WORKPLACE SAFETY & INSURANCE BOARD

SECOND QUARTER 2017 REPORT TO STAKEHOLDERS

wsib
ONTARIO

Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2017 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting,* using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this Management's Discussion and Analysis ("MD&A"), "WSIB," or the words "our," "us" or "we" refer to the Workplace Safety and Insurance Board (the "WSIB"). This MD&A is dated June 30, 2017, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The following MD&A and accompanying unaudited condensed interim consolidated financial statements, as approved by the Board of Directors of the WSIB, are prepared by management as at and for the three and six months ended June 30, 2017.

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 projections in cases in which future events and circumstances do not occur as expected.

Thomas Teahen
President and Chief Executive Officer
September 21, 2017
Toronto, Ontario

Pamela Steer
Chief Financial Officer

Management's Discussion and Analysis

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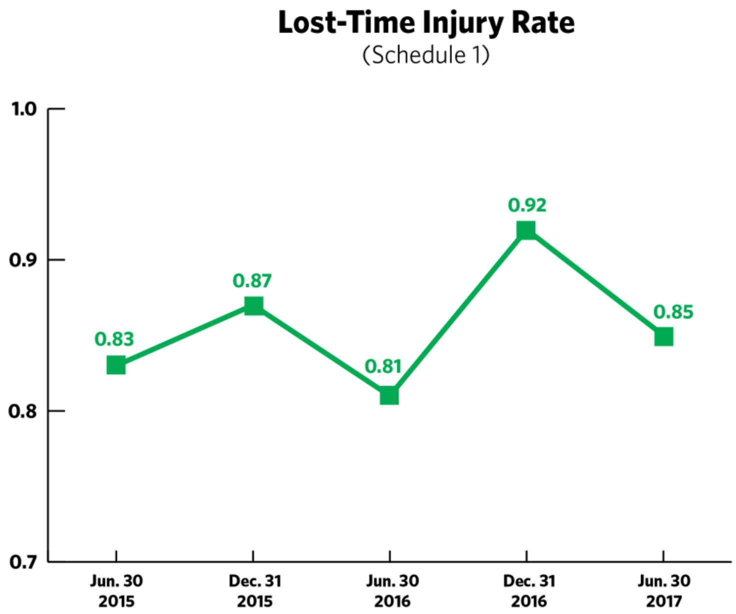
1. Operational Highlights

Highlights of our operational performance for the six months ended June 30, 2017 compared to 2016.

Operational highlights for the six months ended June 30, 2017:

Increase in registered claim volume. During the first six months of 2017, total registered Schedule 1 claims were 98,332, an increase of 6% compared to the same period in 2016. Both lost-time and no-lost-time claims increased by 6%.

Since the increase in lost-time claims exceeded employment growth, the lost-time injury ("LTI") rate has increased to 0.85 claims per 100 workers from 0.81 as at June 30, 2016. However, the LTI rate has improved compared to the two previous quarters. During the two previous quarters, business processes changed due to the implementation of our new Accounts and Claims Enterprise System, causing LTI rates to appear high. The current Schedule 1 rate is now more closely aligned with levels prior to year-end 2016 as we have achieved a steady state for business processes.



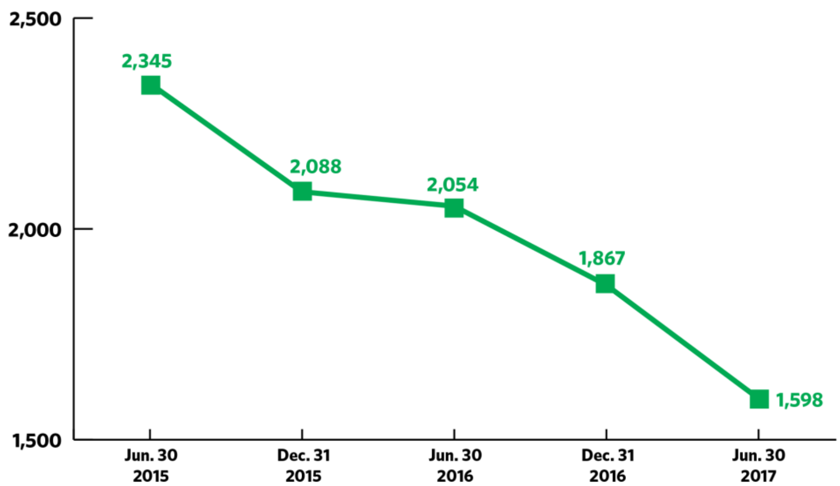
Further increases in short-term and medium-term durations. The percentages of injured workers who continue to require benefits at each time interval (up to 48 months) increased in the second quarter of 2017 compared to the same period in 2016. This increase occurred among both Schedule 1 and Schedule 2 claims and is part of a longer-term trend since the historic low durations experienced in 2015. The three-month Schedule 1 duration increased from 11.3% to 12.4% while the 12-month duration rose from 3.7% to 4.6%.

Strong work transition results continue. The WSIB's Work Transition Program assists workers who are unable to return to their pre-injury positions. The percentage of workers successfully finding employment after completing a Work Transition Plan has been steadily increasing. In the first half of 2017, nearly nine in ten Schedule 1 workers (89%) found employment after completing their Work Transition Plan compared to 83% at the same point in 2016. For Schedule 2 participants, 97% found employment, which was comparable to 2016 (98%).

High proportion of claims treated through integrated health care programs. We continue to see a high proportion of claims treated through at least one of the WSIB's integrated health care programs such as Specialty Clinics and Programs of Care. In the first half of 2017, 43% of Schedule 1 claims and 51% of Schedule 2 claims were treated through these programs. These programs help to keep the percentage of workers who experience a permanent impairment low. Year-to-date, 5.9% of Schedule 1 claims experienced a permanent impairment, as compared to 6% in 2016.

Appeals resolution continues to be timely. During the first half of 2017, 87% of appeals were resolved within six months, slightly above the 85% target. The percentage of appeals allowed (16%) was within its target range of 14% to 17% and the percentage of appeals allowed in part (12%) was within its target range of 12% to 16%. The inventory of active appeals has continued to decrease, totalling 1,598 cases at June 30, 2017 compared to 1,867 cases at December 31, 2016, the lowest level achieved in the past five years.

Active Appeals Inventory
(number of active appeals)



New service excellence team in place. The levels of overall satisfaction of injured workers and employers in the second quarter of 2017 were slightly higher compared to the same period in 2016. In the second quarter of 2017, four out of five employers (80%) and close to three-quarters of injured workers (72%) reported satisfaction with their overall experience when surveyed by a third party research firm. The WSIB's new, dedicated service excellence team continues to target service improvement "quick wins" as well as to plan for more extensive and longer-term improvements.

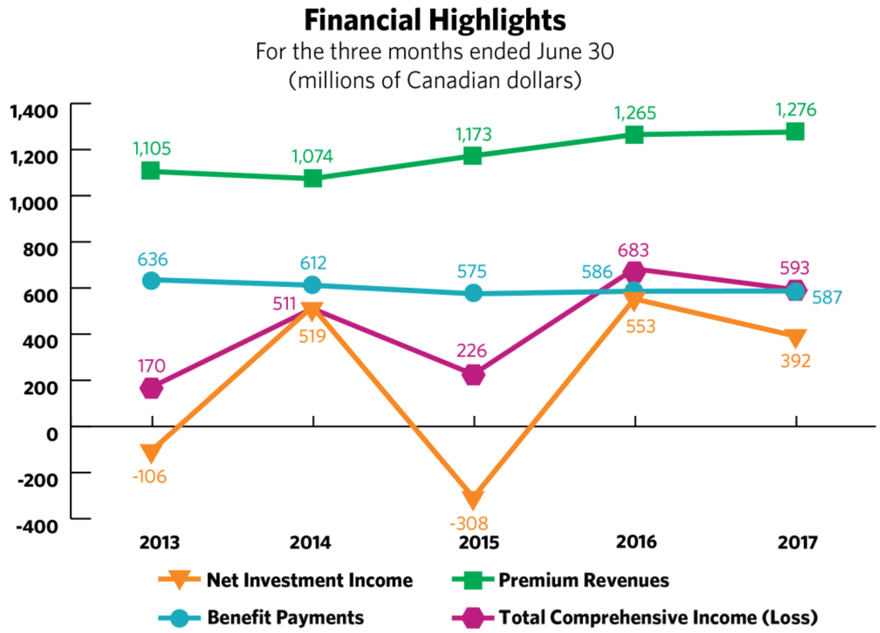
Notable item

On July 24, 2017, Investment Management Corporation of Ontario ("IMCO") officially launched and began managing certain of WSIB and Ontario Pension Board assets. Having our funds managed by IMCO will allow 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.

2. Financial Highlights

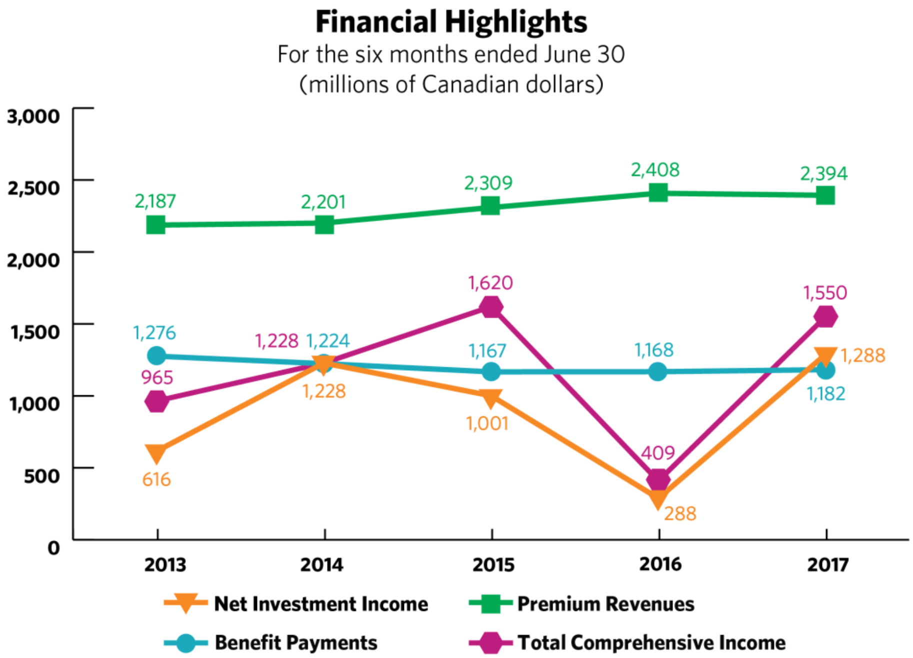
Highlights of our financial performance for the three and six months ended June 30, 2017 compared to 2016.

The following section should be read in conjunction with the unaudited condensed interim consolidated financial statements of the WSIB as at and for the three and six months ended June 30, 2017.



Financial highlights for the three months ended June 30, 2017 compared to the three months ended June 30, 2016:

- We generated a total comprehensive income of $593 million in the second quarter of 2017, primarily reflecting a net investment income of $392 million.
- Premium revenues increased $11 million or 0.9% primarily reflecting a 3.2% increase in insurable earnings driven by strong growth in the construction, manufacturing, services and transportation industries, partially offset by a 3.0% reduction in the realized average premium rate collected from employers in the quarter as a result of the 6.2% reduction in the published 2017 premium rates, and lower net payouts for employer incentive programs due to higher surcharges.
- The WSIB investment portfolio reflected a net investment income of $392 million, a decrease of $161 million compared to the same period in 2016. The return on investments was 1.5% in the second quarter of 2017 compared to 2.3% in the second quarter of 2016. 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.
- Benefit payments increased $1 million or 0.2% primarily reflecting higher loss of earnings payments, partially offset by lower workers' pensions and future economic loss benefit payments.
- Administration and other expenses, before allocation to benefit costs, increased by $15 million or 8.0%, reflecting $8 million of higher long-term employee benefit plans expenses, $6 million of higher salaries and short-term benefits, $2 million of higher depreciation and amortization, partially offset by $1 million of lower other operating expenses.
- For the three months ended June 30, 2017, other comprehensive loss was $232 million primarily attributed to an average decrease in the discount rate of 30 basis points, partially offset by better than expected returns on pension plan assets.



Financial highlights for the six months ended June 30, 2017 compared to the six months ended June 30, 2016:

- We generated a total comprehensive income of $1,550 million in the first half of 2017, primarily reflecting a net investment income of $1,288 million. We generated positive cash flow in our business as our premium revenues exceeded our operating expenses, thereby allowing us to transfer $660 million of cash generated from operating activities to our investment fund in the first half of 2017.
- Premium revenues decreased $14 million or 0.6% primarily reflecting a 4.5% reduction in the realized average premium rate, partially offset by a 3.7% increase in insurable earnings driven by strong growth in the construction, health care, manufacturing, services and transportation industries and lower net payouts for employer incentive programs due to higher surcharges.
- The WSIB investment portfolio reflected a net investment income of $1,288 million in the first half of 2017, an increase of $1 billion compared to the first half of 2016. The return on investments was 4.9% in the first half of 2017 compared to 1.3% in the same period of 2016.
- Benefit payments increased $14 million or 1.2% primarily reflecting higher loss of earnings payments, partially offset by lower workers' pensions and future economic loss benefit payments.
- Administration and other expenses, before allocation to benefit costs, increased by $16 million or 4.2%, reflecting $8 million of higher long-term employee benefit plans expenses, $6 million of higher salaries and short-term benefits, $3 million of higher depreciation and amortization, partially offset by $1 million of lower other operating expenses.
- For the six months ended June 30, 2017, other comprehensive loss was $307 million primarily attributed to an average decrease in the discount rate of 50 basis points, partially offset by better than expected returns on pension plan assets.
- Our unfunded liability on a Sufficiency Ratio basis was $2,621 million as at June 30, 2017, a decrease of $1,383 million or 34.5% since December 31, 2016.

3. Financial Results

A more detailed discussion of our financial performance for the three and six months ended June 30, 2017 compared to 2016.

The following table sets forth our operating results for the three and six months ended June 30:

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2017**	**2016**	**2017**	**2016**
Revenues				
Premiums	1,320	1,315	2,482	2,498
Net mandatory employer incentive programs	(44)	(50)	(88)	(90)
	1,276	1,265	2,394	2,408
Net investment income				
Investment income	435	595	1,376	364
Investment expenses	(43)	(42)	(88)	(76)
	392	553	1,288	288
	1,668	**1,818**	**3,682**	**2,696**
Expenses				
Benefit costs				
Benefit payments	587	586	1,182	1,168
Claim administration costs	107	101	209	203
Change in actuarial valuation of benefit liabilities	(35)	(28)	75	102
	659	659	1,466	1,473
Loss of Retirement Income Fund contributions	14	14	28	28
Administration and other expenses	103	92	197	185
Legislated obligations and funding commitments	67	65	134	136
	843	**830**	**1,825**	**1,822**
Excess of revenues over expenses	**825**	**988**	**1,857**	**874**
Other comprehensive loss				
Remeasurements of employee defined benefit plans	232	305	307	465
Total comprehensive income	**593**	**683**	**1,550**	**409**
Total comprehensive income attributable to:				
WSIB stakeholders	551	620	1,410	373
Non-controlling interests	42	63	140	36
	593	**683**	**1,550**	**409**
Other measures				
Core Earnings[1]	398	407	644	688
Return on investments[2]	1.5%	2.3%	4.9%	1.3%
			Jun. 30 2017	**Dec. 31 2016**
Unfunded liability[3,4]			(2,515)	(3,925)
Unfunded liability - Sufficiency Ratio basis[4]			(2,621)	(4,004)
Sufficiency Ratio[4]			91.8%	87.4%

1. Core Earnings is calculated as total comprehensive income (loss), excluding the impacts of net investment income (loss), change in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 10 – 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 capital invested taking into account capital contributions and withdrawals.
3. Unfunded liability represents the deficiency of assets attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $560 million as at June 30, 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 $3,075 million as at June 30, 2017 (December 31, 2016 – $2,929 million) excludes 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 June 30, 2017 was $2,515 million (December 31, 2016 – $3,925 million) which includes benefit liabilities. Refer to the unaudited condensed interim consolidated statements of financial position for further details.
4. Refer to Section 5 – Reconciliation of the Unfunded Liability on a Sufficiency Ratio Basis for further details.

Premiums

A summary of premiums for the three and six months ended June 30 is as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2017**	**2016**	**$**	**%**	**2017**	**2016**	**$**	**%**
Schedule 1 employer premiums								
Gross Schedule 1 premiums	1,287	1,284	3	0.2	2,419	2,441	(22)	(0.9)
Bad debts	(10)	(9)	(1)	(11.1)	(17)	(16)	(1)	(6.3)
Interest and penalties	19	19	-	-	33	31	2	6.5
	1,296	1,294	2	0.2	2,435	2,456	(21)	(0.9)
Schedule 2 employer administration fees	24	21	3	14.3	47	42	5	11.9
	1,320	1,315	5	0.4	2,482	2,498	(16)	(0.6)
Net mandatory employer incentive programs	(44)	(50)	6	12.0	(88)	(90)	2	2.2
	1,276	**1,265**	**11**	**0.9**	**2,394**	**2,408**	**(14)**	**(0.6)**

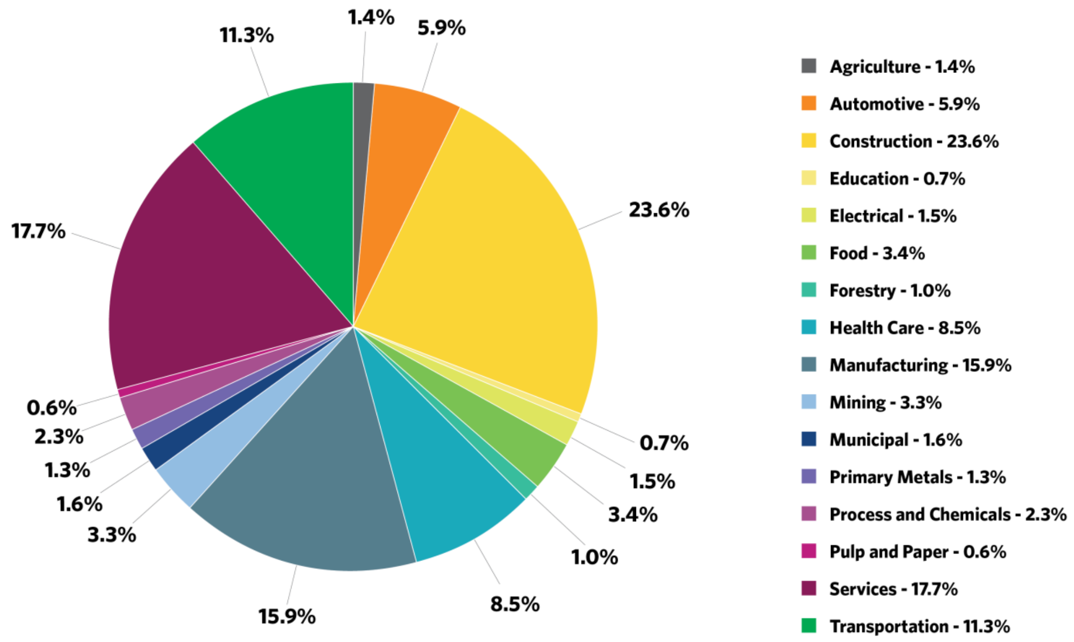
For the three months ended June 30, 2017, gross premiums increased $3 million or 0.2%, reflecting a $40 million or 3.2% increase in insurable earnings driven by strong growth in the construction, manufacturing, services and transportation industries, partially offset by a $37 million or 3.0% reduction in the realized average premium rate collected from employers as a result of the 6.2% reduction in the published 2017 premium rates.

For the six months ended June 30, 2017, gross premiums decreased $22 million or 0.9%, reflecting a $109 million or 4.5% 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 $87 million or 3.7% increase in insurable earnings driven by strong growth in the construction, health care, manufacturing, services and transportation industries.

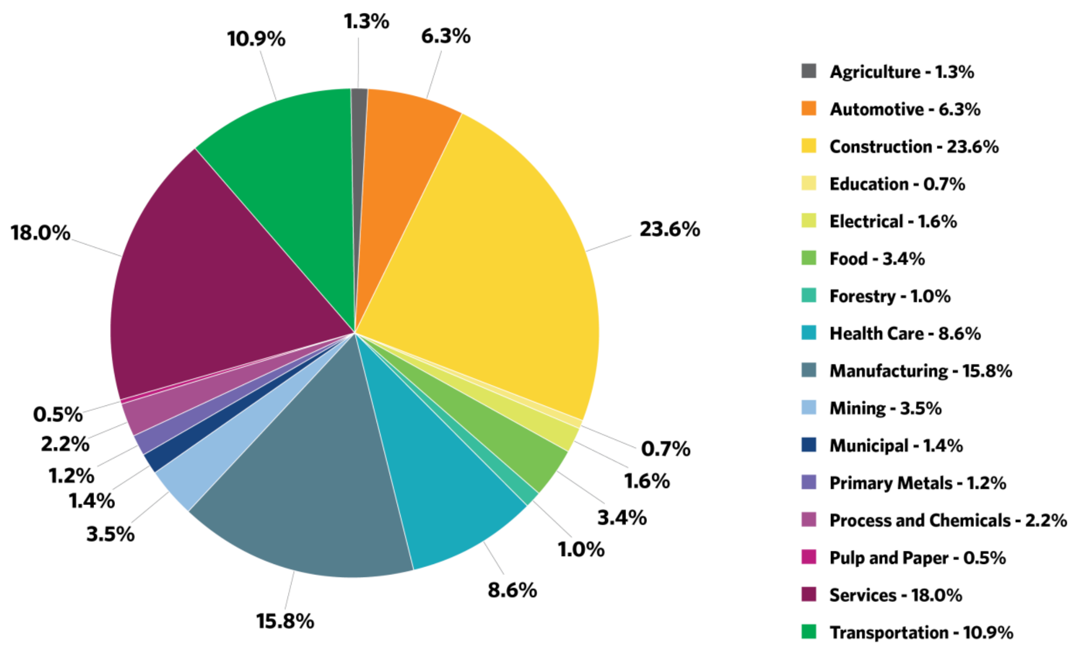
For the three and six months ended June 30, 2017, net payouts for mandatory employer incentive programs decreased due to higher surcharges required under the retrospective experience-rating programs, principally the New Experimental Experience Rating program (the “NEER”), reflecting employer claims experience.

The following charts display gross premiums by sector for the six months ended June 30:

Gross Schedule 1 Premiums by Sector [1]
For the six months ended June 30, 2017



Gross Schedule 1 Premiums by Sector [1]
For the six months ended June 30, 2016



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 three and six months ended June 30 is as follows:

Investment Strategy	Three months ended June 30							
	2017				2016			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equities	226	1.9	11,358	36.2	146	1.5	9,672	35.3
Fixed income	18	0.3	6,017	19.2	172	2.8	6,793	24.8
Multi-asset	44	0.7	6,106	19.4	212	3.9	5,089	18.6
Real estate	27	0.9	3,494	11.1	26	1.3	2,405	8.8
Infrastructure	119	5.7	2,241	7.1	38	2.5	1,639	6.0
Cash and cash equivalents	1	-	2,145	6.8	1	-	1,699	6.2
Other	-	-	69	0.2	-	-	69	0.3
	435	**1.5**	**31,430**	**100.0**	**595**	**2.3**	**27,366**	**100.0**
Investment expenses	(43)				(42)			
Net investment income	**392**				**553**			

1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives.

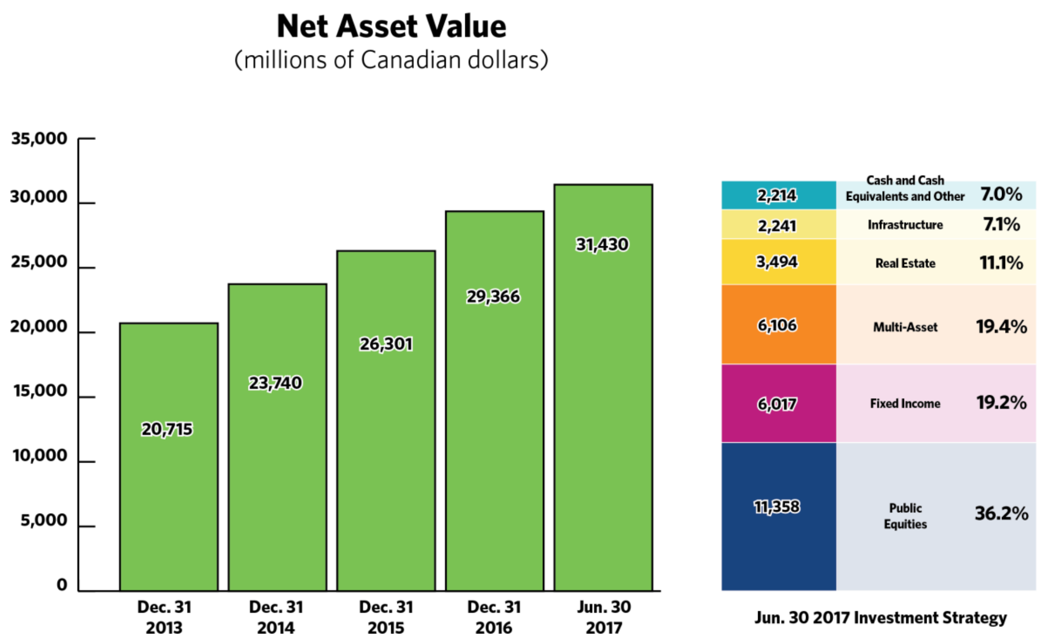
For the three months ended June 30, 2017, net investment income decreased by $161 million over the same period last year, reflecting an overall return of 1.5% or net investment income of $392 million for the second quarter. Portfolio returns in the second quarter were driven primarily by strong returns in public equity and infrastructure strategies.

Investment Strategy	Six months ended June 30							
	2017				2016			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equities	841	7.7	11,358	36.2	(188)	(2.3)	9,672	35.3
Fixed income	59	1.2	6,017	19.2	255	4.2	6,793	24.8
Multi-asset	216	3.5	6,106	19.4	157	3.0	5,089	18.6
Real estate	79	2.8	3,494	11.1	40	2.0	2,405	8.8
Infrastructure	178	9.0	2,241	7.1	97	6.7	1,639	6.0
Cash and cash equivalents	3	-	2,145	6.8	3	-	1,699	6.2
Other	-	-	69	0.2	-	-	69	0.3
	1,376	**4.9**	**31,430**	**100.0**	**364**	**1.3**	**27,366**	**100.0**
Investment expenses	(88)				(76)			
Net investment income	**1,288**				**288**			

1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives.

For the six months ended June 30, 2017, net investment income increased by $1 billion over the same period last year, reflecting an overall return of 4.9% or net investment income of $1,288 million year-to-date. Public equity returns (7.7%) were driven by strong returns in Europe and the emerging markets. Infrastructure returns (9.0%) were driven by capital returns. Multi-asset returns (3.5%) were primarily driven by equities and bonds with positive contributions from both hedge funds and active currency trading.

The following chart displays the net asset value for the years from 2013 to 2016 and the first half of 2017:



Benefit costs

Benefit costs consist of: (i) benefit 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 unaudited condensed interim consolidated statements of financial position.

A summary of benefit costs for the three and six months ended June 30 is as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	2017	2016	$	%	2017	2016	$	%
Benefit payments	587	586	1	0.2	1,182	1,168	14	1.2
Claim administration costs	107	101	6	5.9	209	203	6	3.0
Change in actuarial valuation of benefit liabilities	(35)	(28)	(7)	(25.0)	75	102	(27)	(26.5)
Total benefit costs	**659**	**659**	**-**	**-**	**1,466**	**1,473**	**(7)**	**(0.5)**

Benefit payments

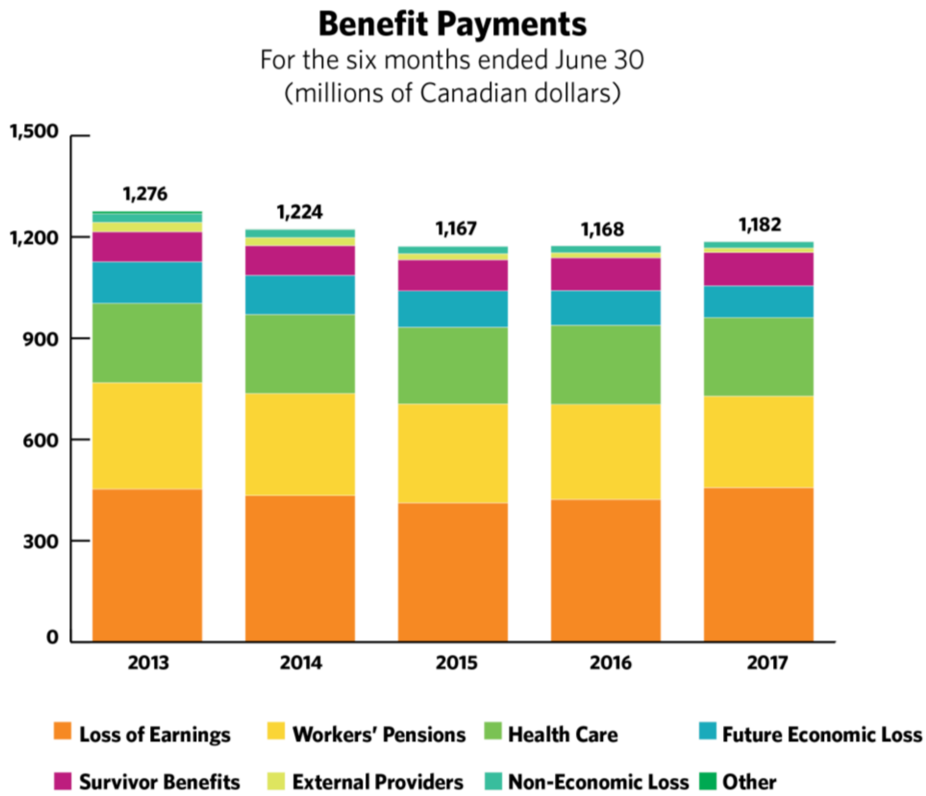
Benefit payments represent cash paid during the three and six months ended June 30 to or on behalf of injured workers. Benefit payments are comprised of the following:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	2017	2016	$	%	2017	2016	$	%
Loss of earnings	232	216	16	7.4	457	422	35	8.3
Workers' pensions	135	141	(6)	(4.3)	271	282	(11)	(3.9)
Health care	111	113	(2)	(1.8)	233	234	(1)	(0.4)
Future economic loss	47	52	(5)	(9.6)	94	103	(9)	(8.7)
Survivor benefits	49	49	-	-	99	97	2	2.1
External providers	6	8	(2)	(25.0)	13	15	(2)	(13.3)
Non-economic loss	11	11	-	-	19	21	(2)	(9.5)
Other	(4)	(4)	-	-	(4)	(6)	2	33.3
Total benefit payments	**587**	**586**	**1**	**0.2**	**1,182**	**1,168**	**14**	**1.2**

A summary of the significant changes in benefit payments for the three months and six months ended June 30, 2017 is as follows:

- Loss of earnings benefits increased primarily due to higher durations for current and prior 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.
- 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 benefit payments for the six months ended June 30:



Claim administration costs

Claim administration costs reflect the portions of administration and other expenses and legislated obligations and funding commitments expenses allocated to benefit costs. A summary of claim administration costs for the three and six months ended June 30 is as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2017**	**2016**	**$**	**%**	**2017**	**2016**	**$**	**%**
Allocation from administration and other expenses	100	96	4	4.2	197	193	4	2.1
Allocation from legislated obligations and funding commitments expenses	7	5	2	40.0	12	10	2	20.0
Total claim administration costs	**107**	**101**	**6**	**5.9**	**209**	**203**	**6**	**3.0**

For the three and six months ended June 30, 2017, 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

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2017**	**2016**	**2017**	**2016**
Change in actuarial valuation of benefit liabilities	(35)	(28)	75	102

For the three months ended June 30, 2017, the change in actuarial valuation of benefit liabilities was $35 million, reflecting a lower cost for new claims than forecasted in the prior quarter for the 2017 injury year.

For the six months ended June 30, 2017, the change in actuarial valuation of benefit liabilities was $75 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	(1,284)
Interest accretion[1]	614
Liabilities incurred for the 2017 injury year	767
Experience gains	(22)
Benefit liabilities as at June 30, 2017	**27,995**
Change in actuarial valuation of benefit liabilities	**75**

1. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the period and payments made during the period.

Administration and other expenses

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2017**	**2016**	**$**	**%**	**2017**	**2016**	**$**	**%**
Salaries and short-term benefits	112	106	6	5.7	219	213	6	2.8
Long-term employee benefit plans	41	33	8	24.2	82	74	8	10.8
Communications	3	3	-	-	6	6	-	-
Depreciation and amortization	7	5	2	40.0	12	9	3	33.3
Equipment and maintenance	16	17	(1)	(5.9)	33	34	(1)	(2.9)
Facilities	9	10	(1)	(10.0)	17	18	(1)	(5.6)
Systems development and integration	4	4	-	-	5	5	-	-
Other	11	10	1	10.0	20	19	1	5.3
	203	188	15	8.0	394	378	16	4.2
Claim administration costs allocated to benefit costs	(100)	(96)	(4)	(4.2)	(197)	(193)	(4)	(2.1)
Total administration and other expenses	**103**	**92**	**11**	**12.0**	**197**	**185**	**12**	**6.5**

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the three months and six months ended June 30, 2017 is as follows:

- Salaries and short-term benefits increased primarily reflecting inflationary pressures and higher termination benefit expenses.
- Long-term employee benefit plans increased primarily due to a gain recorded in 2016 to reflect changes to the post-retirement benefit plan provisions for new retirees**.**
- Depreciation and amortization expenses increased as the new accounts and claims management systems became operational.

Legislated obligations and funding commitments expenses

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2017**	**2016**	**$**	**%**	**2017**	**2016**	**$**	**%**
Legislated obligations								
Occupational Health and Safety Act	24	21	3	14.3	49	46	3	6.5
Ministry of Labour Prevention Costs	27	26	1	3.8	54	54	-	-
	51	47	4	8.5	103	100	3	3.0
Workplace Safety and Insurance Appeals Tribunal	8	7	1	14.3	13	12	1	8.3
Workplace Safety and Insurance Advisory Program	3	3	-	-	8	8	-	-
Total legislated obligations	**62**	**57**	**5**	**8.8**	**124**	**120**	**4**	**3.3**
Funding commitments								
Grants	1	-	1	-	1	-	1	-
Safety program rebates	11	13	(2)	(15.4)	21	26	(5)	(19.2)
Total funding commitments	**12**	**13**	**(1)**	**(7.7)**	**22**	**26**	**(4)**	**(15.4)**
	74	**70**	**4**	**5.7**	**146**	**146**	**-**	**-**
Claim administration costs allocated to benefit costs	(7)	(5)	(2)	(40.0)	(12)	(10)	(2)	(20.0)
Total legislated obligations and funding commitments	**67**	**65**	**2**	**3.1**	**134**	**136**	**(2)**	**(1.5)**

For the three months ended June 30, 2017, legislated obligations and funding commitments expenses, before allocation to benefit costs, increased $4 million or 5.7%, reflecting higher costs by the Ministry of Labour to administer and enforce the *Occupational Health and Safety Act*.

For the six months ended June 30, 2017, legislated obligations and funding commitments expenses, before allocation to benefit costs, were $146 million which approximated expenses for the same period in 2016**.**

4. Financial Condition

A discussion of the significant changes in our June 30, 2017 unaudited condensed interim consolidated statements of financial position.

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

(millions of Canadian dollars)	Jun. 30 2017	Dec. 31 2016	Change $	Change %	Commentary
Assets					
Cash and cash equivalents	2,422	2,496	(74)	(3.0)	Decrease primarily reflects the acquisition of a joint arrangement, offset by an increase in positive cash flows from operating activities and dividend and interest income received.
Receivables	1,738	1,644	94	5.7	Increase reflects higher surcharges on employer incentive programs, partially offset by lower premium receivables.
Public equity securities	11,957	11,382	575	5.1	Net increases reflect strong performance of these assets and cash contribution from operating activities in the first half of 2017.
Bonds	6,590	6,793	(203)	(3.0)	
Derivative assets	271	72	199	100+	
Other invested assets	10,304	8,788	1,516	17.3	
Property, equipment and intangible assets	312	316	(4)	(1.3)	No significant changes.
Liabilities					
Payables and accruals	1,332	1,112	220	19.8	Increase reflects higher investment-pending purchases and higher experience rating refunds payable.
Derivative liabilities	105	243	(138)	(56.8)	Decrease reflects changes in our currency hedging positions within the investment portfolio.
Long-term debt	132	132	-	-	No significant changes.
Loss of Retirement Income Fund liability	1,845	1,790	55	3.1	Increase reflects investment income partially offset by disbursement in excess of contributions.
Employee benefit plans liability	1,625	1,290	335	26.0	Increase reflects a reduction in the interest rate used for valuation.
Benefit liabilities	27,995	27,920	75	0.3	No significant changes.
Unfunded liability	(2,515)	(3,925)	1,410	35.9	Changes reflect total comprehensive income attributable to WSIB stakeholders.
Unfunded liability - Sufficiency Ratio basis	(2,621)	(4,004)	1,383	34.5	Strengthening due to continued strong operating results.
Sufficiency Ratio	91.8%	87.4%		4.4	

5. Reconciliation of the Unfunded Liability on a Sufficiency Ratio Basis

An explanation and discussion about the changes to the June 30, 2017 unfunded liability on a Sufficiency Ratio basis.

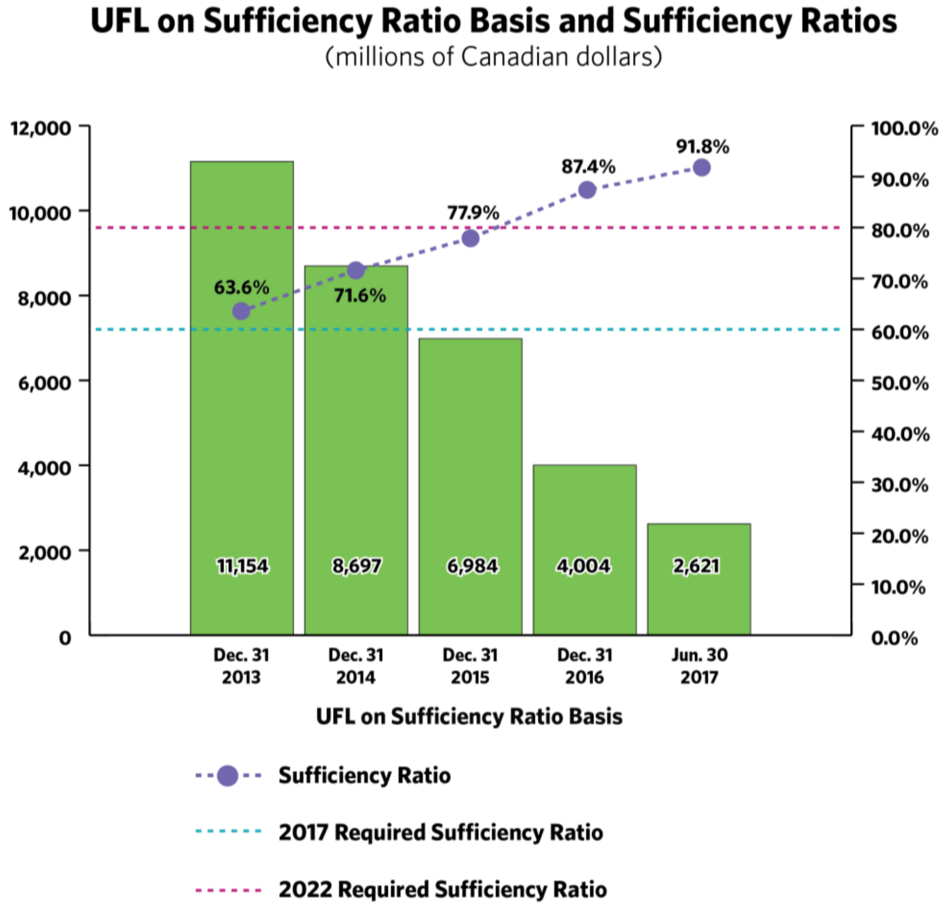
The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a different basis than that required under IFRS. For the purpose of the Sufficiency Ratio calculation, the amounts of total assets, as presented on the unaudited condensed interim consolidated statements of financial position, are adjusted to reflect measurement on a going concern basis.

The investment portfolio is valued at fair value adjusted by investment gains and losses deviating from the net investment return objective, less the interests in those assets held by third parties (non-controlling interests). These gains or losses are amortized over a five-year period, thereby moderating the effect of market volatility. The values of the obligations of the Employee Benefit Plans are determined through an actuarial valuation using the going concern basis, rather than the market basis.

As at June 30, 2017, the Sufficiency Ratio, as defined in *Ontario Regulation 141/12* and amended by *Ontario Regulation 338/13* (collectively, the "Ontario Regulations"), was 91.8% (December 31, 2016 – 87.4%). Set forth below is the reconciliation of the unfunded liability ("UFL") between the IFRS and Sufficiency Ratio basis:

(millions of Canadian dollars)	**June 30 2017**	**December 31 2016**
UFL attributable to WSIB stakeholders on an IFRS basis	**2,515**	**3,925**
Add/(Less): Adjustments per Ontario Regulations:		
Change in valuation of investment portfolio	1,199	779
Change in valuation of employee benefit plans liability	(983)	(626)
Change in valuation of investment portfolio attributable to non-controlling interests	(110)	(74)
UFL attributable to WSIB stakeholders on a Sufficiency Ratio basis	**2,621**	**4,004**
Sufficiency Ratio	**91.8%**	**87.4%**

The following chart displays the UFL on Sufficiency Ratio basis and Sufficiency Ratios for the years from 2013 to 2016 and the first half of 2017:



6. Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended June 30, 2017 is as follows:

	2017		2016				2015	
(millions of Canadian dollars)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Net premiums	1,276	1,118	1,175	1,223	1,265	1,143	1,149	1,173
Net investment income (loss)	392	896	251	958	553	(265)	726	(528)
Benefit costs								
Benefit payments	587	595	518	566	586	582	591	574
Claim administration costs	107	102	102	100	101	102	102	99
Change in actuarial valuation of benefit liabilities	(35)	110	(7)	(5)	(28)	130	1,040	(65)
	659	807	613	661	659	814	1,733	608
Loss of Retirement Income Fund contributions	14	14	14	14	14	14	13	15
Administration and other expenses	103	94	94	96	92	93	92	89
Legislated obligations and funding commitments	67	67	54	54	65	71	61	62
Excess (deficiency) of revenues over expenses	**825**	**1,032**	**651**	**1,356**	**988**	**(114)**	**(24)**	**(129)**
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	(232)	(75)	474	(44)	(305)	(160)	(39)	15
Total comprehensive income (loss)	**593**	**957**	**1,125**	**1,312**	**683**	**(274)**	**(63)**	**(114)**
Total comprehensive income (loss) attributable to WSIB stakeholders	**551**	**859**	**1,098**	**1,203**	**620**	**(247)**	**(148)**	**(57)**
Other measures								
Core Earnings[1]	398	246	393	393	407	281	290	334
Return on investments (%)[2]	1.5	3.4	1.1	3.8	2.3	(1.0)	3.2	(2.1)
Unfunded liability[3,4]	2,515	3,066	3,925	5,023	6,226	6,846	6,599	6,451
Unfunded liability - Sufficiency Ratio basis[4]	2,621	3,482	4,004	4,799	5,633	6,420	6,984	6,584

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. The net investment income in the second quarter of 2017 was driven primarily by strong returns in public equity and infrastructure strategies.

1. Core Earnings is calculated as total comprehensive income (loss), excluding the impacts of net investment income (loss), changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 10 – 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 assets attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $560 million as at June 30, 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 $3,075 million as at June 30, 2017 (December 31, 2016 – $2,929 million) excludes 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 June 30, 2017 was $2,515 million (December 31, 2016 – $3,925 million) which includes benefit liabilities. Refer to the unaudited condensed interim consolidated statements of financial position for further details.
4. Refer to Section 5 – Reconciliation of the Unfunded Liability on a Sufficiency Ratio Basis for further details.

7. Future Changes in Accounting Standards

A discussion of new and amended IFRS developments that will or may impact our consolidated financial statements.

IFRS 17 Insurance Contracts (“IFRS 17”)

In May 2017, the International Accounting Standards Board issued IFRS 17 *Insurance Contracts*, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principle-based framework for the recognition, measurement, and presentation of insurance contracts. The standard is effective for the WSIB on January 1, 2021. We are currently assessing the impact of adopting the standard.

8. Outlook for the Year Ending December 31, 2017

The outlook for our business for the year ending December 31, 2017.

Original 2017 Expectation	Current 2017 Outlook
Premiums. Anticipated to decrease reflecting a 6.2% reduction in the average premium rate, partially offset by an assumed 1.2% increase in employment growth and a 1.3% increase in average wages and $4 million of lower net mandatory employer incentive programs expense. While average premium rates in 2017 are anticipated to decrease from 2016, employers continue to contribute towards retiring the unfunded liability.	*Premiums.* Anticipating lower premium reduction compared to original expectation, primarily due to an increase in average wages growth to 2.0%.
Net investment income. Planned at a 4.75% net return on investments, consistent with our rolling 10 to 15-year period investment return objective within an expected range of 3.5% to 6.5%, reduced from a range of 4.0% to 7.0% effective January 1, 2017. We will continue to implement our Strategic Investment Plan 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.	*Net investment income*. Aligned to original expectation.
Benefit payments. Anticipated to be $2,402 million in 2017, 6.7% higher than in 2016.	*Benefit payments.* Anticipating to be $2,353 million in 2017, 4.5% higher than in 2016.
Administration and other expenses. Anticipated to increase in 2017 reflecting increases to the pension liability, increases for information technology costs and higher new systems development and integration expenses as a result of our transformational efforts.	*Administration and other expenses.* Anticipating lower expenses than original expectation, reflecting revaluation of long-term benefits expense and lower than budgeted salaries and benefits costs.
Legislated obligations. Anticipated to increase reflecting higher safety program rebates.	*Legislated obligations*. Anticipating modest increase to reduce Workplace Safety and Insurance Appeals Tribunal active caseloads.
Unfunded liability. Anticipated the unfunded liability will continue to decrease, based on current funding and benefit levels and employer contributions towards retiring this liability, as measured under current accounting and actuarial standards.	*Unfunded liability.* Aligned to original expectation.
Core Earnings. Although Core Earnings will decrease as a result of the reduction in the average premium rate, we anticipate continued contribution towards retiring the unfunded liability.	*Core Earnings.* Aligned to original expectation.

9. 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 unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated financial statements.

10. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

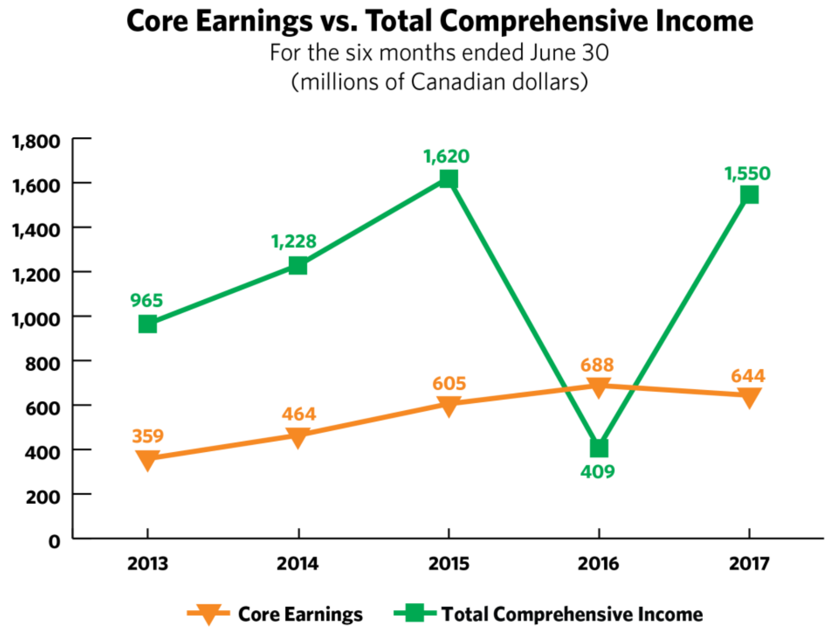
Core Earnings

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 net investment income, 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:

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2017**	**2016**	**2017**	**2016**
Total comprehensive income for the period	593	683	1,550	409
Add/(Less): Net investment loss (income)	(392)	(553)	(1,288)	(288)
Add/(Less): Change in actuarial valuation of benefit liabilities	(35)	(28)	75	102
Add/(Less): Change in actuarial valuation of employee benefit plans	232	305	307	465
Core Earnings	**398**	**407**	**644**	**688**

The following chart displays Core Earnings measurement versus the IFRS measurement for the six months ended June 30:



11. 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, various assumptions and analyses, 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.

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.

Condensed Interim Consolidated Statements of Financial Position
Unaudited (millions of Canadian dollars)

	Note	June 30 2017	December 31 2016
Assets			
Cash and cash equivalents	5	2,422	2,496
Receivables	4	1,738	1,644
Public equity securities	5	11,957	11,382
Bonds	5	6,590	6,793
Derivative assets	5	271	72
Other invested assets	5	10,304	8,788
Property, equipment and intangible assets		312	316
Total assets		**33,594**	**31,491**
Liabilities			
Payables and accruals		1,332	1,112
Derivative liabilities	5	105	243
Long-term debt		132	132
Loss of Retirement Income Fund liability		1,845	1,790
Employee benefit plans liability	6	1,625	1,290
Benefit liabilities	7	27,995	27,920
Total liabilities		**33,034**	**32,487**
Net (deficiency of) assets			
Unfunded liability attributable to WSIB stakeholders		(2,515)	(3,925)
Non-controlling interests		3,075	2,929
Total net (deficiency of) assets		**560**	**(996)**
Total liabilities and net (deficiency of) assets		**33,594**	**31,491**

Commitments and contingent liabilities (note 8)

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

Condensed Interim Consolidated Statements of Comprehensive Income
Unaudited (millions of Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	**2017**	**2016**	**2017**	**2016**
Revenues					
Premiums		1,320	1,315	2,482	2,498
Net mandatory employer incentive programs		(44)	(50)	(88)	(90)
		1,276	1,265	2,394	2,408
Net investment income					
Investment income	5	435	595	1,376	364
Investment expenses	5	(43)	(42)	(88)	(76)
Total net investment income		392	553	1,288	288
Total revenues		**1,668**	**1,818**	**3,682**	**2,696**
Expenses					
Benefit costs					
Benefit payments		587	586	1,182	1,168
Claim administration costs		107	101	209	203
Change in actuarial valuation of benefit liabilities		(35)	(28)	75	102
		659	659	1,466	1,473
Loss of Retirement Income Fund contributions		14	14	28	28
Administration and other expenses		103	92	197	185
Legislated obligations and funding commitments		67	65	134	136
Total expenses		**843**	**830**	**1,825**	**1,822**
Excess of revenues over expenses		**825**	**988**	**1,857**	**874**
Other comprehensive loss					
Remeasurements of employee defined benefit plans	6	232	305	307	465
Total comprehensive income		**593**	**683**	**1,550**	**409**

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
Excess of revenues over expenses attributable to:				
WSIB stakeholders	783	925	1,717	838
Non-controlling interests	42	63	140	36
	825	**988**	**1,857**	**874**
Total comprehensive income attributable to:				
WSIB stakeholders	551	620	1,410	373
Non-controlling interests	42	63	140	36
	593	**683**	**1,550**	**409**

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

Condensed Interim Consolidated Statements of Changes in Net (Deficiency of) Assets
Unaudited (millions of Canadian dollars)

	Note	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests	Total
Balance as at December 31, 2015		(6,599)	2,802	(3,797)
Excess of revenues over expenses		838	36	874
Remeasurements of employee defined benefit plans	6	(465)	-	(465)
Change in ownership share in investments		-	1	1
Balance as at June 30, 2016		(6,226)	2,839	(3,387)
Excess of revenues over expenses		1,871	136	2,007
Remeasurements of employee defined benefit plans		430	-	430
Change in ownership share in investments		-	(46)	(46)
Balance as at December 31, 2016		(3,925)	2,929	(996)
Excess of revenues over expenses		1,717	140	1,857
Remeasurements of employee defined benefit plans	6	(307)	-	(307)
Change in ownership share in investments		-	6	6
Balance as at June 30, 2017		**(2,515)**	**3,075**	**560**

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

Condensed Interim Consolidated Statements of Cash Flows
Unaudited (millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
Operating activities:				
Total comprehensive income	593	683	1,550	409
Adjustments:				
Amortization of net premium on investments	(9)	1	(10)	1
Depreciation and amortization of property, equipment and intangible assets	7	7	13	11
Changes in fair value of investments	(241)	(448)	(1,060)	(45)
Changes in fair value of investment properties	11	19	15	29
Dividend income from public equity securities	(145)	(107)	(243)	(188)
Income from joint ventures	(17)	(14)	(40)	(32)
Interest income	(44)	(62)	(84)	(118)
Interest expense	2	2	4	4
Total comprehensive income after adjustments	157	81	145	71
Changes in non-cash balances related to operations:				
Receivables, excluding those related to investing activities	(132)	(110)	(91)	(110)
Payables and accruals, excluding those related to investing and financing activities	112	115	16	25
Loss of Retirement Income Fund liability	12	25	55	4
Employee benefit plans liability	247	312	335	482
Benefit liabilities	(35)	(28)	75	102
Total changes in non-cash balances related to operations	204	314	390	503
Net cash provided by operating activities	**361**	**395**	**535**	**574**
Investing activities:				
Dividends received from public equity securities and joint ventures	153	109	248	188
Interest received	42	87	98	119
Purchases of property, equipment and intangible assets	(6)	(17)	(9)	(25)
Purchases of investments	(4,624)	(2,965)	(9,333)	(5,980)
Proceeds on sales and maturities of investments	4,708	2,522	9,352	5,628
Net additions to investment properties	(11)	(41)	(17)	(47)
Acquisitions of joint arrangements	(4)	(6)	(950)	(7)
Net cash provided (required) by investing activities	**258**	**(311)**	**(611)**	**(124)**
Financing activities:				
Net proceeds on dispositions (acquisitions) of non-controlling interests	(8)	45	51	46
Distributions paid by subsidiaries to non-controlling interests	(27)	(31)	(45)	(45)
Net issuance of debt	-	21	-	22
Interest paid on debt	(2)	(2)	(4)	(4)
Net cash provided (required) by financing activities	**(37)**	**33**	**2**	**19**
Net increase (decrease) in cash and cash equivalents	**582**	**117**	**(74)**	**469**
Cash and cash equivalents, beginning of period	1,840	1,933	2,496	1,581
Cash and cash equivalents, end of period	**2,422**	**2,050**	**2,422**	**2,050**

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

Notes to Condensed Interim Consolidated Financial Statements
June 30, 2017
Unaudited

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Notes to Condensed Interim Consolidated Financial Statements
June 30, 2017
Unaudited (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 Agency 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 entirely 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. Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual information available in the consolidated financial statements and the accompanying notes for the year ended December 31, 2016. These unaudited condensed interim consolidated financial statements have been prepared on a basis consistent with the policies outlined in the notes to the consolidated financial statements for the year ended December 31, 2016.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on September 21, 2017.

3. Future Changes in Accounting Standards

IFRS 17 Insurance Contracts ("IFRS 17")

In May 2017, the International Accounting Standards Board issued IFRS 17 *Insurance Contracts*, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principle-based framework for the recognition, measurement, and presentation of insurance contracts. The standard is effective for the WSIB on January 1, 2021. We are currently assessing the impact of adopting the standard.

Notes to Condensed Interim Consolidated Financial Statements
June 30, 2017
Unaudited (millions of Canadian dollars)

4. Receivables

Receivables are comprised of the following:

	June 30 2017	December 31 2016
Premiums receivable	214	264
Accrued premiums receivable	542	539
Less: Allowance for doubtful accounts	(108)	(111)
	648	692
Employer incentive programs surcharges	521	387
Investment receivables	510	507
Other assets	59	58
Total receivables	**1,738**	**1,644**

Premiums receivable primarily relates to Schedule 1 employer premiums which 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 the accrued premiums receivable.

Employer incentive programs surcharges represent premium increases for Schedule 1 employers based on claims experience.

5. Invested Assets and Net Investment Income

(a) Invested assets

The following provides a summary of the nature of the invested assets by investment strategy:

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	Jun. 30 2017[2]	Dec. 31 2016
Public equity securities	**11,403**	**-**	**554**	**-**	**-**	**-**	**11,957**	**11,382**
Bonds	**-**	**5,995**	**595**	**-**	**-**	**-**	**6,590**	**6,793**
Derivative assets	**41**	**-**	**198**	**8**	**24**	**-**	**271**	**72**
Alternative investments[1]	-	-	4,538	760	2,072	69	7,439	6,892
Investment properties	-	-	-	1,316	-	-	1,316	1,315
Investments in joint ventures	-	-	-	1,409	140	-	1,549	581
Other invested assets	**-**	**-**	**4,538**	**3,485**	**2,212**	**69**	**10,304**	**8,788**

1. Alternative investments include investment funds, private market investments and real estate entities.
2. Assets attributable to the Loss of Retirement Income Fund are included within the WSIB's investment portfolio. See note 5(b) for income attributable to the Loss of Retirement Income Fund.

Notes to Condensed Interim Consolidated Financial Statements
June 30, 2017
Unaudited (millions of Canadian dollars)

(b) Net investment income

Net investment income by nature of invested assets, including income from cash and cash equivalents and derivatives, for the three months and six months ended June 30 is as follows:

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
Public equity securities	212	169	887	(299)
Bonds	13	194	70	256
Alternative investments	7	110	158	(295)
Investment properties	2	(3)	12	2
Income from joint ventures	17	14	40	32
Derivatives	204	145	278	687
Cash and cash equivalents	3	-	4	1
Less: Income attributable to Loss of Retirement Income Fund	(23)	(34)	(73)	(20)
Investment income	**435**	**595**	**1,376**	**364**
Less: Investment expenses[1]	(43)	(42)	(88)	(76)
Net investment income	**392**	**553**	**1,288**	**288**

1. Includes $25 and $59 of management fees paid to investment managers for the three months and six months ended June 30, 2017, respectively (2016 – $24 and $48, respectively).

Net investment income, including income from cash and cash equivalents and derivatives, for the three months and six months ended June 30, is comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
Net gains on financial instruments	241	448	1,060	45
Interest and dividend income	198	170	337	305
Income (loss) from investment properties	2	(3)	12	2
Income from joint ventures	17	14	40	32
Less: Income attributable to Loss of Retirement Income Fund	(23)	(34)	(73)	(20)
Investment income	**435**	**595**	**1,376**	**364**
Less: Investment expenses	(43)	(42)	(88)	(76)
Net investment income	**392**	**553**	**1,288**	**288**

Notes to Condensed Interim Consolidated Financial Statements
June 30, 2017
Unaudited (millions of Canadian dollars)

(c) 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”) for $953. The joint arrangement to hold the 50% interest of Vancouver properties is conducted through separate vehicles. WSIB effectively has a 25% economic interest in the Vancouver properties, which is accounted for using the equity method of accounting and is held for investment purposes to earn rental income and capital appreciation.

The following tables provide summaries of the WSIB’s share of net assets and net income of the Vancouver properties:

	June 30 2017
Total assets	1,941
Total liabilities	(31)
Net assets	**1,910**
WSIB's share of net assets	**955**

	Three months ended June 30, 2017	Six months ended June 30, 2017
Revenues	32	53
Expenses	(14)	(21)
Gains from increases in fair value	-	-
Net income	**18**	**32**
WSIB’s share of net income	**9**	**16**

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(d) Fair value measurement and disclosures

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 measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	Fair value is measured using significant non-market observable inputs. The fair values of investment funds are determined based on net asset values provided by investment managers. The fair values of private market investments are obtained from independent third parties who develop the quantitative unobservable inputs to the valuations. Private market investments primarily consist of investments in the infrastructure sector. Fair values of real estate entities and investment properties are estimated based on valuations performed by qualified third party appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

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.

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

During the three months and six months ended June 30, 2017 and June 30, 2016, there were no transfers between Level 1, Level 2 and Level 3.

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

	June 30, 2017				December 31, 2016			
	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]	888	1,534	-	2,422	552	1,944	-	2,496
Public equity securities	11,847	110	-	11,957	11,293	89	-	11,382
Bonds	-	6,590	-	6,590	-	6,793	-	6,793
Alternative investments	-	409	7,030	7,439	-	339	6,553	6,892
Investment properties	-	-	1,316	1,316	-	-	1,315	1,315
Derivative assets	20	251	-	271	36	36	-	72
Derivative liabilities	(43)	(62)	-	(105)	(33)	(210)	-	(243)
Liabilities for which fair value is disclosed								
Long-term debt[2]	-	(143)	-	(143)	-	(142)	-	(142)

1. Cash and cash equivalents include cash of $888 and short-term money market securities of $1,534 (December 31, 2016 – $552 and $1,944, respectively).
2. Carrying amount as at June 30, 2017 was $132 (December 31, 2016 – $132).

Level 3 fair value measurements

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

For the three months ended June 30, 2017	Alternative investments: Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at April 1, 2017	6,022	383	426	6,831	1,317	8,148
Net gains (losses) recognized in net investment income	(123)	11	-	(112)	(11)	(123)
Purchases	534	-	1	535	-	535
Disposals	(224)	-	-	(224)	-	(224)
Capital expenditures	-	-	-	-	10	10
Balance as at June 30, 2017	**6,209**	**394**	**427**	**7,030**	**1,316**	**8,346**

For the six months ended June 30, 2017	Alternative investments: Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2017	5,792	342	419	6,553	1,315	7,868
Net gains (losses) recognized in net investment income	(8)	20	7	19	(15)	4
Purchases	813	32	1	846	-	846
Disposals	(388)	-	-	(388)	-	(388)
Capital expenditures	-	-	-	-	16	16
Balance as at June 30, 2017	**6,209**	**394**	**427**	**7,030**	**1,316**	**8,346**

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	Alternative investments					
For the three months ended June 30, 2016	Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at April 1, 2016	4,571	205	435	5,211	1,357	6,568
Net gains (losses) recognized in net investment income	94	(8)	17	103	(19)	84
Purchases	257	147	2	406	27	433
Disposals	(248)	-	(30)	(278)	-	(278)
Capital expenditures	-	-	-	-	14	14
Balance as at June 30, 2016[1]	**4,674**	**344**	**424**	**5,442**	**1,379**	**6,821**

1. For the three months ended June 30, 2016, certain amounts have been reclassified to be consistent with the current period's presentation based on more refined policies and procedures in assessing the observability of inputs used in valuing such investments. This resulted in alternative investments with a carrying amount of $347 being reclassified from Level 2 to Level 3.

	Alternative investments					
For the six months ended June 30, 2016	Investment funds	Private market investments	Real estate entities	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2016	5,304	228	420	5,952	1,361	7,313
Net gains (losses) recognized in net investment income	(376)	(29)	1	(404)	(29)	(433)
Purchases	451	147	33	631	29	660
Disposals	(705)	(2)	(30)	(737)	-	(737)
Capital expenditures	-	-	-	-	18	18
Balance as at June 30, 2016[1]	**4,674**	**344**	**424**	**5,442**	**1,379**	**6,821**

1. For the six months ended June 30, 2016, certain amounts have been reclassified to be consistent with the current period's presentation based on more refined policies and procedures in assessing the observability of inputs used in valuing such investments. This resulted in alternative investments with a carrying amount of $4,429 being reclassified from Level 2 to 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 assets:

	Valuation methods	Key unobservable inputs	June 30, 2017 Range of inputs		December 31, 2016 Range of inputs	
			Low	High	Low	High
Investment funds	Net asset value	Net asset value	n/a	n/a	n/a	n/a
Private market investments	Discounted cash flow and market comparable	Discount rate and expected future cash flows	n/a	n/a	n/a	n/a
Real estate entities and Investment properties	Discounted cash flow	Discount rate	5.0%	8.0%	5.0%	8.3%
		Terminal capitalization rate	4.3%	7.0%	4.3%	7.5%

Sensitivity of Level 3 financial instruments

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

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

Fair values of real estate entities and investment properties are obtained from qualified appraisers who apply a discounted cash flow model to determine property values. Key unobservable inputs include projected rental income and expenses and discount 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.

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.

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6. Employee Benefit Plans

Remeasurements of the employee defined benefit plans recognized in other comprehensive loss are as follows:

	Three months ended June 30		Six months ended June 30	
	2017	**2016**	**2017**	**2016**
Actuarial losses from changes in financial assumptions	248	340	393	446
Deficiency (excess) of actual return on plan assets over interest income	(16)	(35)	(86)	19
Total remeasurements of employee defined benefit plans	**232**	**305**	**307**	**465**

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	June 30 2017	December 31 2016
Present value of wholly or partly funded obligations	3,866	3,478
Present value of unfunded obligations	831	749
Total present value of obligations	4,697	4,227
Fair value of plan assets	(3,072)	(2,937)
Employee benefit plans liability	**1,625**	**1,290**

7. Benefit Liabilities

Benefit liabilities are comprised of the following:

	June 30 2017	December 31 2016
Loss of earnings	9,065	8,934
Workers' pensions	6,325	6,462
Health care	4,172	4,082
Survivor benefits	2,983	2,947
Future economic loss	1,349	1,421
External providers	140	136
Non-economic loss	288	283
Long latency occupational diseases	2,346	2,321
Posttraumatic stress disorder	32	35
Claim administration costs	1,295	1,299
Benefit liabilities	**27,995**	**27,920**

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8. Commitments and Contingent Liabilities

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	June 30 2017	December 31 2016
Real estate, multi-asset and infrastructure investments	1,688	1,748
Investments in joint ventures	94	97
Purchases or development of investment properties	31	45
	1,813	**1,890**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at June 30, 2017 are approximately $267 for the period from July 1, 2017 to June 30, 2018.

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.

9. Related Party Transactions

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 *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 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 funding to carry on investigations, research and training. The total funding provided under these legislated obligations and funding commitments for the three months and six months ended June 30, 2017 were $63 and $125, respectively (2016 – $57 and $120, respectively).

The WSIB is required to reimburse the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers, as well as an administrative fee to the MOHLTC. Amounts paid to the MOHLTC for physicians' fees and administrative services for the three months and six months ended June 30, 2017 were $5 and $9, respectively (2016 – $9 and $18, respectively).

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In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expenses, the unaudited condensed interim 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 $1,316 of marketable fixed income securities issued by the Government of Ontario and related entities (December 31, 2016 – $1,562).

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans, which include life insurance, dental and extended health coverage, are considered related parties. Note 6 provides details of transactions with these post-employment benefit plans.

10. Subsequent Event

Investment Management Corporation of Ontario ("IMCO")

On July 24, 2017, IMCO, previously created through *Ontario Regulation 251/16*, became operational. As a founding member of IMCO, the WSIB transitioned its investment management function and certain employees in support of this function to IMCO effective July 24, 2017. This transition is not expected to have a significant impact on the unaudited condensed interim consolidated financial statements of the WSIB. A future transition phase is expected to pool certain of the assets of the members to be managed together. The WSIB will assess the impact of this transition phase once plans are confirmed.