Workplace Safety and Insurance Board

Third Quarter 2014 Report to Stakeholders

Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

Management's Responsibility for Financial Reporting

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and accompanying unaudited condensed interim consolidated financial statements, as approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"), are prepared by management as at and for the three and nine months ended September 30, 2014.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this MD&A, "WSIB," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated September 30, 2014, 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 involves 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.

I. David Marshall
President and Chief Executive Officer
December 11, 2014
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

Management's Discussion and Analysis

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1. Quarter in Review

Highlights of our performance for the three and nine months ended September 30, 2014 compared to 2013.

The following MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the WSIB as at and for the three and nine months ended September 30, 2014 (the “consolidated financial statements”).

Financial highlights for the three months ended September 30, 2014 compared to the three months ended September 30, 2013

- We generated $566 million of total comprehensive income reflecting continued improved return to work outcomes resulting in lower benefit payments and lower administrative and other expenses.
- Premium revenues decreased $29 million or 2.5% reflecting a 2.0% decrease in our average premium rate and $22 million of higher net mandatory employer incentive programs expenses, partially offset by moderate growth of insurable earnings in the construction, electrical, health care and services sectors.
- Net investment income decreased $387 million resulting from a 0.8% return on investment compared to a 3.1% return on investments in the same period in 2013. Public equities and multi-asset classes account for most of the decrease.
- Benefit payments decreased $27 million or 4.4% reflecting 870 or 2.2% fewer prior year claims including locked-in claims, partially offset by 193 or 1.6% more current year claims as compared to the prior year.
- Administration and other expenses, before allocation to benefit costs, decreased $26 million or 13.4%, primarily reflecting $14 million of lower long-term benefit expenses due to an 80 basis point increase in interest rates used to value our long-term benefit plans, $9 million of lower new systems development and integration expenses and $3 million of lower operating expenses.
- Other comprehensive income was negative $75 million primarily attributed to a 10 basis point decrease in the interest rate used to value our pension plan liability.

Financial highlights for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013

- We generated $1,794 million of total comprehensive income reflecting continued improved return to work outcomes resulting in lower benefit payments and lower administrative and other expenses, and a 7.4% return on our investments.
- Premium revenues decreased $13 million or 0.4% reflecting a 0.5% decrease in our average premium rate and $57 million of higher net mandatory employer incentive programs expenses, partially offset by a 1.8% increase in insurable earnings attributable to the growth in the construction, health care, manufacturing and services sectors.
- Net investment income increased $225 million resulting from a 7.4% return on investment compared to a 7.3% return on investments in the same period in 2013. The increase was primarily due to higher net assets in 2014.
- Benefit payments decreased $79 million or 4.2% reflecting 762 or 1.6% fewer prior year claims including locked-in claims, partially offset by 287 or 1.1% more current year claims as compared to the prior year.

- Administration and other expenses, before allocation to benefit costs, decreased $67 million or 11.4% reflecting $39 million of lower long-term benefit expenses due to an 80 basis point increase in interest rates used to value our long-term benefit plans, $13 million of lower termination expenses reflecting the absence of significant staff reductions in 2014, $5 million of lower operating expenses and the absence of a $10 million one-time provision in 2013 for Retail Sales Tax obligations related to prior years.
- Other comprehensive income was negative $330 million primarily attributed to a 60 basis point decrease in the interest rate used to value our pension plan liability.
- Our unfunded liability was $9,019 million as at September 30, 2014, a decrease of $1,619 million or 15.2% since December 31, 2013.

Operational highlights for the nine months ended September 30, 2014

Claim volumes have increased marginally. The number of Schedule 1 registered claims increased by 0.5% to 146,491. Registered lost-time claim volume was largely unchanged with a decrease of 0.1% or 42 claims. Combined with the increase in insurable earnings of 1.8%, this resulted in a decrease to the lost-time injury rate from 0.94 injuries per 100 workers to 0.90.

Among the large sectors, only the transportation sector (3.7% or 173 more claims) experienced an increase in lost-time registered claims. Lost-time registration volumes for all of the other large sectors were lower with the largest decline in the manufacturing (2.4% or 151 less claims) and construction (1.5% or 61 less claims) sectors.

Longer term durations continue to improve. The percentage of workers on benefits at 48 and 72 months decreased to 2.9% and 5.0% from 4.3% and 5.6%, respectively. During 2014, 77% of workers who completed their Work Transition plans found employment, while the average loss of earnings percentage at lock-in continued to decrease from 47.4% to 45.7%.

Short-term duration showing improved results. Over the course of 2013 and early 2014, the percentage of workers at three and six months durations was increasing. Significant work was undertaken and this trend has since reversed. For the second consecutive quarter, the percentage of workers on benefits at three months and six months decreased from 11.9% in the second quarter of 2014 to 11.6% in the third quarter of 2014 and from 6.7% in the second quarter of 2014 to 6.6% in the third quarter of 2014 respectively.

Investment in health care delivers improved recovery results. The WSIB invests in health care on behalf of injured workers and employers to support recovery and return to work. This investment has focused on integrating recovery and return to work using specialized services. As a result, the percentage of workers using integrated health care programs, such as Programs of Care and Specialty Clinics, increased by 2.7% from 33.1% to 35.8%. During 2014, the WSIB saw a 1.2% reduction in the percentage of workers with a permanent impairment from 6.7% to 5.5%.

Encouraging customer satisfaction results continued. Results remained consistent in the latest Customer Satisfaction Survey completed during the third quarter of 2014. Injured workers' and employers' impressions of the WSIB continue to reflect the improvements seen over the course of the past year with 75% and 86% customer satisfaction index scores, respectively. The results for employers and injured workers continue to show that 7 out of every 10 respondents are very or somewhat satisfied with the overall service they received from WSIB related to claims. In addition, satisfaction with WSIB programs remained at the same levels that have been seen throughout 2014.

Timeliness of quality decisions continues in Appeals process. The modernized appeals process continued to show greatly improved timeliness of quality appeals decisions. The percentage of appeals resolved within six months increased from 45.9% in the third quarter of 2013 to 91.5% in the third quarter of 2014. While the active inventory of appeals increased slightly from 2,719 in the second quarter of 2014 to 2,820 cases in the third quarter of 2014, it is well within an acceptable level. The percentage of appeals allowed was 16%, unchanged from levels seen throughout 2014.

2. Operating Results

A more detailed discussion of our financial performance for the three and nine months ended September 30, 2014 compared to 2013.

This section provides a detailed discussion of our financial performance. Certain prior year figures have been reclassified to conform to the current year's presentation, see note 9 to the consolidated financial statements for details. All amounts herein are in millions of Canadian dollars, unless otherwise specified.

Financial highlights

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

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2014**	**2013**	**2014**	**2013**
Revenues				
Premiums	1,162	1,169	3,441	3,397
Net mandatory employer incentive programs	(42)	(20)	(101)	(44)
	1,120	1,149	3,340	3,353
Net investment income				
Investment income	185	569	1,500	1,253
Investment expenses	(40)	(37)	(127)	(105)
	145	532	1,373	1,148
	1,265	**1,681**	**4,713**	**4,501**
Expenses				
Benefit costs				
Benefit payments	586	613	1,810	1,889
Claim administration costs	100	109	295	336
Change in actuarial valuation of benefit liabilities	(216)	(100)	(7)	240
	470	622	2,098	2,465
Loss of Retirement Income Fund contributions	14	16	44	47
Administration and other expenses	68	85	227	253
Legislated obligations and funding commitments	72	72	220	215
	624	795	2,589	2,980
Excess of revenues over expenses	**641**	**886**	**2,124**	**1,521**
Other comprehensive income (loss)				
Remeasurements of employee defined benefit plans	(75)	202	(330)	532
Total comprehensive income	**566**	**1,088**	**1,794**	**2,053**
Total comprehensive income attributable to:				
WSIB stakeholders	545	1,020	1,619	1,900
Non-controlling interests	21	68	175	153
	566	**1,088**	**1,794**	**2,053**
Other measures				
Core Earnings[1]	280	254	744	613
Return on investments[2]	0.8%	3.1%	7.4%	7.3%
			Sep. 30 2014	**Dec. 31 2013**
Unfunded liability[3]			(9,019)	(10,638)

1. Core Earnings is calculated as total comprehensive income, excluding the impacts of net investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 7 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals prior to investment expenses.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total deficiency of assets of $6,454 million as at September 30, 2014 (December 31, 2013 – $8,244 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 $2,565 million as at September 30, 2014 (December 31, 2013 – $2,394 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 September 30, 2014 was $9,019 million (December 31, 2013 – $10,638 million) which includes benefit liabilities.

Premiums

A summary of premiums for the three and nine months ended September 30 is as follows:

(millions of Canadian dollars)	Three months ended September 30				Nine months ended September 30			
			Change				Change	
	2014	2013	$	%	2014	2013	$	%
Schedule 1 employer premiums								
Gross Schedule 1 premiums	1,131	1,141	(10)	(0.9)	3,351	3,306	45	1.4
Interest and penalties	13	10	3	30.0	36	37	(1)	(2.7)
	1,144	1,151	(7)	(0.6)	3,387	3,343	44	1.3
Schedule 2 employer administration fees	18	18	-	-	54	54	-	-
	1,162	1,169	(7)	(0.6)	3,441	3,397	44	1.3
Net mandatory employer incentive programs	(42)	(20)	(22)	(100+)	(101)	(44)	(57)	(100+)
	1,120	**1,149**	**(29)**	**(2.5)**	**3,340**	**3,353**	**(13)**	**(0.4)**

Premiums decreased $29 million or 2.5% reflecting a 2.0% decrease in the average premium rate and $22 million of higher net mandatory employer incentive programs expenses reflecting improved return to work outcomes, partially offset by modest growth in the construction, electrical, health care and services sectors. For the second time since the fourth quarter of 2012, premiums are less than those in the same quarter in the prior year. Accordingly, we will continue to monitor this trend closely.

For the nine months ended September 30, 2014, premiums decreased $13 million or 0.4% primarily due to higher payouts in net mandatory employer incentive programs, partially offset by a 1.8% increase in insurable earnings which has slowed significantly from recent quarters.

For the three and nine months ended September 30, 2014, payouts in net mandatory employer incentive programs increased due to higher refunds available under the retrospective experience-rating programs, principally the NEER program, reflecting favourable claims experience.

Net investment income

A summary of investment income (loss), segmented by asset class, for the three and nine months ended September 30 is as follows:

Asset Class	Three months ended September 30							
	2014				2013			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equities	68	0.8	8,317	36.1	390	5.3	7,600	40.5
Fixed income	60	1.1	5,722	24.8	6	0.1	4,708	25.1
Multi-asset	(2)	0.0	5,283	22.9	123	3.2	3,875	20.6
Real estate	40	1.5	1,953	8.5	38	1.5	1,567	8.3
Infrastructure	18	5.0	585	2.5	11	3.3	330	1.8
Cash and cash equivalents	1	-	1,129	4.9	1	-	628	3.3
Annuities	-	-	70	0.3	-	-	68	0.4
Investment income	**185**	**0.8**	**23,059**	**100.0**	**569**	**3.1**	**18,776**	**100.0**
Investment expenses	(40)				(37)			
Net investment income	**145**				**532**			

Net Investment income declined to $145 million in the quarter representing a 0.8% return on investment compared to net investment income of $532 million and a 3.1% return on investments in the same period in 2013. Public equities and multi-asset classes account for most of the decline in net investment income of $387 million, reflecting the market downturn in September 2014.

Asset Class	Nine months ended September 30							
	2014				2013			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equities	613	8.0	8,317	36.1	1,092	16.0	7,600	40.5
Fixed income	295	6.1	5,722	24.8	(64)	(1.4)	4,708	25.1
Multi-asset	426	8.7	5,283	22.9	57	1.9	3,875	20.6
Real estate	120	4.7	1,953	8.5	133	7.8	1,567	8.3
Infrastructure	42	9.7	585	2.5	30	11.0	330	1.8
Cash and cash equivalents	4	-	1,129	4.9	5	-	628	3.3
Annuities	-	-	70	0.3	-	-	68	0.4
Investment income	**1,500**	**7.4**	**23,059**	**100.0**	**1,253**	**7.3**	**18,776**	**100.0**
Investment expenses	(127)				(105)			
Net investment income	**1,373**				**1,148**			

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

Net investment income was $1,373 million for the period representing a 7.4% return on investments, compared to $1,148 million corresponding to a 7.3% return on investments in the same period of 2013. The period over period increase of $225 million is due to higher net asset values in 2014. Within the asset classes, stronger performance by multi-asset and fixed income in the current period was offset by a weaker performance in public equities.

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 date of the consolidated statement of financial position.

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

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	2014	2013	$	%	2014	2013	$	%
Benefit payments	586	613	(27)	(4.4)	1,810	1,889	(79)	(4.2)
Claim administration costs	100	109	(9)	(8.3)	295	336	(41)	(12.2)
Change in actuarial valuation of benefit liabilities	(216)	(100)	(116)	(100+)	(7)	240	(247)	(100+)
Total benefit costs	**470**	**622**	**(152)**	**(24.4)**	**2,098**	**2,465**	**(367)**	**(14.9)**

Benefit payments

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

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	2014	2013	$	%	2014	2013	$	%
Loss of earnings	211	220	(9)	(4.1)	645	673	(28)	(4.2)
Workers' pensions	149	156	(7)	(4.5)	450	471	(21)	(4.5)
Health care	106	108	(2)	(1.9)	340	343	(3)	(0.9)
Future economic loss	58	60	(2)	(3.3)	174	183	(9)	(4.9)
Survivor benefits	46	45	1	2.2	134	134	-	-
External providers	10	12	(2)	(16.7)	34	40	(6)	(15.0)
Non-economic loss	12	11	1	9.1	36	36	-	-
Other	(6)	1	(7)	(100+)	(3)	9	(12)	(100+)
Total benefit payments	**586**	**613**	**(27)**	**(4.4)**	**1,810**	**1,889**	**(79)**	**(4.2)**

A summary of the significant changes in benefit payments for the three months ended September 30, 2014 is as follows:

- Loss of earnings benefits decreased primarily due to improved claims management through better recovery and return to work outcomes, reflecting 2,179 or 10.9% fewer non-locked-in claims as at September 30, 2014.
- 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 that reach age 65, the age at which these benefits cease.
- External providers' expense decreased primarily due to fewer lost-time injuries and a more targeted approach to return to work.
- Other benefit costs decreased primarily due to lower overpayments of wage loss and pension benefits and temporary supplements for claims prior to Bill 99.

A summary of the significant changes in benefit payments for the nine months ended September 30, 2014 is as follows:

- Loss of earnings benefits decreased primarily due to improved claims management through better recovery and return to work outcomes, reflecting 2,612 or 5.6% fewer non-locked-in claims as at September 30, 2014.
- 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 that reach age 65, the age at which these benefits cease.
- External providers' expense decreased primarily due to fewer lost-time injuries and a more targeted approach to return to work.
- Other benefit costs decreased primarily due to lower overpayments of wage loss and pension benefits and temporary supplements for claims prior to Bill 99.

Claim administration costs

Claim administration costs reflect the portion of administration and other expenses allocated to claim administration costs. For the three and nine months ended September 30, 2014, there has been a decrease in total administration and other expenses, which decreased the allocation to claim administration costs.

This decrease for the nine months ended September 30, 2014 was also attributed to a slight decrease in the allocation percentage of claim administration costs compared to the prior year.

Change in actuarial valuation of benefit liabilities

The change in actuarial valuation of benefit liabilities is as follows:

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2014**	**2013**	**2014**	**2013**
Change in actuarial valuation of benefit liabilities	(216)	(100)	(7)	240

Change in actuarial valuation of benefit liabilities primarily reflects favourable experience in loss of earnings and health care benefits, as well as a lower increase than the prior quarter in liabilities incurred for the 2014 injury year.

Change in actuarial valuation of benefit liabilities for the nine months ended September 30 is detailed as follows:

(millions of Canadian dollars)	
Benefit liabilities as at December 31, 2013	26,960
Payments made in 2014	(1,897)
Interest accretion[1]	975
Liabilities incurred for the 2014 injury year	1,142
Experience gains	(346)
Impact of regulation amendment[2]	119
Benefit liabilities as at September 30, 2014	**26,953**
Change in actuarial valuation of benefit liabilities	**(7)**

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.
2. On May 1, 2014*, Ontario Regulation 113/14* under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA") came into effect, amending *Ontario Regulation 253/07* (Firefighters) to provide new presumptions for six additional cancers. Three of these presumptions took effect on May 1, 2014. The remaining presumptions will be phased in over the next three years. As per the WSIA, the presumptions are retroactive to January 1, 1960. For the presumptions to apply, breast and testicular cancers require 10 years of service before diagnosis. The other conditions require 15 years of service.

Administration and other expenses

(millions of Canadian dollars)	Three months ended September 30				Nine months ended September 30			
			Change				Change	
	2014	2013	$	%	2014	2013	$	%
Salaries and short-term benefits	100	95	5	5.3	297	284	13	4.6
Long-term benefit plans	32	46	(14)	(30.4)	96	135	(39)	(28.9)
Bad debts	6	12	(6)	(50.0)	25	29	(4)	(13.8)
Communications	2	2	-	-	7	7	-	-
Depreciation and amortization	3	6	(3)	(50.0)	9	17	(8)	(47.1)
Equipment and maintenance	12	9	3	33.3	34	31	3	9.7
Facilities	9	10	(1)	(10.0)	28	31	(3)	(9.7)
New systems development and integration	(6)	3	(9)	(100+)	3	10	(7)	(70.0)
Termination benefits	1	4	(3)	(75.0)	1	14	(13)	(92.9)
Other	9	7	2	28.6	22	31	(9)	(29.0)
	168	194	(26)	(13.4)	522	589	(67)	(11.4)
Claim administration costs allocated to benefit costs	(100)	(109)	9	(8.3)	(295)	(336)	41	(12.2)
Total administration and other expenses	**68**	**85**	**(17)**	**(20.0)**	**227**	**253**	**(26)**	**(10.3)**

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the three months ended September 30, 2014 is as follows:

- Long-term benefit plans decreased primarily due to an 80 basis point increase in interest rates used to value our pension and other post-retirement obligations.
- Bad debts decreased primarily due to better collectability and fewer accounts being sent to collection agencies.
- New systems development and integration expenses decreased due to the following factors:
  - i) The research phase of the new information system, which includes costs for system specifications and configuration that are required to be expensed, was largely completed in 2013.
  - ii) During 2014, the WSIB established a new framework to account for the costs of the information system during the development phase. This framework requires the capitalization of the cost of certain activities, such as data conversion and replacement of interfaces, which were previously expensed. The new framework was implemented in the third quarter of 2014; consequently, certain items that had been expensed in the first half of 2014 were reclassified to capital, resulting in a net recovery of expenses during the third quarter.

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the nine months ended September 30, 2014 is as follows:

- Salaries and short-term benefits increased reflecting inflationary pressures and higher costs for temporary staff supporting our business transformation efforts.
- Long-term benefit plans decreased primarily due to an 80 basis point increase in interest rates used to value our pension and other post-retirement obligations.
- Depreciation and amortization decreased reflecting accelerated amortization of intangible assets in 2013 and a lower capital asset base.
- New systems development and integration expenses decreased reflecting an increase in development costs that are eligible to be capitalized.
- Termination benefits decreased primarily due to the absence of significant staff reductions in 2014.

- Other expenses decreased due to a one-time provision of $10 million in 2013 for Retail Sales Tax obligations related to prior years, partially offset by $1 million of higher operating expenses.

Legislated obligations and funding commitments

Legislated obligations and funding commitments are as follows:

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	**2014**	**2013**	**$**	**%**	**2014**	**2013**	**$**	**%**
Legislated obligations								
Occupational Health and Safety Act	25	25	-	-	72	71	1	1.4
Ministry of Labour Prevention Costs	28	28	-	-	82	77	5	6.5
	53	53	-	-	154	148	6	4.1
Workplace Safety and Insurance Appeals Tribunal	5	5	-	-	15	15	-	-
Workplace Safety and Insurance Advisory Program								
Office of the Workers' Adviser	2	2	-	-	9	8	1	12.5
Office of the Employers' Adviser	1	1	-	-	3	3	-	-
	3	3	-	-	12	11	1	9.1
Total legislated obligations	61	61	-	-	181	174	7	4.0
Funding commitments								
Grants	-	1	(1)	(100.0)	1	2	(1)	(50.0)
Safety program rebates	11	10	1	10.0	38	39	(1)	(2.6)
Total funding commitments	11	11	-	-	39	41	(2)	(4.9)
	72	**72**	-	-	**220**	**215**	**5**	**2.3**

For the nine months ended September 30, 2014, legislated obligations and funding commitments were $220 million, an increase of $5 million or 2.3% reflecting an underspend in the previous year by the Ministry of Labour (the “MoL”), partially offset by lower grants and lower Safety program rebates due to less favourable program results.

3. Financial Condition

A discussion of the significant changes in our September 30, 2014 consolidated statement of financial position.

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

(millions of Canadian dollars)	Sep. 30 2014	Dec. 31 2013	Change $	Change %	(millions of Canadian dollars)
Assets					
Cash and cash equivalents	1,552	1,274	278	21.8	Please refer to the consolidated statement of cash flows in the consolidated financial statements for details.
Receivables	1,563	1,168	395	33.8	Primarily reflects higher investment receivables.
Equity securities	8,867	8,567	300	3.5	See Section 2 – Operating Results. Increases due to change in fair values and cash transferred to the investment portfolio.
Bonds	6,180	5,448	732	13.4	
Other invested assets	6,613	5,893	720	12.2	
Property and equipment	126	133	(7)	(5.3)	No significant changes.
Intangible assets	93	27	66	100+	Increase due to implementation of a new information system.
Liabilities					
Payables and accruals	1,279	1,090	189	17.3	Reflects increase in accruals for administration expenses and experience rating programs.
Derivative liabilities	181	78	103	100+	Reflects changes in our currency and futures positions within our investment portfolio.
Long-term debt	145	168	(23)	(13.7)	Reflects loan retirement and principal repayments.
Loss of Retirement Income Fund liability	1,625	1,538	87	5.7	Reflects natural growth in account due to contributions and investment income.
Employee benefit plans liability	1,265	920	345	37.5	Reflects losses due to actuarial assumption changes and experience.
Benefit liabilities	26,953	26,960	(7)	-	No significant changes.
Unfunded liability	(9,019)	(10,638)	1,619	15.2	Total comprehensive income attributable to WSIB Stakeholders.

4. Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended September 30, 2014 is as follows:

	2014			2013				2012[4]
(millions of Canadian dollars)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Net premiums	1,120	1,093	1,127	1,034	1,149	1,113	1,091	988
Net investment income (loss)	145	519	709	894	532	(106)	722	433
Benefit costs								
Benefit payments	586	612	612	629	613	636	640	649
Claim administration costs	100	93	102	109	109	118	109	128
Change in actuarial valuation of benefit liabilities	(216)	111	98	(330)	(100)	144	196	512
	470	816	812	408	622	898	945	1,289
Loss of Retirement Income Fund contributions	14	15	15	15	16	15	16	17
Administration and other expenses	68	84	75	108	85	84	84	102
Legislated obligations and funding commitments	72	72	76	71	72	64	79	80
Excess (deficiency) of revenues over expenses	641	625	858	1,326	886	(54)	689	(67)
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	(75)	(114)	(141)	308	202	224	106	18
Total comprehensive income (loss)	566	511	717	1,634	1,088	170	795	(49)
Total comprehensive income (loss) attributable to WSIB stakeholders	545	445	629	1,523	1,020	178	702	(107)
Other measures								
Core Earnings[1]	280	217	247	102	254	196	163	12
Unfunded liability[2]	9,019	9,564	10,009	10,638	12,161	13,181	13,359	14,061
Return on investments (%)[3]	0.8	2.6	3.8	5.0	3.1	(0.5)	4.5	2.8

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. Seasonal factors impact our premium revenues, particularly in the construction industry. While we continue to reflect higher insurable earnings across most industry sectors supported by strengthening economic conditions, we have observed weaker growth in the construction industry in the third quarter of 2014 as compared to the prior year. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, market sentiment turned down significantly in September as certain economic data lowered future gross domestic product growth expectations. Consequently equity markets have corrected, resulting in lower returns in multi-asset and public equities asset classes.

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 7 – Non-IFRS Financial Measure.
2. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total deficiency of assets of $6,454 million as at September 30, 2014 (December 31, 2013 – $8,244 million) is allocated between the WSIB stakeholders and the 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 $2,565 million as at September 30, 2014 (December 31, 2013 – $2,394 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 September 30, 2014 was $9,019 million (December 31, 2013 – $10,638 million) which includes benefit liabilities.
3. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals prior to investment expenses. Does not equal annual figures due to rounding.
4. Comparative figures for 2012 have not been adjusted for the changes in accounting policies adopted in 2013.

5. Outlook

The outlook for our business.

Original Expectation	Current Outlook
Premiums. 3.0% increase reflecting a 3.0% increase in insurable earnings and no increase in average published premium rates.	*Premiums.* 1.8% increase reflecting lower anticipated insurable earnings growth of 1.7% and an average premium rate of $2.53 based on favourable industry sector mix.
Net investment income. We anticipate annual investment income will approximate 6.0% over the long-term.	*Net investment income.* No change.
Benefit costs. Continued downward trend reflecting improved operating results.	*Benefit costs.* No change.
Administration and other expenses. Anticipated to remain stable.	*Administration and other expenses.* Lower expenses reflecting an 80 basis point increase in interest rates used to measure long-term benefit plans expense.
Legislated obligations. Modest growth in this area reflecting the full cost of transitioning prevention activities to the MoL combined with an increase in Safety program rebates.	*Legislated obligations.* No change
Unfunded liability. Based on current funding and benefit levels and as measured under current accounting and actuarial standards, we believe the unfunded liability will decrease in 2014 and beyond, reflecting continued improved operating performance.	*Unfunded liability.* No change.

6. 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.

7. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

Core Earnings

The WSIB uses a non-IFRS financial measure, "Core Earnings", to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations 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 valuation 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 comprehensive income, the most directly comparable financial measure calculated and presented consistent with IFRS:

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2014**	**2013**	**2014**	**2013**
Total comprehensive income for the period	566	1,088	1,794	2,053
(Less)/Add: Net investment income (loss)	(145)	(532)	(1,373)	(1,148)
Add: Change in actuarial valuation of benefit liabilities	(216)	(100)	(7)	240
(Less)/Add: Change in actuarial valuation of employee defined benefit plans	75	(202)	330	(532)
Core Earnings	**280**	**254**	**744**	**613**

8. Forward-looking Statements

Caution regarding forward-looking statements.

This MD&A constitutes "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," "would," or 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.

WORKPLACE SAFETY AND INSURANCE BOARD

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

	Note	September 30 2014	December 31 2013
Assets			
Cash and cash equivalents	7	1,552	1,274
Receivables		1,563	1,168
Equity securities	3	8,867	8,567
Bonds	3	6,180	5,448
Other invested assets	3	6,613	5,893
Property and equipment		126	133
Intangible assets		93	27
Total assets		**24,994**	**22,510**
Liabilities			
Payables and accruals		1,279	1,090
Derivative liabilities		181	78
Long-term debt		145	168
Loss of Retirement Income Fund liability		1,625	1,538
Employee benefit plans liability	4	1,265	920
Benefit liabilities	5	26,953	26,960
Total liabilities		**31,448**	**30,754**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(9,019)	(10,638)
Non-controlling interests		2,565	2,394
Total deficiency of assets		**(6,454)**	**(8,244)**
Total liabilities and deficiency of assets		**24,994**	**22,510**

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

WORKPLACE SAFETY AND INSURANCE BOARD

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

	Note	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Revenues					
Premiums		1,162	1,169	3,441	3,397
Net mandatory employer incentive programs		(42)	(20)	(101)	(44)
		1,120	1,149	3,340	3,353
Net investment income					
Investment income	3	185	569	1,500	1,253
Investment expenses	3	(40)	(37)	(127)	(105)
		145	532	1,373	1,148
		1,265	**1,681**	**4,713**	**4,501**
Expenses					
Benefit costs					
Benefit payments		586	613	1,810	1,889
Claim administration costs		100	109	295	336
Change in actuarial valuation of benefit liabilities		(216)	(100)	(7)	240
		470	622	2,098	2,465
Loss of Retirement Income Fund contributions		14	16	44	47
Administration and other expenses		68	85	227	253
Legislated obligations and funding commitments	8	72	72	220	215
		624	**795**	**2,589**	**2,980**
Excess of revenues over expenses		**641**	**886**	**2,124**	**1,521**
Other comprehensive income (loss)					
Remeasurements of employee defined benefit plans	4	(75)	202	(330)	532
Total comprehensive income		**566**	**1,088**	**1,794**	**2,053**

	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Excess of revenues over expenses attributable to:				
WSIB stakeholders	620	818	1,949	1,368
Non-controlling interests	21	68	175	153
	641	**886**	**2,124**	**1,521**
Total comprehensive income attributable to:				
WSIB stakeholders	545	1,020	1,619	1,900
Non-controlling interests	21	68	175	153
	566	**1,088**	**1,794**	**2,053**

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

WORKPLACE SAFETY AND INSURANCE BOARD

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

		Deficiency of assets		
	Note	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests	Total
Balance as at December 31, 2012		(14,061)	2,103	(11,958)
Excess of revenues over expenses		1,368	153	1,521
Remeasurements of employee defined benefit plans	4	532	-	532
Change in ownership share in investments		-	11	11
Balance as at September 30, 2013		(12,161)	2,267	(9,894)
Excess of revenues over expenses		1,215	111	1,326
Remeasurements of employee defined benefit plans		308	-	308
Change in ownership share in investments		-	16	16
Balance as at December 31, 2013		(10,638)	2,394	(8,244)
Excess of revenues over expenses		1,949	175	2,124
Remeasurements of employee defined benefit plans	4	(330)	-	(330)
Change in ownership share in investments		-	(4)	(4)
Balance as at September 30, 2014		**(9,019)**	**2,565**	**(6,454)**

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

WORKPLACE SAFETY AND INSURANCE BOARD

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

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Operating activities:				
Total comprehensive income	566	1,088	1,794	2,053
Adjustments:				
Amortization of net premium on investments	-	(3)	3	2
Depreciation and amortization of property, equipment and intangible assets	4	7	12	20
Changes in fair value of investments	(37)	(461)	(1,085)	(846)
Changes in fair value of investment properties	(1)	(9)	(14)	(23)
Dividend income from equity securities	(63)	(54)	(232)	(204)
Income from associates and joint ventures	(13)	(8)	(27)	(36)
Interest income	(56)	(52)	(164)	(176)
Interest expense	3	4	10	11
	403	512	297	801
Changes in non-cash balances related to operations:				
Receivables, excluding those related to investing activities	14	(17)	(48)	(162)
Payables and accruals, excluding those related to investing activities	144	70	147	77
Loss of Retirement Income Fund liability	7	38	87	87
Employee benefit plans liability	80	(198)	345	(471)
Benefit liabilities	(216)	(100)	(7)	240
	29	(207)	524	(229)
Net cash provided by operating activities	**432**	**305**	**821**	**572**
Investing activities:				
Dividends received from equity securities, associates and joint ventures	72	62	245	212
Interest received	33	36	140	158
Purchases of property, equipment and intangible assets	(32)	(6)	(70)	(10)
Purchases of investments	(6,000)	(4,918)	(16,594)	(16,339)
Sale and maturities of investments	5,675	4,845	16,046	15,565
Additions to investment properties	(6)	(19)	(22)	(25)
Acquisition of associates and joint ventures	(25)	(9)	(68)	(15)
Disposition of associates and joint ventures	-	3	1	9
Business acquisitions	-	(48)	(184)	(200)
Net cash required by investing activities	**(283)**	**(54)**	**(506)**	**(645)**
Financing activities:				
Disposition of non-controlling interests	29	10	57	26
Distributions paid by subsidiaries to non-controlling interests	(16)	(11)	(61)	(37)
Net issue (repayment) of long-term debt	(23)	-	(23)	2
Interest paid on long-term debt	(3)	(4)	(10)	(11)
Net cash required by financing activities	**(13)**	**(5)**	**(37)**	**(20)**
Increase (decrease) in cash and cash equivalents	**136**	**246**	**278**	**(93)**
Cash and cash equivalents, beginning of period	1,416	992	1,274	1,331
Cash and cash equivalents, end of period	**1,552**	**1,238**	**1,552**	**1,238**

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

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"). As a trust agency of the Government of Ontario, 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 condensed interim consolidated financial statements ("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"), which have been adopted by the Accounting Standards Board of Canada as Canadian generally accepted accounting principles for public interest entities.

These consolidated financial statements should be read in conjunction with the annual information available in the unaudited fourth quarter interim consolidated financial statements and the accompanying notes for the period ended December 31, 2013. These consolidated financial statements have been prepared on a basis consistent with the policies outlined in the notes to the unaudited fourth quarter interim consolidated financial statements for the period ended December 31, 2013.

These consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on December 11, 2014.

3. Invested Assets and Net Investment Income

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

	Public equities	Fixed income	Multi-asset	Real estate	Infra-structure	Other	Sep. 30 2014	Dec. 31 2013
Equity securities	**8,306**	**-**	**414**	**-**	**147**	**-**	**8,867**	**8,567**
Bonds	**-**	**5,670**	**510**	**-**	**-**	**-**	**6,180**	**5,448**
Other invested assets								
Investment funds	-	-	4,086	-	320	-	**4,406**	4,004
Real estate debentures	-	-	-	372	-	-	**372**	371
Investment properties (note 7)	-	-	-	1,182	-	-	**1,182**	970
Investments in associates and joint ventures	-	-	-	398	119	-	**517**	436
Derivative assets	10	-	56	-	-	-	**66**	37
Annuities	-	-	-	-	-	70	**70**	75
	10	**-**	**4,142**	**1,952**	**439**	**70**	**6,613**	**5,893**

Unaudited (millions of Canadian dollars)

Net investment income

Net investment income is as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Equity securities	77	427	724	1,348
Bonds	80	2	351	(60)
Investment funds	228	10	453	123
Real estate debentures	5	4	15	28
Investment properties	27	28	90	77
Income from associates and joint ventures	13	8	27	36
Derivatives	(235)	126	(66)	(218)
Short-term securities	1	1	2	3
Investment expenses	(40)	(37)	(127)	(105)
Less: Income attributable to Loss of Retirement Income Fund	(11)	(37)	(96)	(84)
	145	**532**	**1,373**	**1,148**

Net investment income is comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Realized and unrealized gains on financial instruments	684	1,062	2,825	3,173
Realized and unrealized losses on financial instruments	(647)	(601)	(1,739)	(2,327)
Interest and dividend income	119	109	393	378
Income from associates and joint ventures	13	8	27	36
Income from investment properties	27	28	90	77
Less: Income attributable to Loss of Retirement Income Fund	(11)	(37)	(96)	(84)
Investment income	185	569	1,500	1,253
Investment expenses	(40)	(37)	(127)	(105)
	145	**532**	**1,373**	**1,148**

Unaudited (millions of Canadian dollars)

4. Employee Benefit Plans

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

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Actuarial gains and losses arising from changes in demographic assumptions[1]	-	-	(51)	-
Actuarial gains and losses arising from changes in financial assumptions[2]	(68)	155	(367)	444
Actuarial gains and losses arising from demographic and other experience	-	1	(1)	1
Return in excess of interest income on plan assets	(7)	46	89	87
	(75)	**202**	**(330)**	**532**

1. Commencing in 2014, mortality assumptions for all benefits, excluding the Workplace Accident and Long Term Disability plans, have been updated and are based on a mortality improvement scale published by the Canadian Institute of Actuaries (the "CIA") for financial reporting purposes for a broad range of Canadian pension plans.
2. Commencing in 2014, the discount rate reflects the CIA approach. Under this approach, the discount rate is the rate that produces the same present value as obtained by applying notional zero coupon yields to the projected cash flow obligations for the plan. For the comparative periods, the discount rate was based on long-term corporate yields.

Remeasurements are never reclassified to expenses; other comprehensive income (loss) related to the remeasurements is immediately transferred to the unfunded liability.

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	September 30 2014	December 31 2013
Present value of unfunded obligations	690	598
Present value of wholly or partly funded obligations	3,100	2,665
Total present value of obligations	3,790	3,263
Fair value of plan assets	(2,525)	(2,343)
Deficit	**1,265**	**920**

Unaudited (millions of Canadian dollars)

5. Benefit Liabilities

Benefit liabilities are comprised of the following:

	September 30 2014	December 31 2013
Loss of earnings	9,498	9,314
Workers' pensions	6,072	6,318
Health care	3,792	3,721
Survivor benefits	2,621	2,579
Future economic loss	1,636	1,766
External providers	269	257
Non-economic loss	304	296
Long latency occupational diseases	1,656	1,565
Claim administration costs	1,105	1,144
	26,953	**26,960**

A summary of the changes in benefit liabilities is as follows:

	September 30 2014	December 31 2013
Benefit liabilities, beginning of period	26,960	27,050
Benefit costs	2,098	2,873
Benefit costs paid during the period	(2,105)	(2,963)
Benefit liabilities, end of period	**26,953**	**26,960**

6. Commitments and Contingent Liabilities

Investment commitments

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

	September 30 2014	December 31 2013
Real estate, multi-asset and infrastructure investments	746	606
Investments in associates and joint ventures	132	198
Purchase or development of investment properties	14	197
	892	**1,001**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at September 30, 2014 were approximately $252 for the period from October 1, 2014 to September 30, 2015.

Unaudited (millions of Canadian dollars)

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.

7. Fair Value Measurement and Disclosures

During the nine months ended September 30, 2014 and the year ended December 31, 2013, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

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

	September 30, 2014				December 31, 2013			
	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]	507	1,045	-	1,552	747	527	-	1,274
Equity securities	8,678	189	-	8,867	8,392	175	-	8,567
Bonds	-	6,180	-	6,180	-	5,448	-	5,448
Investment funds	-	4,406	-	4,406	-	4,004	-	4,004
Real estate debentures	-	-	372	372	-	-	371	371
Investment properties	-	-	1,182	1,182	-	-	970	970
Derivative assets	-	66	-	66	-	37	-	37
Annuities	-	70	-	70	-	75	-	75
Derivative liabilities	-	(181)	-	(181)	-	(78)	-	(78)
Liabilities for which fair value is disclosed								
Long-term debt	-	(165)	-	(165)	-	(191)	-	(191)

1. Cash and cash equivalents include cash of $507 and short-term money market securities of $1,045 (December 31, 2013 – $747 and $527, respectively).

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

Hierarchy level	Valuation method
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	*Real estate debentures* The fair value of the real estate debentures is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties. *Investment properties* Fair values of investment properties are estimated based on valuations performed by qualified 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. At least one valuation per year for each property is based on an independent appraisal.

Real estate debentures (Level 3 fair value measurements)

The table below provides a reconciliation of the fair value of real estate debentures:

	September 30 2014	**December 31 2013**
Balance, beginning of period	371	356
Purchases	2	3
Sales	(8)	(1)
Realized gains recognized in net investment income	2	-
Unrealized gains recognized in net investment income	5	13
Balance, end of period	**372**	**371**

Unaudited (millions of Canadian dollars)

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	September 30 2014	December 31 2013
Real estate debentures		
Discount rates	5.5% - 8.3%	5.5% - 8.5%
Terminal capitalization rates	4.8% - 7.5%	4.8% - 7.8%

The WSIB has estimated that a 50 basis point increase in the assumptions used for both the terminal capitalization rate and discount rate would result in a $37 decrease (December 31, 2013 – $40) in the fair value of the real estate debentures. A 50 basis point decrease in the assumptions used for both the terminal capitalization rate and discount rate would result in a $44 increase (December 31, 2013 – $45) in the estimated fair value of the real estate debentures. The WSIB has also estimated that a 5.0% increase (decrease) in the expected future cash flows of the underlying properties would result in an increase (decrease) of $21 (December 31, 2013 – $21) in the fair value of the real estate debentures.

Investment Properties (Level 3 fair value measurements)

The table below provides a reconciliation of the fair value of investment properties:

	September 30 2014	December 31 2013
Balance, beginning of period	970	643
Asset acquisitions	-	51
Business combinations	184	224
Capital expenditures	22	17
Gains from increases in fair value	14	24
Other	(8)	11
Balance, end of period	**1,182**	**970**

8. Related Party Transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, 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 its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the Occupational Health and Safety Act. The WSIB is also required to fund costs associated with the Ministry of Labour's prevention activities, the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for voluntary employer incentive programs, the Institute for Work & Health and the Safe Workplace Associations, clinics and training centres. The total funding provided under these legislated obligations and funding commitments for the three and nine months ended September 30, 2014 were $72 and $220, respectively (2013 – $72 and $215).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expense, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,281 (December 31, 2013 – $1,083).

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties.

9. Comparative Figures

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.

The WSIB offers premium rebates under voluntary employer incentive programs to encourage improvements in health and safety measures. These rebates are not directly related to premiums and therefore, were reclassified from premium revenues to legislated obligations and funding commitments expense. Invested assets were also reclassified to better reflect their nature and the investment strategies.