June 30, 2017.

On July 24, 2017, IMCO officially began managing WSIB's invested assets and subsequent to IMCO becoming operational, WSIB's share of IMCO's operating expenses are paid by WSIB on a cost recovery basis.

External investment manager and custodial fees, previously paid directly by WSIB, are now paid by IMCO on WSIB's behalf.

## 18. Forward-Looking Statements

*Caution regarding forward-looking statements.*

This MD&A contains “forward-looking statements,” within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words, such as “anticipates,” or “believes,” “budget,” “estimates,” “expects,” or “is expected,” “forecasts,” “intends,” “plans,” “scheduled,” or variations of such words and phrases or state that certain actions, events or results “could,” “may,” “might,” “will,” or “would,” be taken, occur or be achieved. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other changes announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe that the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management’s expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

# RESPONSIBILITY FOR FINANCIAL REPORTING

## Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

## Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the Chief Actuary works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions applicable to the WSIB's benefit liabilities at the consolidated statements of financial position date to determine the valuation of benefit liabilities. Additionally, the Chief Actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statements of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The Chief Actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the Chief Actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The Chief Actuary's report outlines the scope of the valuation and his opinion.

## Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

**Thomas Teahen**
President and Chief Executive Officer
April 19, 2018
Toronto, Ontario

**Pamela Steer**
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Pursuant to the Workplace Safety and Insurance Act, 1997 (Ontario), which provides that the accounts of the **Workplace Safety and Insurance Board** (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statements of financial position as at December 31, 2017, the consolidated statements of comprehensive income, changes in net (deficiency of) assets, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2017 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 19, 2018

## ACTUARIAL OPINION

**On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2017**

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (the "WSIB") for its consolidated statements of financial position as at December 31, 2017 (the "valuation date").

In my opinion, the benefit liabilities of $28,290 million make reasonable provision for future payments for loss of earnings, other short and long-term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the *Workplace Safety and Insurance Act, 1997 (Ontario)*, (the "WSIA") and on the WSIB's policies and administrative practices in effect at the time of the valuation. This includes the December 14, 2017 passage of Bill 177 titled *Stronger, Fairer Ontario Act (Budget Measures), 2017*, in which Schedule 45 amended section 13 of the WSIA to provide Chronic Mental Stress ("CMS") benefits for diagnoses on or after April 29, 2014 and before January 1, 2018.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with the WSIB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB's strategic plan and investment policies and were unchanged from the previous valuation. For this valuation, an annual discount rate of 4.50% was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index ("CPI") of 2.0%, annual health care costs and annual wage escalation rates of 4.0% and 3.0% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WSIB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis include updates to the outstanding loss of earnings locked-in claim profile, loss of earnings arrears factors, future awards benefits claim profile assumptions and long latency occupational disease claim cost factors. Another change included using four years of experience (previous valuation used three years of experience) in determining the projected counts for future awards benefits. The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 18 to the consolidated financial statements.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

**Donald Blue, FCIA, FSA**
Vice President and Chief Actuary
Workplace Safety and Insurance Board
April 19, 2018
Toronto, Ontario

**Consolidated Statements of Financial Position**
**(millions of Canadian dollars)**

| | Note | December 31 2017 | December 31 2016[1] |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4 | 2,586 | 2,496 |
| Receivables and other assets | 5 | 1,387 | 1,644 |
| Public equity securities | 7 | 13,414 | 11,382 |
| Fixed income securities | 7 | 6,800 | 6,865 |
| Derivative assets | 9 | 342 | 72 |
| Investment properties | 7 | 1,340 | 1,315 |
| Investments in associates and joint ventures | 10 | 1,641 | 581 |
| Other invested assets | 7 | 7,910 | 6,820 |
| Property, equipment and intangible assets | 13 | 302 | 316 |
| **Total assets** | | **35,722** | **31,491** |
| **Liabilities** | | | |
| Payables and other liabilities | 14 | 1,185 | 1,112 |
| Derivative liabilities | 9 | 88 | 243 |
| Long-term debt | | 115 | 132 |
| Loss of Retirement Income Fund liability | 15 | 1,915 | 1,790 |
| Employee benefit plans liability | 16 | 1,611 | 1,290 |
| Benefit liabilities | 18 | 28,290 | 27,920 |
| **Total liabilities** | | **33,204** | **32,487** |
| **Net (deficiency of) assets** | | | |
| Deficit | | (792) | (4,309) |
| Accumulated other comprehensive income | | 82 | 384 |
| **Unfunded liability attributable to WSIB stakeholders** | | **(710)** | **(3,925)** |
| Non-controlling interests | 23 | 3,228 | 2,929 |
| **Total net (deficiency of) assets** | | **2,518** | **(996)** |
| **Total liabilities and net (deficiency of) assets** | | **35,722** | **31,491** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Approved by the Board of Directors

**Elizabeth Witmer**

Chair
April 19, 2018

**Lea Ray**

Audit and Finance Committee (Chair)
April 19, 2018

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

**Consolidated Statements of Comprehensive Income**
**For the years ended December 31**
**(millions of Canadian dollars)**

| | Note | 2017 | 2016[1] |
|---|---|---|---|
| **Revenues** | | | |
| Premiums | 17 | 4,879 | 4,989 |
| Net mandatory employer incentive programs | 17 | (100) | (181) |
| **Net premiums** | | **4,779** | **4,808** |
| Investment income | 6 | 3,092 | 1,662 |
| Investment expenses | 6 | (178) | (158) |
| **Net investment income** | | **2,914** | **1,504** |
| **Total revenues** | | **7,693** | **6,312** |
| **Expenses** | | | |
| Claim payments | 18 | 2,360 | 2,252 |
| Claim administration costs | 18 | 417 | 405 |
| Change in actuarial valuation of benefit liabilities | 18 | 370 | 90 |
| **Total claim costs** | | **3,147** | **2,747** |
| Loss of Retirement Income Fund contributions | 15 | 56 | 56 |
| Administration and other expenses | | 409 | 376 |
| Legislated obligations and funding commitments | | 252 | 244 |
| **Total expenses** | | **3,864** | **3,423** |
| **Excess of revenues over expenses** | | **3,829** | **2,889** |
| **Other comprehensive loss** | | | |
| Item that will not be reclassified subsequently to income | | | |
| Remeasurements of employee benefit plans | 16 | 273 | 35 |
| Item that will be reclassified subsequently to income | | | |
| Translation losses from net foreign investments | | 32 | 8 |
| **Total other comprehensive loss** | | **305** | **43** |
| **Total comprehensive income** | | **3,524** | **2,846** |

| | | 2017 | 2016[1] |
|---|---|---|---|
| **Excess of revenues over expenses attributable to:** | | | |
| WSIB stakeholders | | 3,517 | 2,716 |
| Non-controlling interests | 23 | 312 | 173 |
| | | **3,829** | **2,889** |
| **Total comprehensive income attributable to:** | | | |
| WSIB stakeholders | | 3,215 | 2,674 |
| Non-controlling interests | 23 | 309 | 172 |
| | | **3,524** | **2,846** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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

**Consolidated Statements of Changes in Net (Deficiency of) Assets**
**For the years ended December 31**
**(millions of Canadian dollars)**

| | Note | 2017 | 2016[1] |
|---|---|---|---|
| **Deficit** | | | |
| Balance at beginning of year | | (4,309) | (7,025) |
| Excess of revenues over expenses | | 3,517 | 2,716 |
| **Balance at end of year** | | (792) | (4,309) |
| **Accumulated other comprehensive income (loss)** | | | |
| Balance at beginning of year | | 384 | 426 |
| Remeasurements of employee benefit plans | 16 | (273) | (35) |
| Translation differences from net foreign investments | | (29) | (7) |
| **Balance at end of year** | | 82 | 384 |
| **Unfunded liability attributable to WSIB stakeholders** | | **(710)** | **(3,925)** |
| **Non-controlling interests** | | | |
| Balance at beginning of year | 23 | 2,929 | 2,802 |
| Excess of revenues over expenses | 23 | 312 | 173 |
| Translation differences from net foreign investments | 23 | (3) | (1) |
| Change in ownership share in investments | 23 | (10) | (45) |
| **Balance at end of year** | | **3,228** | **2,929** |
| **Total net (deficiency of) assets** | | **2,518** | **(996)** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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

**Consolidated Statements of Cash Flows**
**For the years ended December 31**
**(millions of Canadian dollars)**

| | Note | 2017 | 2016[1] |
|---|---|---|---|
| **Operating activities:** | | | |
| Total comprehensive income | | 3,524 | 2,846 |
| Adjustments: | | | |
| Amortization of net premium (discount) on investments | | (18) | 1 |
| Depreciation and amortization of property, equipment and intangible assets | 13 | 34 | 22 |
| Changes in fair value of investments | | (2,468) | (1,126) |
| Changes in fair value of investment properties | | 15 | 72 |
| Translation losses from net foreign investments | | 32 | 8 |
| Dividend income from public equity securities | | (456) | (354) |
| Income from investments in associates and joint ventures | 10 | (101) | (60) |
| Interest income | | (170) | (227) |
| Interest expense | | 8 | 8 |
| Total comprehensive income after adjustments | | **400** | **1,190** |
| Changes in non-cash balances related to operations: | | | |
| Receivables and other assets, excluding those related to investing activities | | (6) | (75) |
| Payables and other liabilities, excluding those related to investing and financing activities | | 50 | 25 |
| Loss of Retirement Income Fund liability | 15 | 125 | 66 |
| Employee benefit plans liability | 16 | 321 | 68 |
| Benefit liabilities | 18 | 370 | 90 |
| Total changes in non-cash balances related to operations | | 860 | 174 |
| **Net cash provided by operating activities** | | **1,260** | **1,364** |
| **Investing activities:** | | | |
| Dividends received from public equity securities, associates and joint ventures | | 508 | 373 |
| Interest received | | 180 | 223 |
| Purchases of property, equipment and intangible assets | 13 | (20) | (54) |
| Purchases of investments | | (18,673) | (13,700) |
| Proceeds on sales and maturities of investments | | 17,908 | 12,751 |
| Net additions to investment properties | | (40) | (29) |
| Acquisitions of investments in associates and joint ventures | | (1,160) | (18) |
| Proceeds on dispositions of associates and joint ventures | | 143 | 37 |
| **Net cash required by investing activities** | | **(1,154)** | **(417)** |
| **Financing activities:** | | | |
| Proceeds on dispositions of non-controlling interests | | 188 | 132 |
| Distributions paid by subsidiaries to non-controlling interests | | (198) | (177) |
| Net issuance of debt | | 2 | 20 |
| Interest paid on debt | | (8) | (7) |
| **Net cash required by financing activities** | | **(16)** | **(32)** |
| **Net increase in cash and cash equivalents** | | **90** | **915** |
| Cash and cash equivalents, beginning of year | | 2,496 | 1,581 |
| **Cash and cash equivalents, end of year** | | **2,586** | **2,496** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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

**Notes to Consolidated Financial Statements**
**December 31, 2017**

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**Notes to Consolidated Financial Statements**
**December 31, 2017**
**(millions of Canadian dollars)**

## 1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"), Canada. As a board-governed trust agency, in accordance with the Agencies and Appointments Directive, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

## 2. Significant Accounting Policies, Estimates and Assumptions

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which are measured at fair value, as explained in the accounting policies below.

The consolidated financial statements for the year ended December 31, 2017 were authorized for issuance by the WSIB's Board of Directors on April 19, 2018.

### Use of estimates and assumptions

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates and assumptions have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements. The WSIB has based its estimates and assumptions on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the WSIB. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

The most significant estimation processes relate to the assumptions used in measuring benefit liabilities, assessing fair value of certain financial instruments and investment properties, and the determination of employee benefit obligations. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

**Basis of consolidation**

**(a) Subsidiaries and non-controlling interests**

The majority of WSIB's subsidiaries hold investments.

Subsidiaries are entities, including structured entities that are controlled by the WSIB. The WSIB has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities, and has the ability to use its power to affect these returns. Power may be determined on the basis of voting rights or based on contractual arrangements in the case of structured entities.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

Non-controlling interest exists when the WSIB directly or indirectly owns less than 100% of the subsidiary and is presented in the consolidated statements of financial position as a separate component, distinct from the unfunded liability attributable to WSIB stakeholders. The excess of revenues over expenses and total comprehensive income attributable to the non-controlling interests are also separately disclosed in the consolidated statements of comprehensive income.

The WSIB Employees' Pension Plan is the non-controlling interest in the majority of the WSIB's subsidiaries. See note 16 for further details.

**(b) Investments in joint arrangements and associates**

The majority of WSIB's joint arrangements and associates hold investment properties.

WSIB's joint arrangements are investments over which it has joint control and can either be a joint venture or a joint operation. Joint control exists when the strategic, financial, and operating decisions related to the entity's relevant activities require unanimous consent of parties sharing control.

Joint ventures are investments over which the WSIB has joint control and has rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the joint venture's total comprehensive income and dividends received.

Joint operations are economic activities or entities over which the WSIB has joint control and has rights to specific assets and obligations for specific liabilities relating to the arrangement. The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Associates are those investments over which the WSIB has significant influence over the financial and operating policies but not control or joint control of the entity. Investments in associates are accounted for using the equity method.

### Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at the statement of financial position date. Non-monetary assets and liabilities that are measured at fair value are also translated at the exchange rate at the statement of financial position date. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Net foreign investments are foreign subsidiaries which hold other invested assets and whose functional currency is not the Canadian dollar. All assets and liabilities of these net foreign investments are translated at exchange rates at the statement of financial position date and all income and expenses are translated using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses on translation are recognized as translation gains (losses) from net foreign investments in other comprehensive income. Upon disposal of a net foreign investment that includes a loss of control, significant influence or joint control, the cumulative translation gain or loss related to that net foreign investment is recognized in income.

### Invested assets

#### (a) Financial instruments

WSIB's invested assets and related liabilities that are financial instruments are comprised of cash and cash equivalents, receivables, public equity securities, fixed income securities, derivative assets and liabilities, other invested assets, payables and long-term debt. Other invested assets are comprised of investment funds, infrastructure related investments, and real estate related investments. Infrastructure related investments include investments in transportation, utilities and energy, and healthcare facilities. Real estate related investments include real estate debentures, funds and properties in Canada and the United States diversified across office, retail, industrial and mixed-use assets. The WSIB records purchases and sales of invested assets that are financial instruments on a trade date basis.

#### (b) Investment properties

Investment properties are properties held to earn rental income or for capital appreciation, or both. These are initially recognized at cost, including transaction costs, and subsequently remeasured at fair value at each reporting period with changes in fair value recognized as investment income during the period in which they arise. See note 6 for discussion of net investment income related to investment properties and note 7 for movements during the reporting period.

#### (c) Investments in joint ventures, associates and structured entities

Included in the investment portfolios are the WSIB's investments in joint ventures, associates and structured entities which hold infrastructure and real estate related investments. See note 10 and note 11 for further details.

### Financial instruments

Financial instruments are contracts that give rise to a financial asset or financial liability when the WSIB becomes a party to the contractual provisions of the instrument. The WSIB's financial instruments are classified as follows:

| Financial instrument | Classification |
|---|---|
| Cash and cash equivalents | FVTPL (a) |
| Investment receivables | Loans and receivables (b) |
| Public equity securities | FVTPL (a) |
| Fixed income securities | FVTPL (a) |
| Derivative assets and liabilities | FVTPL (a) |
| Other invested assets | |
| Investment funds | FVTPL (a) |
| Infrastructure related investments | FVTPL (a) |
| Real estate related investments | FVTPL (a) |
| Investment payables | Other financial liabilities (c) |
| Long-term debt | Other financial liabilities (c) |
| Loss of Retirement Income Fund liability | FVTPL (a) |

Measurement in subsequent periods depends on the classification of the financial instrument.

**(a) Fair value through profit or loss ("FVTPL")**

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value at initial recognition, with changes recognized in investment income.

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Loans and receivables are initially measured at fair value plus any transaction costs that are directly attributable to the origination or acquisition of the receivables. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

**(c) Other financial liabilities**

Other financial liabilities consist of investment payables and long-term debt which are not derivative liabilities or classified as FVTPL. These are initially measured at fair value plus any transaction costs that are directly attributable to the origination or issuance of the financial liability. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

Financial assets are derecognized when the rights to the contractual cash flows expire, when substantially all the risks and rewards of ownership are transferred, or when the WSIB no longer retains control. Financial liabilities are derecognized when the obligation is discharged, cancelled, or expires.

**Fair value measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction (not a forced liquidation or distress sale) between market participants at the measurement date, that is, an exit value. Refer to note 7 for further details.

The carrying amounts of cash and cash equivalents, public equity securities, fixed income securities, derivative assets and derivative liabilities are their fair values. Due to their short-term nature, the carrying amounts of investment receivables and investment payables approximate their fair values.

Where possible, the fair value of publicly traded financial instruments is based on quoted prices in active markets.

Where quoted prices in active markets are not available for financial instruments such as fixed income securities, the fair value is based on valuation models that use observable market inputs, broker quotes, consensus pricing and the fair value of other similar financial instruments.

The other invested assets include investment funds, infrastructure related investments and real estate related investments. Investment funds are valued on the basis of net asset values provided by investment managers. Infrastructure and real estate related investment funds are valued using acceptable industry valuation methods, including discounted cash flow methods using unobservable inputs such as expected future cash flows, terminal values, and discount rates and market comparable approaches.

The fair value of infrastructure related investments is provided by investment managers who use acceptable industry valuation methods, which incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Due to the estimation process and the need to use judgment, the aggregate fair value amounts may not be realizable in the settlement of assets or liabilities.

The fair values of real estate related investments and investment properties are based on the periodic valuations performed by independent qualified appraisers using valuation models incorporating available market evidence, including discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the properties. When determining the fair value of these investments, estimates and assumptions are made that may have a significant effect on the reported values of these investments.

**Investment income**

Investment income is comprised of the following:

(a) Financial instruments

Realized gains and losses and changes in unrealized gains and losses on financial instruments are recognized in investment income in the period they arise.

Interest income is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

(b) Income from investments in associates and joint ventures

The WSIB's proportionate share of its associates and joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the associates and joint ventures.

(c) Income from investment properties

Changes in fair value, net rental income, and service charges from investment properties are recognized in investment income in the period to which they relate.

**Loss of Retirement Income Fund liability**

The Loss of Retirement Income Fund liability represents the WSIB's obligation to provide retirement benefits to eligible injured workers equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. At age 65, the injured worker receives a benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.

Assets attributable to the Loss of Retirement Income Fund are included and managed as part of the WSIB's investment portfolio. See note 15 for more information.

The WSIB contributes five percent of the loss of earnings benefits to the Loss of Retirement Income Fund for injured workers of Schedule 1 employers who have received loss of earnings benefits for twelve consecutive months. Schedule 2 employers are required to contribute five percent of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months. Workers eligible for loss of retirement income benefits can choose to contribute a further five percent from their loss of earnings benefits. For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers.

The WSIB's contributions are recognized as the Loss of Retirement Income Fund contributions expense.

The changes related to the actuarial valuation of the WSIB's future contributions into the Loss of Retirement Income Fund are recognized in benefit liabilities in the consolidated statements of financial position. Refer to the changes in benefit liabilities table in note 18 for further information.

**Benefit liabilities and claim costs**

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions related to workers of Schedule 1 employers. These estimates and assumptions include claim duration, mortality rates, wage and health care escalations, general inflation, and discount rates. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. Changes in the estimates and assumptions could have a significant impact on the measurement of benefit liabilities and claim costs.

The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future claim payments are recognized in claim costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Claim costs consist of: (i) claim payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the dates of the consolidated statements of financial position.

### Employee benefit plans

The WSIB sponsors a registered defined benefit pension plan, supplemental defined benefit pension plan, and other benefits. Other benefits include post-retirement benefits for health, dental, vision and life insurance benefits, and other employment benefits for disability income, vacation and attendance programs. Refer to note 16 for more information on these plans.

The cost of employee benefit plans is recognized as the employees provide services to the WSIB. The obligations for these plans are measured as the present value of the employee benefit obligations less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the employee benefit plans is actuarially determined using the projected unit credit method and includes management's estimates and assumptions of compensation increases, health care cost trend rates, mortality, retirement ages of employees, and discount rates. The discount rate used to value the obligations is based on high-quality corporate bonds that have approximately the same term as the obligation. These estimates are reviewed annually with the WSIB's external actuaries. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

The changes in the employee benefit obligations and plan assets are recognized when they occur as follows:

(a) Service costs and the net interest cost are recognized in administration and other expenses; and

(b) Remeasurements, actual experience which differs from assumptions which result in actuarial gains or losses, are recognized in other comprehensive income.

### Property, equipment and intangible assets

Property, equipment and intangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Intangible assets include both internally developed and acquired software. Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Depreciation of property and equipment, and amortization of intangible assets are included in administration and other expenses on the consolidated statements of comprehensive income. Property, equipment and intangible assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Land | Not depreciated |
| Buildings | |
| Primary structure | 50 - 60 years |
| Components with different useful lives | 10 - 30 years |
| Leasehold improvements | Lesser of the lease term or 10 years |
| Office and computer equipment | 3 - 5 years |
| Intangible assets | 3 - 8 years |

**Impairment**

The WSIB evaluates its property, equipment and intangible assets for indicators of impairment such as obsolescence, redundancy, deterioration, loss or reduction in future service potential, or when there is a change in intended use at each reporting period. If there are indicators that an asset may be impaired, an impairment test is performed by comparing the asset's carrying value to its recoverable amount. An impairment charge is recorded to the extent that the recoverable amount is less than its carrying value. If an impairment is later reversed, the carrying amount of the asset is adjusted to the lower of the asset's recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss.

**Premium revenues**

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

(a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employer premiums are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in accrued premiums receivable. Premium revenues are recognized over the coverage period.

(b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the claims for workers of Schedule 2 employers and recovers the cost of these claims plus administration fees from the employers. The administration fees are recognized as the services are provided. The claims paid on behalf of Schedule 2 employers and the amounts collected to recover the claims paid are not included in the WSIB's revenues or expenses.

**Mandatory employer incentive programs**

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. These programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. The estimated rebates and surcharges are determined based on an actuarial model and are recognized in the period in which they relate.

**Legislated obligations and funding commitments**

(a) Legislated obligations

The WSIB is required to make payments to defray the cost of administering the *Occupational Health and Safety Act* (the "OHSA") and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the Workplace Safety and Insurance Appeals Tribunal ("WSIAT") and the costs that may be incurred by the Office of the Worker Adviser, and the Office of the Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

(b) Funding commitments

The WSIB provides grant funding to carry on investigations, research and training. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

(c) Voluntary employer incentive programs

The WSIB provides financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

**Leases**

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the WSIB is the lessee, are charged to the consolidated statements of comprehensive income over the period of use.

Where the WSIB is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the consolidated statements of financial position. Income from these leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

## 3. Changes in Accounting Standards

**(a) Standards adopted during the current year**

**IAS 7 *Statement of Cash Flows*** (“IAS 7”)

The WSIB adopted the amendments to IAS 7 effective for annual periods beginning on or after January 1, 2017. The amendments require that companies provide information about changes in their financing liabilities. The adoption of these amendments did not have a significant impact on the WSIB’s consolidated financial statements.

***Annual Improvements to IFRSs 2014 - 2016 Cycle***

In December 2016, the International Accounting Standards Board (“IASB”) issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IFRS 12 *Disclosure of Interests in Other Entities* (“IFRS 12”) effective January 1, 2017. The amendment provides clarification guidance to the scope of IFRS 12. The adoption of the amendment did not have a significant impact on the WSIB’s consolidated financial statements.

**(b) Future changes in accounting standards**

The following new or amended accounting standards have been issued by the IASB. These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on our consolidated financial statements.

**IFRS 15 *Revenue from Contracts with Customers*** (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for items such as financial instruments, insurance contracts and leases.

The impact of IFRS 15 will be limited to the WSIB’s revenue from the account and claims management services provided to Schedule 2 employers, one-time gains on disposal of investment properties and property and equipment. The WSIB will adopt the standard on the effective date of January 1, 2018. Based on the nature of the WSIB’s revenues, IFRS 15 is not expected to have a material impact on the WSIB’s consolidated financial statements.

**IFRIC 22 *Foreign Currency Transactions and Advance Consideration*** ("IFRIC 22")

In December 2016, the IASB issued IFRIC 22, which clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The amendments will be effective for the WSIB beginning on January 1, 2018 and may be applied retrospectively or prospectively. IFRIC 22 is not expected to have a material impact on the WSIB's consolidated financial statements.

***Annual Improvements to IFRSs 2014 - 2016 Cycle***

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") that is effective for annual periods beginning on or after January 1, 2018. The adoption of this amendment is not expected to have a significant impact on the WSIB's consolidated financial statements.

**Amendments to *IAS 40 Investment Property*** ("IAS 40")

In December 2016, the IASB issued amendments to IAS 40, which clarify that an entity shall transfer property to, or from, an investment property when, and only when, there is evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

**IFRS 16 *Leases*** ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a retrospective or a modified retrospective basis. The WSIB is currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

**Amendments to IAS 28 *Investments in Associates and Joint Ventures*** ("IAS 28")

In October 2017, the IASB issued amendments to IAS 28, which clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for following the requirements of IFRS 9 *Financial Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

***Annual Improvements to IFRSs 2015 - 2017 Cycle***

In December 2017, the IASB issued *Annual Improvements to IFRSs 2015 – 2017 Cycle*, which includes minor amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

(millions of Canadian dollars)

**IFRS 17 *Insurance Contracts*** ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. The WSIB will adopt the standard on the effective date of January 1, 2021. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

**IFRS 9 *Financial Instruments*** ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

A new principles-based model is introduced for classifying and measuring financial assets, based on the business model and the contractual cash flow characteristics of the financial assets held. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated at FVTPL, fair value changes attributable to the changes in an entity's own credit risk are reflected in other comprehensive income.

The standard also introduces a new forward-looking expected loss model which replaces the incurred loss model under IAS 39 for the recognition and measurement of impairment on all financial instruments not measured at fair value. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

The WSIB will defer IFRS 9 until January 1, 2021, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4. Based on the nature of the WSIB's financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB's consolidated financial statements as most of the WSIB's financial instruments are measured at fair value.

## 4. Cash and Cash Equivalents

Highly liquid investments are considered to be cash equivalents. Cash and cash equivalents are comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Cash | 850 | 552 |
| Short-term money market securities | 1,736 | 1,944 |
| **Total cash and cash equivalents** | **2,586** | **2,496** |

## 5. Receivables and Other Assets

Receivables and other assets are comprised of the following:

| | 2017 | 2016[1] |
|---|---|---|
| Premium receivables | 298 | 264 |
| Accrued premium receivables | 493 | 539 |
| Less: Allowance for doubtful accounts | (118) | (111) |
| **Net premium receivables** | **673** | **692** |
| Investment receivables | 244 | 507 |
| **Total receivables** | **917** | **1,199** |
| Other assets[2] | 470 | 445 |
| **Total receivables and other assets** | **1,387** | **1,644** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.
2. Other assets include employer incentive program surcharges of $416 (2016 – $387) which are expected to be received over a period of more than one year.

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## 6. Net Investment Income

Net investment income by nature of invested assets for the years ended December 31 is as follows:

| | 2017 | 2016[3] |
|---|---|---|
| Cash and cash equivalents | 8 | 6 |
| Public equity securities | 1,880 | 834 |
| Fixed income securities | 73 | 94 |
| Derivative financial instruments | 721 | 562 |
| Investment properties[1] | 42 | (4) |
| Investments in associates and joint ventures | 101 | 60 |
| Other invested assets | | |
| Investment funds | 276 | 206 |
| Infrastructure related investments | 126 | (13) |
| Real estate related investments | 29 | 17 |
| Less: Income attributable to Loss of Retirement Income Fund | (164) | (100) |
| **Investment income** | **3,092** | **1,662** |
| Less: Investment expenses[2] | (178) | (158) |
| **Net investment income** | **2,914** | **1,504** |

1. Investment properties include rental income and service charges of $114 (2016 – $127), partially offset by net losses from decreases in fair values of $15 (2016 – $72), as well as operating expenses of $57 (2016 – $59).
2. Includes $120 of management fees paid to investment managers (2016 – $116).
3. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

## 7. Fair Value Measurement and Disclosures

**Fair value hierarchy**

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The table below provides a general description of the valuation methods used for fair value measurements.

| Hierarchy level | Valuation methods |
|---|---|
| Level 1 | Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities that the WSIB has the ability to access at the measurement date. |
| Level 2 | Fair value is based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or model inputs that are either observable or can be corroborated by observable market data for the assets or liabilities. |
| Level 3 | Fair value is measured using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using information, some or all of which are not market observable, as well as assumptions about risk. |

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

| | December 31, 2017 | | | | December 31, 2016[3] | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets and liabilities measured at fair value** | | | | | | | | |
| Cash and cash equivalents[1] | 850 | 1,736 | - | 2,586 | 552 | 1,944 | - | 2,496 |
| Public equity securities | 13,305 | 109 | | 13,414 | 11,293 | 89 | - | 11,382 |
| Fixed income securities | - | 6,800 | - | 6,800 | - | 6,865 | - | 6,865 |
| Derivative assets | 46 | 296 | - | 342 | 36 | 36 | - | 72 |
| Investment properties | - | - | 1,340 | 1,340 | - | - | 1,315 | 1,315 |
| Other invested assets | | | | | | | | |
| Investment funds | - | - | 6,714 | 6,714 | - | - | 5,802 | 5,802 |
| Infrastructure related investments | - | 341 | 399 | 740 | - | 267 | 342 | 609 |
| Real estate related investments | - | - | 456 | 456 | - | - | 409 | 409 |
| Derivative liabilities | (41) | (47) | - | (88) | (33) | (210) | - | (243) |
| **Assets and liabilities for which fair value is disclosed** | | | | | | | | |
| Investment receivables[1] | - | 244 | - | 244 | - | 507 | - | 507 |
| Administration payables[1] | (304) | - | - | (304) | (275) | - | - | (275) |
| Investment payables[1] | - | (42) | - | (42) | - | (37) | - | (37) |
| Long-term debt[2] | - | (123) | - | (123) | - | (142) | - | (142) |
| Loss of Retirement Income Fund liability (note 15) | (283) | (49) | (1,583) | (1,915) | (261) | (54) | (1,475) | (1,790) |

1. Due to their short term nature, the carrying amounts of cash and cash equivalents, investment receivables and administration and investment payables approximate their fair values.
2. Carrying amount as at December 31, 2017 was $115 (December 31, 2016 – $132).
3. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Transfers between levels within the hierarchy are recognized at the end of the reporting period.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2.

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### Level 3 fair value measurements

The following tables provide reconciliations of assets included in Level 3 of the fair value hierarchy:

| For the year ended December 31, 2017 | Other invested assets: Investment funds | Other invested assets: Infrastructure related investments | Other invested assets: Real estate related investments | Subtotal | Investment properties | Total |
|---|---|---|---|---|---|---|
| Balance as at January 1, 2017 | 5,802 | 342 | 409 | 6,553 | 1,315 | 7,868 |
| Net gains (losses) recognized in net investment income | 120 | 27 | 18 | 165 | (15) | 150 |
| Translation losses recognized in other comprehensive income | (51) | (1) | - | (52) | - | (52) |
| Purchases and additions | 1,663 | 32 | 29 | 1,724 | - | 1,724 |
| Sales or disposals | (820) | (1) | - | (821) | - | (821) |
| Capital expenditures | - | - | - | - | 40 | 40 |
| **Balance as at December 31, 2017** | **6,714** | **399** | **456** | **7,569** | **1,340** | **8,909** |
| **Changes in unrealized gains (losses) included in earnings for assets and liabilities for positions still held** | **(240)** | **25** | **18** | **(197)** | **(15)** | **(212)** |

| For the year ended December 31, 2016 | Other invested assets: Investment funds | Other invested assets: Infrastructure related investments | Other invested assets: Real estate related investments | Subtotal | Investment properties | Total |
|---|---|---|---|---|---|---|
| Balance as at January 1, 2016 | 5,322 | 228 | 402 | 5,952 | 1,361 | 7,313 |
| Net gains (losses) recognized in net investment income | 43 | (38) | 5 | 10 | (72) | (62) |
| Purchases and additions | 1,345 | 157 | 2 | 1,504 | 29 | 1,533 |
| Sales or disposals | (908) | (5) | - | (913) | (39) | (952) |
| Capital expenditures | - | - | - | - | 36 | 36 |
| **Balance as at December 31, 2016[1]** | **5,802** | **342** | **409** | **6,553** | **1,315** | **7,868** |
| **Changes in unrealized gains (losses) included in earnings for assets and liabilities for positions still held** | **(310)** | **(38)** | **5** | **(343)** | **(72)** | **(415)** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

The reconciliation for the Loss of Retirement Income Fund liability can be found in note 15.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 2 and Level 3.

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The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in Level 3 financial instruments:

| | Valuation methods | Key unobservable inputs | 2017 Range of inputs | | 2016 Range of inputs | |
|---|---|---|---|---|---|---|
| | | | Low | High | Low | High |
| **Investment funds** | Net asset value | Net asset value | n/a | n/a | n/a | n/a |
| **Infrastructure related investments** | Discounted cash flow and market comparable | Discount rate and expected future cash flows | n/a | n/a | n/a | n/a |
| **Real estate related investments and investment properties** | Discounted cash flow and market comparable | Discount rate | 5.0% | 8.0% | 5.0% | 8.3% |
| | | Terminal capitalization rate | 4.3% | 7.0% | 4.3% | 7.5% |
| **Loss of Retirement Income Fund liability** | Net asset value | Net asset value | n/a | n/a | n/a | n/a |

## Sensitivity of Level 3 financial instruments

Fair values of investment funds are based on net asset values provided by investment managers.

Fair values of infrastructure related investments are based on valuations obtained from investment managers. The WSIB assesses the reasonableness of these fair values based on periodic appraisals performed by independent qualified appraisers. The valuations of infrastructure related investments obtained from investment managers are based on comparable transactions in the market and discounted cash flow models using unobservable inputs such as discount rates, terminal values and expected future cash flows. Holding other factors constant, an increase to terminal values or expected future cash flows would tend to increase the fair value, while an increase in the discount rate would have the opposite effect.

Fair values of real estate related investments and investment properties are obtained from qualified appraisers who apply a discounted cash flow model to determine property values. Key unobservable inputs include discount and terminal capitalization rates, projected rental income and expenses, inflation rates and vacancy rates. Holding other factors constant, an increase to projected rental income would increase the fair values, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect.

Fair values of the Loss of Retirement Income Fund liability are based on the fair values of the assets in the Loss of Retirement Income Fund.

We have not applied another reasonably possible alternative assumption to the significant Level 3 categories as the net asset values and appraised fair values are provided by the investment managers and other third party appraisers.

## 8. Transferred Financial Assets Not Derecognized

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. The intermediary indemnifies the WSIB against any shortfalls in collateral in the event of default by the counterparty. These transactions are conducted under terms that are usual and customary to security lending activities, as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position.

As at December 31, 2017, the fair value of investments loaned under the securities lending program was $4,314 (2016 – $3,862) and the fair value of securities maintained as collateral was approximately $4,659 (2016 – $4,179).

## 9. Derivative Financial Instruments

Derivatives are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, other financial instruments, commodity prices or indices. The WSIB uses foreign exchange forward contracts to hedge investments denominated in a foreign currency, and for active trading. Equity index, fixed income and commodity futures are held to provide international and asset class diversification.

Foreign exchange forward contracts and futures agreements are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying commodity on a predetermined future date at a specific price. Foreign exchange forward contracts are over the counter contracts that are negotiated between the WSIB and the counterparty, whereas futures are contracts that are traded on a regulated exchange with standard amounts and settlement dates.

Some derivatives are collateralized with cash and treasury bills. As at December 31, 2017, the fair value of the securities maintained as collateral was approximately $148 (2016 – $355).

The foreign exchange derivative assets and derivative liabilities are subject to netting arrangements and in practice are settled on a net basis. However, these do not meet the criteria to be presented on a net basis. As such, the derivative assets and derivative liabilities are presented separately in the consolidated statements of financial position.

The WSIB does not designate any of the derivatives in a qualifying hedge accounting relationship but uses derivatives for economic hedging purposes. The notional amounts in the table below are not recorded as assets or liabilities in our consolidated financial statements as they represent the reference amounts to which a rate or a price is applied to determine the amount of cash flows to be exchanged. Notional amounts do not represent the potential gains or losses associated with market risks and are not indicative of the credit risks associated with derivative financial instruments.

**(millions of Canadian dollars)**

The notional amounts and the fair values of the derivative assets and derivative liabilities as at December 31 are as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| | Notional amount | Assets | Liabilities | Notional amount | Assets | Liabilities |
| Forward exchange contracts | 14,584 | 288 | 36 | 10,463 | 31 | 193 |
| Fixed income futures | 3,266 | 2 | 19 | 2,270 | 10 | 4 |
| Commodity futures | 949 | 26 | 16 | 628 | 16 | 24 |
| Equity index futures | 1,410 | 18 | 6 | 846 | 10 | 5 |
| Options | 23 | 4 | 11 | 22 | 4 | 9 |
| Swaps | 680 | 4 | - | 546 | 1 | 8 |
| **Total** | **20,912** | **342** | **88** | **14,775** | **72** | **243** |

## 10. Joint Arrangements and Associates

### Acquisition of Vancouver properties

On February 1, 2017, the WSIB and a third party jointly purchased a 50% interest in a portfolio of retail and office properties in downtown Vancouver (the “Vancouver properties”). The WSIB accounts for this investment using the equity method of accounting and holds it for investment purposes to earn rental income and capital appreciation.

Summarized financial information of the Vancouver properties, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2017 are set out below:

| | 2017 |
|---|---|
| Current assets | 17 |
| Non-current assets | 1,996 |
| Current liabilities | (31) |
| Non-current liabilities | - |
| **Net assets** | **1,982** |
| **WSIB’s share of net assets** | **991** |

The above amounts of assets and liabilities include the following:

| | 2017 |
|---|---|
| Cash and cash equivalents | 2 |
| Current financial liabilities (excluding trade and other payables) | (3) |
| Non-current financial liabilities (excluding trade and other payables) | - |

Summarized below is the statement of comprehensive income of the Vancouver properties:

| | 2017 |
|---|---|
| Income | 122 |
| Gains from increases in fair values | 63 |
| Expenses | (47) |
| **Total comprehensive income** | **138** |
| **WSIB’s share of total comprehensive income** | **69** |

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The Vancouver properties have no contingent liabilities or capital commitments as at December 31, 2017. During 2017, the WSIB received dividends from the Vancouver properties of $36.

### Investments in other joint arrangements and associates

The following table summarizes the carrying value of the WSIB's interests in other joint arrangements and associates that are not individually material as well as the WSIB's share of income of those entities.

| | Associates | | Joint ventures | | Joint operations | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **WSIB's share of net assets** | **19** | **21** | **631** | **560** | **321** | **300** |
| **WSIB's share of:** | | | | | | |
| Net income (loss) | - | 1 | 32 | 59 | (9) | (15) |
| Other comprehensive income | - | - | 2 | - | - | - |

## 11. Interests in Structured Entities

A structured entity is an entity that is designed whereby voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created with a narrow and well-defined objective with relevant activities being directed by means of contractual arrangements. The WSIB has an interest in a structured entity when there is a contractual or non-contractual involvement that exposes the WSIB to variable returns from the structured entity. The WSIB consolidates a structured entity when the WSIB controls the entity in accordance with the accounting policy described in note 2. The WSIB's consolidated structured entities are predominantly real estate and infrastructure related investments in the investment portfolios where the WSIB has substantive rights related to the termination of investment managers.

### Unconsolidated structured entities

The WSIB holds interests in third party structured entities, predominantly in the form of direct investments in securities or partnership interests. The WSIB does not consolidate these structured entities as its involvement is limited to investment holdings and does not have power over the key economic decisions of these entities. These investments in structured entities are recognized in other invested assets and interest and dividend income received are recognized in net investment income.

The following table summarizes our investments and maximum exposure to loss related to our interests in unconsolidated structured entities:

| | WSIB investment | | WSIB maximum exposure to loss[1] | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Real estate | 1,449 | 443 | 1,449 | 443 |
| Infrastructure | 192 | 138 | 192 | 138 |
| **Total** | **1,641** | **581** | **1,641** | **581** |

1. The WSIB's maximum exposure to loss is limited to amounts invested.

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## 12. Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. These risks and the WSIB's risk mitigation policies and techniques are disclosed in Section 15 – Risk Factors of the Management's Discussion and Analysis. Only the shaded text and tables form an integral part of these consolidated financial statements.

### Investment risk

The Board of Directors of the WSIB has established Statements of Investment Policies and Procedures ("SIPPs"), which establish the policies governing the WSIB's investment portfolio. The SIPPs require that the WSIB's investment portfolio be diversified across certain asset classes and is currently diversified among six primary investment strategies.

### Liquidity risk

As at December 31, 2017, 59.3% (2016 – 62.1%) of the WSIB's investment portfolio was invested in readily marketable fixed income securities and publicly traded equities.

The following tables provide the carrying values of all financial instruments by contractual maturity or expected cash flow:

| | Within 1 year | 2 - 5 years | 6 - 10 years | Over 10 years | No fixed maturity | 2017 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,586 | - | - | - | - | **2,586** |
| Investment receivables | 244 | - | - | - | - | **244** |
| Public equity securities | - | - | - | - | 13,414 | **13,414** |
| Fixed income securities | - | 5,316 | 566 | 849 | 69 | **6,800** |
| Derivative assets | 342 | - | - | - | - | **342** |
| Other invested assets | | | | | | |
| Investment funds | - | - | - | - | 6,714 | **6,714** |
| Infrastructure related investments | - | - | - | - | 740 | **740** |
| Real estate related investments | - | - | - | - | 456 | **456** |
| Investment payables | (42) | - | - | - | - | **(42)** |
| Administration payables | (304) | - | - | - | - | **(304)** |
| Derivative liabilities | (88) | - | - | - | - | **(88)** |
| Long-term debt | - | (5) | (83) | (27) | - | **(115)** |
| Loss of Retirement Income Fund liability | (263) | - | - | - | (1,652) | **(1,915)** |

**(millions of Canadian dollars)**

| | Within 1 year | 2 - 5 years | 6 - 10 years | Over 10 years | No fixed maturity | 2016 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,496 | - | - | - | - | **2,496** |
| Investment receivables | 507 | - | - | - | - | **507** |
| Public equity securities | - | - | - | - | 11,382 | **11,382** |
| Fixed income securities | 28 | 2,959 | 1,620 | 2,186 | 72 | **6,865** |
| Derivative assets | 72 | - | - | - | - | **72** |
| Other invested assets | | | | | | |
| Investment funds | - | - | - | - | 5,802 | **5,802** |
| Infrastructure related investments | - | - | - | - | 609 | **609** |
| Real estate related investments | - | - | - | - | 409 | **409** |
| Investment payables | (37) | - | - | - | - | **(37)** |
| Administration payables | (275) | - | - | - | - | **(275)** |
| Derivative liabilities | (243) | - | - | - | - | **(243)** |
| Long-term debt | - | (21) | (78) | (33) | - | **(132)** |
| Loss of Retirement Income Fund liability | (243) | - | - | - | (1,547) | **(1,790)** |

The WSIB maintains and uses a $150 unsecured line of credit with a commercial bank for general operating purposes. Although the line of credit was occasionally used in 2017, as at December 31, 2017, there were no outstanding borrowings (2016 - $nil).

### Credit risk

(a) Fixed income securities

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through diversification as set out in the fixed income indices that these passive investments replicate.

The following table provides information regarding the credit rating of the WSIB's fixed income securities:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| AAA | 3,434 | 50.5% | 2,815 | 41.0% |
| AA | 1,386 | 20.4% | 886 | 12.9% |
| A | 1,874 | 27.6% | 2,889 | 42.1% |
| BBB | 37 | 0.5% | 203 | 3.0% |
| Not rated | 69 | 1.0% | 72 | 1.0% |
| **Total fixed income securities** | **6,800** | **100.0%** | **6,865** | **100.0%** |

Credit risk associated with fixed income securities also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than five percent of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

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The following table provides information regarding the concentration of fixed income securities:

| | 2017 | | 2016[1] | |
|---|---|---|---|---|
| Federal government and agencies | 3,295 | 48.4% | 2,453 | 35.7% |
| Provincial and municipal | 2,661 | 39.1% | 3,390 | 49.4% |
| Financial services | 626 | 9.2% | 393 | 5.7% |
| Utilities and telecommunications | 101 | 1.5% | 237 | 3.4% |
| Asset-backed securities | 57 | 0.8% | 5 | 0.1% |
| Other corporate | 31 | 0.5% | 212 | 3.1% |
| Consumer products and merchandising | 19 | 0.3% | 23 | 0.3% |
| Natural resources | 6 | 0.1% | 87 | 1.3% |
| Real estate | 4 | 0.1% | 56 | 0.8% |
| Communications and publishing | - | -% | 6 | 0.1% |
| Industrial products | - | -% | 3 | 0.1% |
| **Total fixed income securities** | **6,800** | **100.0%** | **6,865** | **100.0%** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

(b) Securities lending program

Counterparty risk relating to the securities lending program, as further described in note 8, is managed by an intermediary financial institution in accordance with a written agreement, investment policy and procedures on securities lending. Non-cash collateral is comprised primarily of equities, government bonds, and major bank short-term notes. Note 8 of the consolidated financial statements provides the fair value of investments loaned under the securities lending program.

(c) Receivables from Schedule 1 and Schedule 2 employers

Credit risk associated with premium receivables related to Schedule 1 employers is mitigated through risk management policies and procedures which include close monitoring of premium payment status and follow up measures with the employer. An allowance for doubtful accounts is established when a premium receivable becomes impaired.

Credit risk related to receivables from Schedule 2 employers is mitigated by holding collateral in the form of letters of credit and surety bonds. At December 31, 2017, the WSIB held collateral in the total amount of $259 (2016 – $276) with Schedule 2 employers.

**Market risk**

(a) Currency risk

The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies.

The WSIB has an investment currency hedging policy which is reviewed and approved at least annually by the Investment Committee. The investment currency hedging policy provides guidelines on currency exposures to be hedged, permitted hedging instruments, hedge adjustments and other currency hedging controls and processes. To manage the currency risk, the WSIB regularly monitors the currency exposure in compliance with the currency hedging policy.

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The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the foreign currencies that represent 81.7% (2016 – 85.1%) of the WSIB's foreign currency exposure in its investment portfolio:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Net exposure | Effect of 1% change | Net exposure | Effect of 1% change |
| United States dollar | 4,354 | 44 | 4,937 | 49 |
| Euro | 624 | 6 | 617 | 6 |
| Hong Kong dollar | 482 | 5 | 292 | 3 |
| Japanese yen | 355 | 4 | 247 | 3 |
| South Korean won | 338 | 3 | 163 | 2 |
| British Pound sterling | 280 | 3 | 167 | 2 |
| **Foreign currency exposure** | **6,433** | **65** | **6,423** | **65** |

(b) Interest rate risk

The WSIB uses effective duration to measure the sensitivity of the fair value of fixed income securities to a change in interest rates. Parallel shifts in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of fixed income securities of approximately $386 (2016 – $532). This information is based on the assumption that the fixed income securities are not impaired and interest rates and equity prices move independently.

(c) Price risk

The WSIB is exposed to price risk through its investments in public equity securities. The WSIB's price risk mitigation strategies are discussed in Section 15 – Risk Factors of the Management's Discussion and Analysis.

The estimated effect on the fair value of public equity securities resulting from a 10% change in market prices, holding all other factors constant, is $1,341 (2016 – $1,138).

**Insurance funding risk – benefit liabilities**

The WSIB is exposed to the risk that the actual obligations for claim payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns and other predictive analytics. These risks are also mitigated by engaging independent actuaries annually to review actuarial assumptions and methodologies in establishing benefit liabilities, as well as reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee.

Note 18 provides further information regarding the nature of benefit liabilities.

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## 13. Property, Equipment and Intangible Assets

| | Property and Equipment | | | | Intangible Assets | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Leasehold improvements | Office and computer equipment | Internally developed software | Acquired software | Total |
| **Cost** | | | | | | | |
| Balance as at December 31, 2015 | 40 | 102 | 71 | 22 | 234 | 9 | 478 |
| Additions | - | - | 2 | 1 | 48 | 3 | 54 |
| Balance as at December 31, 2016 | 40 | 102 | 73 | 23 | 282 | 12 | 532 |
| Additions | - | - | 1 | - | 14 | 5 | 20 |
| Adjustments[1] | - | - | (55) | - | (60) | (9) | (124) |
| **Balance as at December 31, 2017** | **40** | **102** | **19** | **23** | **236** | **8** | **428** |
| **Accumulated depreciation and amortization** | | | | | | | |
| Balance as at December 31, 2015 | - | 25 | 68 | 21 | 72 | 8 | 194 |
| Depreciation and amortization | - | 3 | 1 | 1 | 16 | 1 | 22 |
| Balance as at December 31, 2016 | - | 28 | 69 | 22 | 88 | 9 | 216 |
| Depreciation and amortization | - | 4 | 1 | - | 27 | 2 | 34 |
| Adjustments[1] | - | - | (55) | - | (60) | (9) | (124) |
| **Balance as at December 31, 2017** | **-** | **32** | **15** | **22** | **55** | **2** | **126** |
| **Carrying amounts** | | | | | | | |
| **At December 31, 2016** | **40** | **74** | **4** | **1** | **194** | **3** | **316** |
| **At December 31, 2017** | **40** | **70** | **4** | **1** | **181** | **6** | **302** |

1. Adjustments related to fully depreciated leasehold improvements and intangible assets.

The carrying amount for internally developed software as at December 31, 2017 includes $10 of costs (2016 – $97) for software that was not yet available for use and therefore was not yet subject to amortization.

The WSIB has determined that there is no impairment of property, equipment and intangible assets in 2017.

## 14. Payables and Other Liabilities

| | 2017 | 2016 |
|---|---|---|
| Administration payables | 304 | 275 |
| Investment payables | 42 | 37 |
| Other liabilities | 839 | 800 |
| **Total payables and other liabilities** | **1,185** | **1,112** |

Payables are expected to be paid within 12 months from the reporting date. Other liabilities include experience rating refunds of $810 (2016 – $769) which are expected to be paid over five years.

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## 15. Loss of Retirement Income Fund Liability

The reconciliation of carrying amounts for the Loss of Retirement Income Fund liability is set forth below:

| | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | 1,790 | 1,724 |
| Contributions from the WSIB | 56 | 56 |
| Optional contributions from injured workers | 7 | 7 |
| Contributions from Schedule 2 employers | 5 | 4 |
| Income earned on contributions | 162 | 99 |
| Benefits paid in cash | (105) | (100) |
| **Balance at end of year** | **1,915** | **1,790** |

The following provides a summary of the assets by asset category included in the Loss of Retirement Income Fund:

| | 2017 | | 2016[1] | |
|---|---|---|---|---|
| Cash and cash equivalents | 369 | 19.3% | 335 | 18.7% |
| Public equity securities | 641 | 33.5% | 590 | 32.9% |
| Fixed income securities | 390 | 20.4% | 424 | 23.7% |
| Derivative financial instruments | 12 | 0.6% | (9) | (0.5)% |
| Investment properties | 64 | 3.3% | 69 | 3.8% |
| Investments in associates and joint ventures | 69 | 3.6% | 19 | 1.1% |
| Other invested assets | | | | |
| Investment funds | 324 | 16.9% | 302 | 16.9% |
| Infrastructure related investments | 35 | 1.8% | 32 | 1.8% |
| Real estate related investments | 21 | 1.1% | 21 | 1.2% |
| Other | (10) | (0.5)% | 7 | 0.4% |
| **Total Loss of Retirement Income Fund assets** | **1,915** | **100.0%** | **1,790** | **100.0%** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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## 16. Employee Benefit Plans

The WSIB sponsors defined benefit pension plans and other benefits for WSIB employees.

### Pension plans

**(a) Employees' Pension Plan**

The Employees' Pension Plan provides for partially indexed pensions based on years of service and final years' average earnings. The Employees' Pension Plan is a registered pension plan under the *Ontario Pension Benefits Act* ("PBA") and the Canada Revenue Agency.

The Employees' Pension Plan is open to new entrants, and employees pay contributions based on a fixed formula (as a percentage of salary), with the WSIB responsible for the balance of the cost. The WSIB's general practice is to contribute the minimum required under the PBA, but additional contributions may be made for tactical purposes, such as to meet a particular funding threshold.

The WSIB is participating in the Broader Public Sector Temporary Solvency Relief Program as published in Regulation 178/11 under the PBA, amended by Regulation 350/16. The temporary solvency relief provisions allow the WSIB to make solvency special payments on an interest only basis until December 31, 2018. As part of that program, the WSIB is taking strides to convert the plan into a jointly sponsored pension plan.

**(b) The Employees' Supplementary Pension Plan**

The Employees' Supplementary Pension Plan ("ESPP") has generally the same plan provisions as the Employees' Pension Plan, except that it provides for benefits that are earned above the maximum pension benefits permitted under the Income Tax Act (Canada). The ESPP is registered with the Canada Revenue Agency as a Retirement Compensation Arrangement. The WSIB matches employee contributions to the ESPP and contributes additional amounts when required.

### Other benefits

**(a) The Post-Retirement Benefit Plan**

The Post-Retirement Benefit Plan provides extended health, dental, vision, and life insurance benefits for employees who meet the eligibility requirements. Employees must be entitled to a WSIB pension and meet a service requirement to qualify for benefits. The plan is funded on a pay as you go basis.

**(b) Other employment benefits**

Other employment benefits include vacation and attendance credits which are payable upon termination of employment, and disability benefits payable up to age 65.

### Governance of the plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of those to whom administrative duties and responsibilities were delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

The Board of Directors receives assistance in the fulfilment of its responsibilities related to the employee benefit plans through various committees, including the Audit and Finance Committee, the Human Resources and Compensation Committee, the Investment Committee, and the Pension Management Committee.

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### Risks

Given that employee contributions to the employee benefit plans (if any) are fixed, the WSIB generally bears the risks associated with the employee benefit plans. The most significant sources of risk for the WSIB include:

a) A decline in discount rates that increases the obligation and expense;

b) Investment returns which are lower than expected;

c) Lower than expected rates of mortality; and

d) Health care cost inflation being higher than assumed.

In general, the WSIB manages the risks through plan design reviews and, in relation to investment risks, through risk control mechanisms in the pension plan's Statement of Investment Policies and Procedures ("SIPP"). The SIPP requires that the plan assets be diversified across certain asset classes and investment strategies. Measurement, assessment and management of risk are conducted using tools and analysis, including asset-liability studies, measures of standard deviation and tracking error, and sensitivity analysis. Other risks, such as operational risks, are managed through internal controls or other risk control mechanisms.

### Employee benefit plans expense

The cost of the employee benefit plans recognized in administration and other expenses is as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Current service cost | 90 | 85 | 19 | 17 | 109 | 102 |
| Net interest on the employee benefit plans liability | 24 | 22 | 29 | 30 | 53 | 52 |
| Plan amendments | - | - | 2 | (7) | 2 | (7) |
| Long-term employee benefit gains | - | - | (6) | (4) | (6) | (4) |
| **Employee benefit plans expense** | **114** | **107** | **44** | **36** | **158** | **143** |

Amounts recognized in other comprehensive loss (income) are as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Actuarial losses (gains) arising from: | | | | | | |
| Financial assumptions | 319 | 86 | 28 | (1) | 347 | 85 |
| Demographic assumptions | 79 | - | 23 | - | 102 | - |
| Plan experience | 15 | 9 | 6 | 6 | 21 | 15 |
| Return in excess of interest income on plan assets | (197) | (65) | - | - | (197) | (65) |
| **Remeasurements of employee benefit plans** | **216** | **30** | **57** | **5** | **273** | **35** |

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### Employee benefit plans liability

The employee benefit plans liability as at December 31 is comprised of the following:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Present value of obligations[1] | 4,029 | 3,481 | 819 | 746 | 4,848 | 4,227 |
| Fair value of plan assets | (3,237) | (2,937) | - | - | (3,237) | (2,937) |
| **Employee benefit plans liability** | **792** | **544** | **819** | **746** | **1,611** | **1,290** |

1. WSIB's pension plans are wholly or partly funded whereas WSIB's other benefits are wholly unfunded.

The movement in the total present value of employee benefit obligations is as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Balance, beginning of year | 3,481 | 3,247 | 746 | 732 | 4,227 | 3,979 |
| Current service cost | 90 | 85 | 19 | 17 | 109 | 102 |
| Employee contributions | 29 | 33 | - | - | 29 | 33 |
| Interest expense on the employee benefit obligations | 138 | 133 | 29 | 30 | 167 | 163 |
| Plan amendments | - | - | 2 | (7) | 2 | (7) |
| Actuarial losses (gains) arising from: | | | | | | |
| Financial assumptions | 319 | 86 | 28 | (2) | 347 | 84 |
| Demographic assumptions | 79 | - | 23 | - | 102 | - |
| Plan experience | 15 | 9 | - | 3 | 15 | 12 |
| Benefits paid | (122) | (112) | (28) | (27) | (150) | (139) |
| **Balance, end of year** | **4,029** | **3,481** | **819** | **746** | **4,848** | **4,227** |

As at December 31, 2017, the Employees' Pension Plan was 98.9% of the pension plans obligation (2016 – 98.9%), and the Post-Retirement Benefit plan was 85.5% of the other benefits obligation (2016 – 83.0%).

The weighted average duration of the defined benefit pension plans and the other benefit plans as at December 31, 2017 is 17.3 and 18.5 years, respectively (2016 – 16.9 and 17.7 years, respectively).

### Fair value of plan assets

The movement in the total fair value of plan assets is as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Balance, beginning of year | 2,937 | 2,757 | - | - | 2,937 | 2,757 |
| Interest income on plan assets | 114 | 111 | - | - | 114 | 111 |
| Return in excess of interest income on plan assets | 197 | 65 | - | - | 197 | 65 |
| Employer contributions | 82 | 83 | 28 | 27 | 110 | 110 |
| Employee contributions | 29 | 33 | - | - | 29 | 33 |
| Benefits paid | (122) | (112) | (28) | (27) | (150) | (139) |
| **Balance, end of year** | **3,237** | **2,937** | **-** | **-** | **3,237** | **2,937** |

Employer's contributions to the pension plans are estimated to be $85 for 2018.

Benefits to be paid from pension plan assets, during 2018, are projected to be $131, and other benefits to be paid directly by the Employer are estimated to be $32.

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Plans Assets as at December 31 are comprised of the following:

| | 2017 | | 2016[1] | |
|---|---|---|---|---|
| **Plan Assets** | | | | |
| Public equities | 1,247 | 39% | 1,115 | 38% |
| Fixed income | 587 | 18% | 674 | 23% |
| Absolute return | 332 | 10% | 313 | 11% |
| Diversified markets | 425 | 13% | 330 | 11% |
| Real estate | 333 | 10% | 229 | 8% |
| Infrastructure | 247 | 8% | 197 | 7% |
| Cash and cash equivalents | 59 | 2% | 78 | 2% |
| Other | 7 | -% | 1 | -% |
| **Total[2]** | **3,237** | **100%** | **2,937** | **100%** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.
2. Includes $2.3 net assets of the Employees' Supplementary Pension Plan (2016 – $2.2).

### Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the employee benefit obligations are as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate[1] | | |
| Benefit plan expense | 3.90% | 4.05% |
| Accrued benefit obligation at end of year | 3.45% | 3.90% |
| Rate of pension increase at end of year[2] | 1.31% | 1.31% |
| Rate of compensation increase at end of year[3] | 3.50% | 3.25% |
| Health care trends at end of year | | |
| Initial trend rate | 5.75% | 6.00% |
| Ultimate trend rate | 4.50% | 4.50% |
| Year ultimate trend rate is reached | 2023 | 2023 |
| Dental care trend rate at end of year | 4.00% | 4.00% |

1. Weighted average based on obligation.
2. Pension benefits are increased annually, every January 1, equal to 75% of the Consumer Price Index (i.e. inflation).
3. This is an approximation. Actual assumption is based on inflation of 1.75% per annum plus a unisex real pay merit scale.

The 2017 and 2016 assumptions for mortality rates are based on 104% of the 2014 Canadian Pensioners' Private Sector Mortality Table. The 2017 mortality rates were generationally projected by Scale MI – 2017, modified to have an ultimate rate of 0.8% (2016 – Scale CPM-B with no modification). The current longevities underlying the measurement of the employee benefit obligations as at December 31 are as follows:

| | 2017 | 2016 |
|---|---|---|
| **Longevity for those currently age 65** | | |
| Males | 21.4 years | 21.4 years |
| Females | 23.9 years | 23.8 years |
| **Longevity at age 65 for those currently age 45** | | |
| Males | 22.6 years | 22.4 years |
| Females | 25.0 years | 24.8 years |

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### Sensitivity of the actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans obligation. The sensitivity analysis below provides an estimate of the potential impact of changes in key assumptions as at December 31, 2017, with all other assumptions held constant:

| | Increase (decrease) in the obligations | | |
|---|---|---|---|
| **Sensitivity in assumptions** | **Pension plans** | **Other benefits** | **Total** |
| **Discount rate** | | | |
| 1% increase in discount rate | (606) | (130) | **(736)** |
| 1% decrease in discount rate | 789 | 173 | **962** |
| **Rate of compensation increase** | | | |
| 1% increase in compensation rate | 133 | 6 | **139** |
| 1% decrease in compensation rate | (118) | (5) | **(123)** |
| **Rate of pension increase** | | | |
| 1% increase in pension benefits | 421 | n/a | **421** |
| 1% decrease in pension benefits | (362) | n/a | **(362)** |
| **Health and dental care trend rates** | | | |
| 1% increase in trend rates | n/a | 155 | **155** |
| 1% decrease in trend rates | n/a | (118) | **(118)** |
| **Mortality rates** | | | |
| 10% increase in mortality rates[1] | (81) | (20) | **(101)** |
| 10% decrease in mortality rates[2] | 89 | 23 | **112** |

1. The increase in the mortality rates result in a decrease of the average life expectancy of a female aged 65 years by 0.7 years.
2. The decrease in the mortality rates result in an increase of the average life expectancy of a female aged 65 years by 0.8 years.

## 17. Premium Revenues

A summary of premiums for the years ended December 31 is as follows:

| | **2017** | **2016[1]** |
|---|---|---|
| Gross Schedule 1 premiums | 4,780 | 4,908 |
| Bad debts | (43) | (55) |
| Interest and penalties | 64 | 58 |
| Other income | - | 5 |
| **Schedule 1 employer premiums** | **4,801** | **4,916** |
| Schedule 2 employer administration fees | 78 | 73 |
| **Premiums** | **4,879** | **4,989** |
| Net mandatory employer incentive programs | (100) | (181) |
| **Net premiums** | **4,779** | **4,808** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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## 18. Benefit Liabilities and Claim Costs

### Benefit liabilities

Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities are comprised of the following:

| | **2017** | **2016**[1] |
|---|---|---|
| Loss of earnings | 9,037 | 8,534 |
| Workers' pensions | 6,124 | 6,462 |
| Health care | 4,285 | 4,090 |
| Survivor benefits | 3,015 | 2,947 |
| Future economic loss | 1,120 | 1,292 |
| External providers | 106 | 136 |
| Non-economic loss | 289 | 284 |
| Long latency occupational diseases | 2,492 | 2,321 |
| Claim administration costs | 1,257 | 1,299 |
| Loss of Retirement Income | 565 | 555 |
| **Benefit liabilities** | **28,290** | **27,920** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Further details of the changes in benefit liabilities are as follows:

| | Benefit liabilities, beginning of year | Claim costs recognized during the year[1] | Payments processed during the year[2] | Interest expense on the liability | Impact of legislative change[1] | Impact of actuarial remeasure-ment | Changes in claims experience | **Benefit liabilities, end of year** |
|---|---|---|---|---|---|---|---|---|
| Loss of earnings | 8,534 | 879 | (929) | 374 | 333 | 38 | (192) | **9,037** |
| Workers' pensions | 6,462 | - | (526) | 278 | - | (24) | (66) | **6,124** |
| Health care | 4,090 | 506 | (455) | 178 | 108 | - | (142) | **4,285** |
| Survivor benefits | 2,947 | 108 | (194) | 138 | - | (36) | 52 | **3,015** |
| Future economic loss | 1,292 | - | (189) | 55 | - | (1) | (37) | **1,120** |
| External providers | 136 | 32 | (24) | 4 | 4 | - | (46) | **106** |
| Non-economic loss | 284 | 38 | (43) | 14 | 9 | (4) | (9) | **289** |
| Long latency occupational diseases | 2,321 | - | - | 105 | - | 160 | (94) | **2,492** |
| Claim administration costs | 1,299 | 404 | (417) | 53 | - | - | (82) | **1,257** |
| Loss of Retirement Income | 555 | 40 | (56) | 25 | 17 | (2) | (14) | **565** |
| **Total for 2017** | **27,920** | **2,007** | **(2,833)** | **1,224** | **471** | **131** | **(630)** | **28,290** |

1. On December 14, 2017, passage of Bill 177 titled, *Stronger, Fairer Ontario Act (Budget Measures), 2017* amended section 13 of the WSIA to provide Chronic Mental Stress ("CMS") benefits for diagnoses on or after April 29, 2014 and before January 1, 2018. The total impact of CMS amounts to $647, of which $176 relates to the current injury year and is included in claim costs recognized during the year. $471 relates to prior injury years and is included in impact of legislative change.
2. Payments processed during the year relate to prior and current injury years.

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| | Benefit liabilities, beginning of year | Claim costs recognized during the year | Payments processed during the year[1] | Interest expense on the liability | Impact of legislative change[2] | Impact of actuarial remeasure-ment | Changes in claims experience | **Benefit liabilities, end of year[2]** |
|---|---|---|---|---|---|---|---|---|
| Loss of earnings | 8,662 | 664 | (854) | 398 | 26 | 24 | (386) | **8,534** |
| Workers' pensions | 6,587 | - | (542) | 295 | - | 149 | (27) | **6,462** |
| Health care | 3,938 | 465 | (395) | 173 | 8 | 98 | (197) | **4,090** |
| Survivor benefits | 2,860 | 102 | (187) | 131 | - | 84 | (43) | **2,947** |
| Future economic loss | 1,362 | - | (205) | 62 | - | 64 | 9 | **1,292** |
| External providers | 184 | 38 | (29) | 6 | - | - | (63) | **136** |
| Non-economic loss | 291 | 36 | (40) | 8 | 1 | 6 | (18) | **284** |
| Long latency occupational diseases | 2,137 | - | - | 101 | - | 112 | (29) | **2,321** |
| Claim administration costs | 1,235 | 408 | (405) | 56 | - | 21 | (16) | **1,299** |
| Loss of Retirement Income | 574 | 30 | (56) | 23 | - | 4 | (20) | **555** |
| **Total for 2016** | **27,830** | **1,743** | **(2,713)** | **1,253** | **35** | **562** | **(790)** | **27,920** |

1. Payments processed during the year relate to prior and current injury years.
2. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

### Claim payments

Claim payments represent cash paid during the year to or on behalf of injured workers excluding claim administration costs and the Loss of Retirement Income. Claim payments are comprised of the following:

| | **2017** | **2016[1]** |
|---|---|---|
| Loss of earnings | 929 | 854 |
| Workers' pensions | 526 | 542 |
| Health care | 455 | 395 |
| Survivor benefits | 194 | 187 |
| Future economic loss | 189 | 205 |
| External providers | 24 | 29 |
| Non-economic loss | 43 | 40 |
| **Total claim payments** | **2,360** | **2,252** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

### Claim administration costs

Claim administration costs are comprised of the following:

| | **2017** | **2016** |
|---|---|---|
| Allocation from administration and other expenses | 391 | 382 |
| Allocation from legislated obligations and funding commitments expenses | 26 | 23 |
| **Total claim administration costs** | **417** | **405** |

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### Change in actuarial valuation of benefit liabilities

The change in actuarial valuation of benefit liabilities is comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Changes in estimate of cost of claims[1] | (1,456) | (1,760) |
| Changes in actuarial assumptions and methods | 131 | 562 |
| Changes in legislation[1, 2] | 471 | 35 |
| Accretion[3] | 1,224 | 1,253 |
| **Total changes in actuarial valuation of benefit liabilities** | **370** | **90** |

1. The total impact of Chronic Mental Stress ("CMS") amounts to $647, of which $176 relates to the current injury year and is included in changes in estimate of cost of claims. The remaining $471 relates to prior injury years and is included in changes in legislation.
2. Impact of legislative amendment includes an increase of $35 relating to Posttraumatic stress disorder ("PTSD"). On April 5, 2016, Bill 163, *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016* was passed by the Legislature. This amends the *Workplace Safety and Insurance Act, 1997* (Ontario) with respect to first responders and other designated workers diagnosed with PTSD. The amendments provide that if a first responder or other designated worker is diagnosed with PTSD and meets specific employment and diagnostic criteria, that first responder or other designated worker's PTSD is presumed to have arisen out of and in the course of his or her employment, unless the contrary is shown. In specific circumstances, the presumption will apply to first responders or other designated workers diagnosed with PTSD up to 24 months before the coming-in-force date, as well as those claims for which a decision is pending from either the WSIB or the WSIAT on the date the legislation comes into force.
3. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the year.

The changes in actuarial assumptions and methods are comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Changes in discount rate | - | 634 |
| Changes in methods and assumptions for loss of earnings benefits | 36 | (125) |
| Changes in methods and assumptions for future awards | (65) | - |
| Changes in methods and assumptions for future economic loss benefits | - | 53 |
| Changes in methods and assumptions for occupational diseases | 160 | - |
| **Total changes in actuarial assumptions and methods** | **131** | **562** |

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**Actuarial assumptions and methods**

The actuarial present value of future claim payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities. The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

| Actuarial Assumption | Note | Loss of earnings | Workers' pensions | Health care | Survivor benefits | Future economic loss | External providers | Non-economic loss | Long latency occupational diseases (f) |
|---|---|---|---|---|---|---|---|---|---|
| Discount rate | (a) | √ | √ | √ | √ | √ | √ | √ | √ |
| Indexation | (a) | √ | √ | - | √ | √ | - | √ | √ |
| Wage escalation | (a) | √ | √ | - | √ | √ | √ | √ | √ |
| Health care escalation | (a) | - | - | √ | - | - | - | - | √ |
| Wage loss | (b) | √ | - | - | - | √ | - | - | √ |
| Mortality | (c) | √ | √ | √ | √ | √ | - | √ | √ |
| Claims incidence | (d) | √ | - | - | - | - | - | - | √ |
| Termination | (d) | √ | - | - | - | - | - | - | √ |
| Exposure index | (d) | √ | √ | √ | √ | √ | √ | √ | √ |
| Expenses | (e) | √ | √ | √ | √ | √ | √ | √ | √ |

(a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 2018 and thereafter – 4.5% | 2017 and thereafter – 4.5% |
| Indexation of benefits rate[1]: | | |
| Fully indexed to inflation | 2.0% | 2.0% |
| Partially indexed | 2.0% | 2017 – 1.0%<br>2018 and thereafter – 2.0% |
| Wage escalation rate | 3.0% | 3.0% |
| Health care costs escalation rate | 4.0% | 4.0% |

1. On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015,* which amended *Chapter 38, Schedule 23, Sections 49, 50 and 51* under the WSIA. Effective January 1, 2018, the alternate and prescribed temporary indexing factors will be replaced by one indexing factor. The new indexing factor will be based on the percentage change over a 12-month period in the Consumer Price Index measured at the previous October and will be directly applied to the benefit amount. In the interim, *Ontario Regulation 454/09* prescribes temporary indexing factors of 0.5% for 2016 and 1.0% for 2017 with the current indexing methodology.

(b) Wage loss

Wage loss refers to the proportion of a worker's wages that is lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

(c) Mortality

The assumptions for the mortality rates were the same as the rates used in 2016 except adjusted for an additional year of mortality improvement. The base mortality rates were updated in 2013 to reflect recent experience. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

(i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006 to 2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2017;

(ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009 - 2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2017; and

(iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

(d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2017. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from five recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury year 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers. The termination rates and loss of earnings future lock-in claim profile has been updated in 2016 to reflect recent experience.

(e) Expenses

Ratios of claim administration costs to the amounts of claims paid are used to estimate the future costs of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management costs for all cost centers at the WSIB by claim type, duration and amount.

(f) Long latency occupational diseases

Long latency occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2014 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. In 2014, the expected cost was updated to reflect most recent experience. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities are primarily based on the historical experience of the WSIB.

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### Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the claim costs recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

| Changes in assumptions | Increase in claim costs 2017 | Increase in claim costs 2016 |
|---|---|---|
| 100 basis point decrease in the discount rate | 3,065 | 3,062 |
| 100 basis point increase in the inflation rate: | | |
| Impact of benefits indexation rate | 1,972 | 1,972 |
| Impact of wage growth | 425 | 437 |
| Impact of health care cost escalation | 688 | 634 |

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### Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2017 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in claim costs. The table below provides the development of the estimates related to claims incurred from 2008 to 2017.

| | Year of injury | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **Total** |
| Year of estimate | | | | | | | | | | | |
| 2008 | 2,393 | | | | | | | | | | |
| 2009 | 2,620 | 2,164 | | | | | | | | | |
| 2010 | 3,052 | 2,418 | 2,361 | | | | | | | | |
| 2011 | 3,065 | 2,207 | 2,744 | 2,760 | | | | | | | |
| 2012 | 3,241 | 2,518 | 2,270 | 2,363 | 2,815 | | | | | | |
| 2013 | 3,077 | 2,340 | 2,065 | 2,019 | 2,274 | 2,627 | | | | | |
| 2014 | 2,794 | 2,270 | 1,955 | 1,897 | 2,000 | 2,296 | 2,453 | | | | |
| 2015 | 2,826 | 2,069 | 1,840 | 1,764 | 1,843 | 1,981 | 2,145 | 2,317 | | | |
| 2016 | 2,731 | 1,998 | 1,698 | 1,699 | 1,751 | 1,877 | 1,933 | 2,071 | 2,210 | | |
| 2017 | 2,705 | 1,984 | 1,704 | 1,624 | 1,716 | 1,827 | 1,864 | 1,970 | 2,274 | 2,371 | |
| Current estimate of cumulative claims costs | 2,705 | 1,984 | 1,704 | 1,624 | 1,716 | 1,827 | 1,864 | 1,970 | 2,274 | 2,371 | 20,039 |
| Cumulative payments made | (1,449) | (938) | (700) | (577) | (539) | (500) | (451) | (420) | (375) | (180) | (6,129) |
| Outstanding claims (undiscounted) | 1,256 | 1,046 | 1,004 | 1,047 | 1,177 | 1,327 | 1,413 | 1,550 | 1,899 | 2,191 | 13,910 |
| Effect of discounting | (495) | (431) | (439) | (469) | (533) | (617) | (658) | (725) | (865) | (944) | (6,176) |
| Discounted outstanding claims | 761 | 615 | 565 | 578 | 644 | 710 | 755 | 825 | 1,034 | 1,247 | 7,734 |
| Discounted outstanding claims prior to 2007 injury year | | | | | | | | | | | 16,160 |
| Claim administration costs | | | | | | | | | | | 1,257 |
| Long latency occupational diseases | | | | | | | | | | | 2,492 |
| Posttraumatic stress disorder | | | | | | | | | | | 647 |
| **Total outstanding claims** | | | | | | | | | | | **28,290** |

Claim costs for years of injury before 2016 generally exhibit a downward trend by the year of estimate. This is primarily due to favourable return to work experience among loss of earnings claimants. For 2016, however, the claim costs have grown since last year end, primarily because 2017 return to work experience has not been as favourable as in previous years.

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### Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers. The premiums are determined based on a percentage of insurable earnings of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

(a) the cost of new claims, which is based on the expected number of claims and claim payment costs of that rate group;

(b) administration costs, which are based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

(c) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

(d) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

### Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risks are concentrated among the workplace risks associated with the various industries in the Province. The gross premiums by industry for the year ended December 31, 2017 are provided below.

| Industry | Gross premiums | % of total |
|---|---|---|
| Agriculture | 87 | 2.0% |
| Automotive | 233 | 5.5% |
| Construction | 1,134 | 26.6% |
| Education | 28 | 0.7% |
| Electrical | 56 | 1.3% |
| Food | 134 | 3.1% |
| Forestry | 42 | 1.0% |
| Health care | 350 | 8.2% |
| Manufacturing | 648 | 15.2% |
| Mining | 122 | 2.9% |
| Municipal | 66 | 1.5% |
| Primary metals | 47 | 1.1% |
| Process and chemicals | 86 | 2.0% |
| Pulp and paper | 23 | 0.5% |
| Services | 744 | 17.4% |
| Transportation | 471 | 11.0% |
| **Total** | **4,271** | **100.0%** |

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

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Premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

### Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for claim payments:

| | 2017 | 2016 |
|---|---|---|
| Up to one year | 6% | 5% |
| Over one year and up to five years | 17% | 17% |
| Over five years and up to ten years | 18% | 18% |
| Over ten years and up to fifteen years | 15% | 15% |
| Over fifteen years | 44% | 45% |
| | **100%** | **100%** |

## 19. Leases

### Lessee

The future aggregate minimum lease payments are as follows:

| | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Simcoe Place | 4 | 17 | 20 | **41** |
| Investment properties | 2 | 8 | 75 | **85** |
| Office space and computer equipment | 6 | 19 | 9 | **34** |

(a) Simcoe Place

The WSIB has a finance lease related to the land at Simcoe Place with minimum annual lease payments of $4 (2016 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council's approval. The effective interest rate on this finance lease is 19.59% (2016 – 19.59%).

(b) Investment properties

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 (2016 – $2) and interest rates ranging from 5.6% - 7.8% (2016 – 5.6% - 7.8%). Two of the leases have remaining lease terms of 34 years; the other has a remaining lease term of 70 years.

(c) Office space and computer equipment

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

During the year ended December 31, 2017, operating lease payments of $5 (2016 – $16) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

**(millions of Canadian dollars)**

**Lessor**

(a) Investment properties

The WSIB is the lessor of a number of operating leases of its investment properties. These leases typically have a term of 5 to 15 years, with an option to renew. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

| | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Investment properties | 67 | 214 | 166 | 447 |

## 20. Commitments and Contingent Liabilities

### (a) Mortgages

Mortgages related to investment properties had annual fixed interest rates of 3.0% - 3.6% (2016 – 3.0% - 3.6%), and mature between 2018 and 2025 (2016 – 2017 and 2025). For the year ended December 31, 2017, interest of $3 was included in investment expenses (2016 – $3).

As at December 31, 2017, future principal payments on mortgages were as follows:

| | Within 1 year | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Mortgages | 17 | - | 69 | 86 |

### (b) Investment commitments

The WSIB had the following commitments for capital calls as at December 31 related to its investment portfolio:

| | 2017 | 2016 |
|---|---|---|
| Investment funds, infrastructure and real estate related investments | 2,142 | 1,748 |
| Investments in associates and joint ventures | 88 | 97 |
| Purchases or development of investment properties | 48 | 45 |
| **Total investment commitments** | **2,278** | **1,890** |

There was no specific timing requirement to fulfill these commitments during the investment period.

### (c) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2017 were approximately $269 for 2018.

### (d) Other commitments

As at December 31, 2017, the WSIB had additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $159 (2016 – $149).

### (e) Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

**(millions of Canadian dollars)**

## 21. Funding and Capital Management

As the board-governed trust agency under the Agencies and Appointments Directive for administering the Province's compensation system, the WSIB's capital management objective is to ensure sufficient funding to provide compensation and other benefits to workers and to the survivors of deceased workers. The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, the WSIA requires the WSIB to maintain sufficient funding so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. As at December 31, 2017, the WSIB's capital is represented by the unfunded liability attributable to WSIB stakeholders of $710 (2016 – $3,925).

*Ontario Regulation 141/12* under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio and ensure the Sufficiency Ratio meets the prescribed levels by the following dates:

| | |
|---|---|
| December 31, 2017 | 60% |
| December 31, 2022 | 80% |
| December 31, 2027 | 100% |

*Ontario Regulation 141/12,* as amended by *Ontario Regulation 338/13* which became effective January 1, 2014 (collectively, the "Ontario Regulations") further clarifies the measurement of assets and liabilities included in the Sufficiency Ratio. The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a going concern basis than that required under IFRS.

The WSIB prepares a quarterly Sufficiency Report to Stakeholders to report on its progress towards meeting the legislated funding requirements. As at December 31, 2017, the Sufficiency Ratio was 95.8% (2016 – 87.4%), which was significantly higher than the 60% funding level as required by the Ontario Regulations.

## 22. Related Party Transactions

The WSIB's related parties include the Government of Ontario and related entities, key management personnel, subsidiaries, associates, joint ventures, and post-retirement benefit plans for the WSIB's employees. The transactions are in the ordinary course of business and at arms-length.

### Government of Ontario and related entities

The WSIB is a board-governed trust agency under the Agencies and Appointments Directive, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser. The WSIB also provides various grants and funding to carry on investigations, research and training. The total of this funding for the year ended December 31, 2017 was $258 (2016 – $246) and is included in legislated obligations and funding commitments expenses.

In addition to the above, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

Included in investments are $1,171 of marketable fixed income securities issued by the Government of Ontario and related entities (2016 – $1,562).

Reimbursements paid to the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers are included in claim payments. Administrative fees paid to the MOHLTC are included in administration and other expenses.

### Investment Management Corporation of Ontario ("IMCO")

In 2016, the WSIB was named in *Ontario Regulation 251/16* as one of the initial members of IMCO. Created by the Ontario Government and enacted by legislation, IMCO is a new entity that will provide investment management and advisory services to participating organizations in Ontario's public sector.

On July 27, 2016, IMCO entered into a Funding Agreement with WSIB, which was amended on September 30, 2016, to fund IMCO's operations during the start-up period as defined in the Funding Agreement. The Funding Agreement sets out the basis on which monies could be advanced by the WSIB to IMCO through promissory notes during the start-up period. The promissory notes bore interest at prime rate plus 2%, calculated daily. The promissory note payable to WSIB totaled $4.3 (2016 - $1.5) and was repaid in full as at June 30, 2017.

On July 24, 2017, IMCO officially began managing WSIB's invested assets and subsequent to IMCO becoming operational, WSIB's share of IMCO's operating expenses are paid by WSIB on a cost recovery basis.

External investment manager and custodial fees, previously paid directly by WSIB, are now paid by IMCO on WSIB's behalf.

### Key management remuneration

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the WSIB, directly or indirectly. The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

| | 2017 | 2016 |
|---|---|---|
| Salaries and short-term benefits | 5.1 | 4.7 |
| Employee benefit plans | 0.6 | 0.6 |
| **Total key management remuneration** | **5.7** | **5.3** |

### Employee benefit plans

The WSIB's defined benefit pension plans and the other benefit plans are considered related parties. Note 16 provides details of transactions with these employee benefit plans.

**Notes to Consolidated Financial Statements**
**December 31, 2017**
**(millions of Canadian dollars)**

## 23. Information on Subsidiaries and Non-controlling Interests

The WSIB's consolidated financial statements include the financial statements of all its subsidiaries.

### (a) Directly or indirectly owned subsidiaries

The majority of the WSIB's assets are held directly or indirectly by the following subsidiaries:

| | WSIB's ownership | | Country of incorporation and operation |
|---|---|---|---|
| | 2017 | 2016 | |
| **Wholly owned subsidiaries** | | | |
| 799549 Ontario Inc. | 100.0% | 100.0% | Canada |
| WSIB VanIF GP Holdings Ltd.[1] | 100.0% | n/a | Canada |
| WSIB VanLRI GP Holdings Ltd.[1] | 100.0% | n/a | Canada |
| Simcoe Wight IF Holdings Ltd.[1] | 100.0% | n/a | Canada |
| Simcoe Wight LRI Holdings Ltd.[1] | 100.0% | n/a | Canada |
| WSIB Investments (International Realty (Non-Pension)) Limited | 100.0% | 100.0% | Canada |
| **Partly-owned subsidiaries** | | | |
| Absolute Return (2012) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| Diversified Markets (2010) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| Diversified Markets (2009) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| WSIB Investments (Fixed Income) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| WSIB Investments (Infrastructure) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| WSIB Investments (International Realty) Limited | 90.6% | 90.0% | Canada |
| WSIB Investments (Public Equities) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| WSIB Investments (Realty) Limited | 90.6% | 90.0% | Canada |
| WSIB Investments (Total Return) Pooled Fund Trust | 90.4% | 90.0% | Canada |
| Simcoe Pacific Pooled Fund Trust | 90.4% | 90.0% | Canada |

1. These entities were incorporated in 2017.

**Notes to Consolidated Financial Statements**
**December 31, 2017**
**(millions of Canadian dollars)**

The WSIB's Employees' Pension Plan is the non-controlling interest in each of the partly-owned subsidiaries listed above. The following provides aggregated summary financial information for the partly-owned subsidiaries, before intercompany eliminations:

| Summary information from statements of financial position | 2017 | 2016 |
|---|---|---|
| Total assets | 32,845 | 28,465 |
| Total liabilities | (130) | (275) |
| **Surplus of assets** | **32,715** | **28,190** |
| **Attributable to the WSIB Employees' Pension Plan** | **3,124** | **2,828** |

| Summary information from statements of comprehensive income | 2017 | 2016[1] |
|---|---|---|
| Investment income | 3,199 | 1,735 |
| Investment expenses | (40) | (33) |
| **Net investment income** | **3,159** | **1,702** |
| **Translation losses from net foreign investments** | **34** | **8** |
| **Attributable to the WSIB Employees' Pension Plan** | **306** | **174** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

## (b) Reconciliation of non-controlling interests

The following provides a reconciliation of the non-controlling interests, including the effect of changes in ownership:

| | Non-controlling interests | | |
|---|---|---|---|
| | Partly-owned subsidiaries | Other subsidiaries | Total |
| **Balance as at December 31, 2015** | **2,699** | **103** | **2,802** |
| Excess of revenues over expenses[1] | 175 | (2) | 173 |
| Translation differences from net foreign investments[1] | (1) | - | (1) |
| Distributions paid by subsidiaries to non-controlling interests | (173) | (4) | (177) |
| Disposition of non-controlling interests | 128 | 4 | 132 |
| **Balance as at December 31, 2016** | **2,828** | **101** | **2,929** |
| Excess of revenues over expenses | 309 | 3 | 312 |
| Translation differences from net foreign investments | (3) | - | (3) |
| Distributions paid by subsidiaries to non-controlling interests | (195) | (3) | (198) |
| Disposition of non-controlling interests | 185 | 3 | 188 |
| **Balance as at December 31, 2017** | **3,124** | **104** | **3,228** |

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

For more information
please visit the WSIB website
(wsib.on.ca) or phone:

| | |
|---|---|
| **Telephone** | 416-344-1000 |
| **Toll-free** | 1-800-387-0750 |
| **TTY** | 1-800-387-0050 |

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