Workplace Safety and Insurance Board

Second Quarter 2016 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 accompanying unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2016 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 WSIB. This MD&A is dated June 30, 2016, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The following MD&A of Financial Condition and Operating Results 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 six months ended June 30, 2016.

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 29, 2016
Toronto, Ontario

Pamela Steer
Chief Financial Officer

Management’s Discussion and Analysis

Table of Contents

1. Quarter in Review

Highlights of our performance for the three and six months ended June 30, 2016 compared to 2015.

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 six months ended June 30, 2016.

Financial highlights for the three months ended June 30, 2016 compared to the three months ended June 30, 2015:

- We generated a total comprehensive income of $683 million in the second quarter of 2016, reflecting a net investment income of $553 million and continued strong operating performance resulting from growth in premium revenues.
- Premium revenues increased $72 million or 6.0%, primarily reflecting an $81 million increase in gross premiums driven by a 4.7% increase in insurable earnings due to moderate growth in the construction, health care, manufacturing and services industries, net of $13 million of higher net mandatory employer incentive programs expense reflecting improved return-to-work outcomes.
- The WSIB investment portfolio reflected a net investment income of $553 million representing a positive return of 2.3% in the second quarter of 2016, an increase of $861 million compared to the same period in 2015. 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 $11 million or 1.9%, primarily reflecting higher cost per claim as well as higher claim volume in loss of earnings benefits compared to the second quarter of 2015.
- Administration and other expenses, before allocation to benefit costs, decreased $11 million or 5.3%, reflecting $19 million of lower bad debts expenses, partially offset by $5 million of higher salaries and short-term benefits expenses, and $3 million of higher systems development and integration expenses.
- Other comprehensive loss was $305 million primarily due to a 45 basis point decrease in the interest rate used to value our employee benefit liabilities, partly offset by pension investment returns greater than expected.

Financial highlights for the six months ended June 30, 2016 compared to the six months ended June 30, 2015:

- We generated a total comprehensive income of $409 million in the first half of 2016, reflecting a net investment income of $288 million and continued strong operating performance resulting from growth in premium revenues. We generated positive cash flow in our business as our premium revenues exceeded our operating expenses, thereby allowing us to transfer $735 million of cash generated from operating activities to investments in the first half of 2016.
- Premium revenues increased $88 million or 3.8%, primarily reflecting a $100 million increase in gross premiums drive by a 2.7% increase in insurable earnings due to moderate growth in the construction, health care, manufacturing and services industries, net of $21 million of higher net mandatory employer incentive programs expense reflecting improved return-to-work outcomes.
- The WSIB investment portfolio reflected a net investment income of $288 million representing a positive return of 1.3% in the first half of 2016, a decrease of $713 million compared to the first half of 2015. The return target on our investments over a rolling 10 to 15-year period was reduced from 6.0% to 5.25% effective January 1, 2016.
- Benefit payments increased $1 million or 0.1% reflecting higher cost in loss of earnings and health care, partially offset by declines in claim costs in workers' pensions and future economic loss compared to the first half of 2015.

- Administration and other expenses, before allocation to benefit costs, increased $7 million or 1.8%, reflecting $7 million of higher salaries and short-term benefits, $4 million of higher depreciation and amortization expenses reflecting the implementation of the new accounts and claims management systems, $4 million of higher equipment and maintenance expenses, and $2 million of higher other operating expenses, partially offset by $10 million of lower bad debts expenses.
- Other comprehensive loss was $465 million primarily due to a 60 basis point decrease in the interest rate used to value our employee benefit liabilities, in addition to pension investment returns lower than expected.
- Our unfunded liability on a Sufficiency Ratio basis was $5,633 million as at June 30, 2016, a decrease of $1,351 million or 19.3% since December 31, 2015.

Operational highlights for the six months ended June 30, 2016:

Marginal decrease in registered claims. Overall in the first half of 2016, total registered claim volume has decreased by 0.9% compared to the same period in 2015. The number of registered claims in the second quarter of 2016 was 1.0% or 503 claims lower than last year. The decrease was a result of fewer no-lost-time claims, which declined by 1.5% from 34,897 to 34,387 claims. Lost-time claim volume was stable in 2016 compared to the same quarter in 2015, increasing by only 7 claims from 13,264 to 13,271. Even with the stability in lost-time claim volume, the lost-time injury rate improved by 2.4% due to higher insurable earnings. The rate decreased from 0.83 injuries per 100 workers in the second quarter of 2015 to 0.81 this quarter. Among the industries showing reduced lost-time injury rates, the rate for the health care industry has improved from 1.37 to 1.25 per 100 workers, and transportation improved from 1.65 to 1.56.

Long-term durations continue to improve. Both 48- and 72-month durations have improved compared to the second quarter of 2015. While 2.3% of claims remained on benefits at 48-month duration in the second quarter of 2015, this result has improved to 2.0% in 2016. Likewise, 72-month duration declined from 4.2% to 2.8%. These improvements were anticipated due to the reductions in short-term durations experienced in previous quarters.

Shorter-term durations have for the most part remained stable, except for 3-month duration which has deteriorated slightly, from 10.8% to 11.3% in the second quarter of 2016.

Positive return-to-work outcomes. Overall, 92% of Schedule 1 workers continue to return to work within 12 months with no wage loss, a level unchanged compared to the second quarter of 2015. Return-to-work outcomes have been supported by strong results from the WSIB's Work Transition Program. During the second quarter of 2016, 86% of injured workers (Schedule 1) completing their Work Transition plans through the program were successful in finding employment, an increase from 79% in the second quarter of 2015 and the highest result to date under this program. Also supporting the return-to-work outcomes are the WSIB's integrated health care programs which provide early and specialized health care to injured workers. Forty-one per cent of claims have been treated through these programs in the first half of 2016.

New customer experience strategy in progress. In the second quarter of 2016, the WSIB has improved on the overall measure of customer satisfaction that was reported for the first time in the first quarter of 2016. With 70% of injured workers and 79% of employers indicating satisfaction with their overall experience, both groups reported higher overall satisfaction than for the same period in 2015 (66% and 75%, respectively). The WSIB has identified customer experience as one of four key areas of focus for the coming years. To guide the organization in rethinking and enhancing service, a new customer experience strategy is being developed and will begin implementation later this year.

Timely appeal resolution. The volume of incoming appeals this quarter (2,013 appeals) was stable compared to the second quarter of 2015 (2,015 appeals), though it has increased compared to the first quarter of 2016 (1,791 appeals). Targets for timeliness of appeal resolution continue to be exceeded. This quarter, more than nine in ten appeals (91%) were resolved within six months, well above the 85% target. The inventory of active appeals remains stable and comprised 2,054 cases as of the end of the quarter.

The percentages of appeals allowed (17%) and allowed/denied in part (13%) this quarter were unchanged compared to the second quarter of 2015.

2. Operating Results

A more detailed discussion of our financial performance for the three and six months ended June 30, 2016 compared to 2015.

Financial highlights

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

(millions of Canadian dollars)	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Revenues				
Premiums	1,324	1,239	2,514	2,405
Net mandatory employer incentive programs	(50)	(37)	(90)	(69)
	1,274	1,202	2,424	2,336
Net investment income (loss)				
Investment income (loss)	595	(275)	364	1,072
Investment expenses	(42)	(33)	(76)	(71)
	553	(308)	288	1,001
	1,827	**894**	**2,712**	**3,337**
Expenses				
Benefit costs				
Benefit payments	586	575	1,168	1,167
Claim administration costs	101	98	203	197
Change in actuarial valuation of benefit liabilities	(28)	(7)	102	55
	659	666	1,473	1,419
Loss of Retirement Income Fund contributions	14	14	28	28
Administration and other expenses	101	115	201	199
Legislated obligations and funding commitments	65	66	136	140
	839	861	1,838	1,786
Excess of revenues over expenses	**988**	**33**	**874**	**1,551**
Other comprehensive income (loss)				
Remeasurements of employee defined benefit plans	(305)	193	(465)	69
Total comprehensive income	**683**	**226**	**409**	**1,620**
Total comprehensive income attributable to:				
WSIB stakeholders	620	258	373	1,496
Non-controlling interests	63	(32)	36	124
	683	**226**	**409**	**1,620**
Other measures				
Core Earnings[1]	407	334	688	605
Return on investments[2]	2.3%	(1.2%)	1.3%	4.7%
			Jun. 30 2016	**Dec. 31 2015**
Unfunded liability[3,4]			(6,226)	(6,599)
Unfunded liability - Sufficiency Ratio basis[4]			(5,633)	(6,984)
Sufficiency Ratio[4]			82.3%	77.9%

1. Core Earnings is calculated as total comprehensive income (loss), excluding the impacts of net investment income, change in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 8 – 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 $3,387 million as at June 30, 2016 (December 31, 2015 – $3,797 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 $2,839 million as at June 30, 2016 (December 31, 2015 – $2,802 million) exclude benefit liabilities since the holders of NCI, the WSIB Employees’ Pension Plan and other investors are not liable for those obligations. The proportionate share of the total deficiency of assets attributable to WSIB stakeholders as at June 30, 2016 was $6,226 million (December 31, 2015 – $6,599 million) which includes benefit liabilities. Refer to the unaudited condensed interim consolidated statements of financial position for further details.
4. Refer to Section 4 – 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)	**2016**	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Schedule 1 employer premiums								
Gross Schedule 1 premiums	1,284	1,203	81	6.7	2,441	2,341	100	4.3
Interest and penalties	19	18	1	5.6	31	29	2	6.9
	1,303	1,221	82	6.7	2,472	2,370	102	4.3
Schedule 2 employer administration fees	21	18	3	16.7	42	35	7	20.0
	1,324	1,239	85	6.9	2,514	2,405	109	4.5
Net mandatory employer incentive programs	(50)	(37)	(13)	(35.1)	(90)	(69)	(21)	(30.4)
	1,274	**1,202**	**72**	**6.0**	**2,424**	**2,336**	**88**	**3.8**

For the three months ended June 30, 2016, gross premiums increased $81 million or 6.7%, reflecting $58 million attributed to a 4.7% increase in insurable earnings and $23 million attributed to the slight increase in the realized average premium rate collected from employers in 2016 due to shifts in industry sector mix.

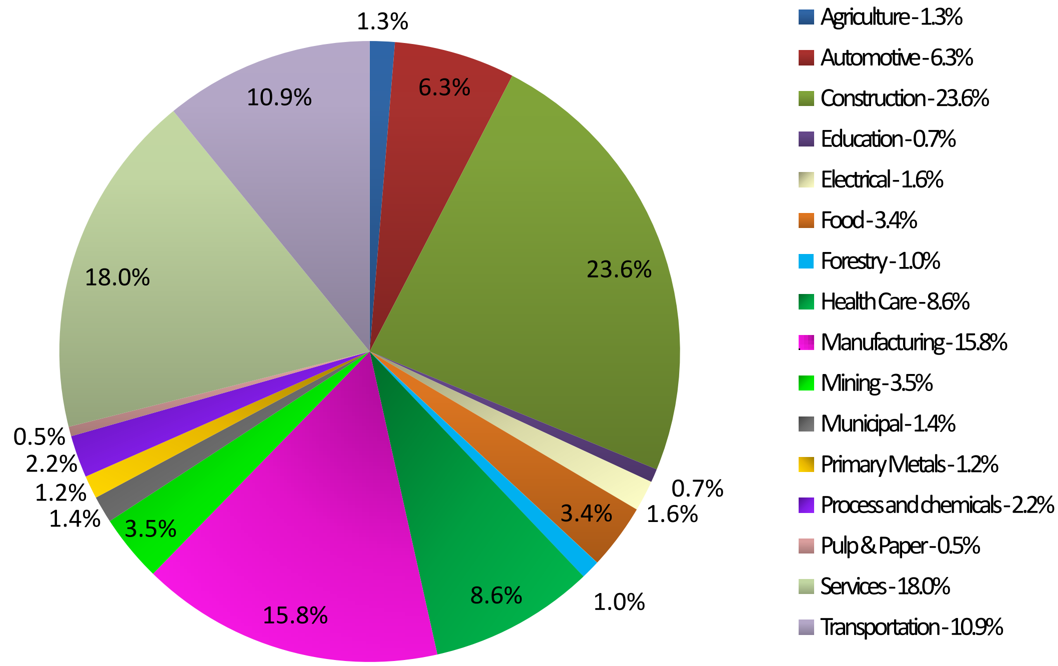
For the six months ended June 30, 2016, gross premiums increased $100 million or 4.3%, reflecting $64 million attributed to a 2.7% increase in insurable earnings and $36 million attributed to the slight increase in the realized average premium rate collected from employers in 2016 due to shifts in industry sector mix.

For the three and six months ended June 30, 2016, payouts in net mandatory employer incentive programs increased due to higher refunds available under the retrospective experience-rating programs, principally the New Experimental Experience Rating program (the "NEER"), reflecting continuing improved return-to-work experience.

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

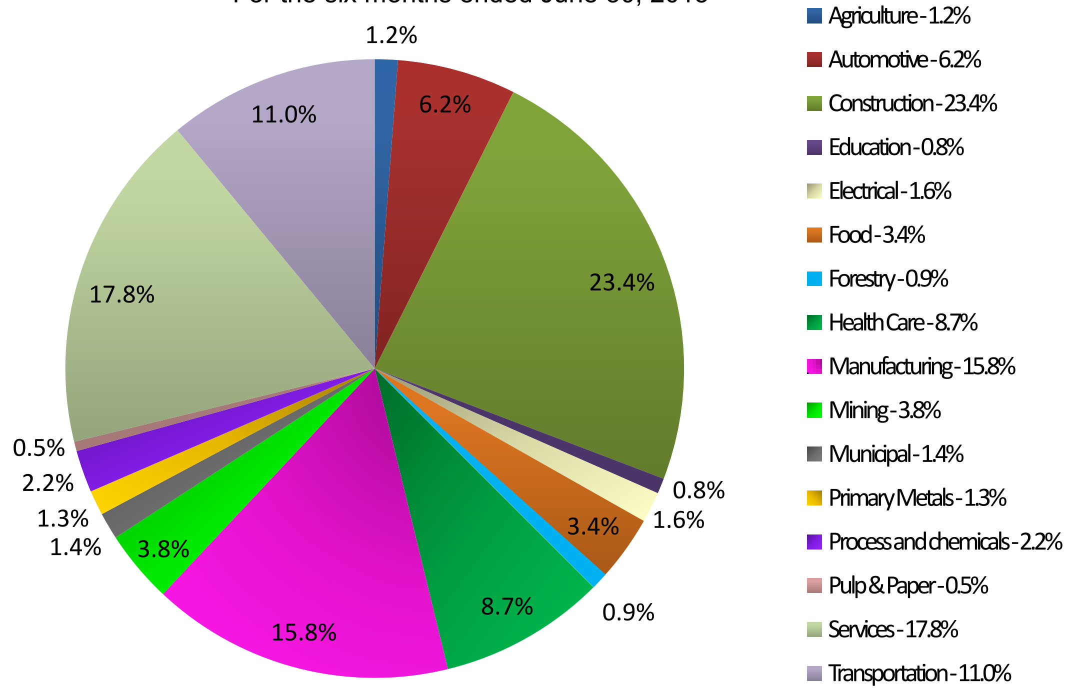
Gross Schedule 1 Premiums by Sector[1]

For the six months ended June 30, 2016



Gross Schedule 1 Premiums by Sector[1]

For the six months ended June 30, 2015



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

Net investment income (loss)

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

Asset Class	Three months ended June 30							
	2016				2015			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equity securities	146	1.5	9,672	35.3	(78)	(0.9)	9,358	36.6
Fixed income	172	2.8	6,793	24.8	(100)	(1.8)	6,217	24.3
Multi-asset	212	3.9	5,089	18.6	(127)	(2.1)	5,941	23.3
Real estate	26	1.3	2,405	8.8	18	1.1	2,037	8.0
Infrastructure	38	2.5	1,639	6.0	11	1.5	782	3.1
Cash and cash equivalents	1	-	1,699	6.2	1	-	1,117	4.4
Other	-	-	69	0.3	-	-	70	0.3
	595	**2.3**	**27,366**	**100.0**	**(275)**	**(1.2)**	**25,522**	**100.0**
Investment expenses	(42)				(33)			
Net investment income (loss)	**553**				**(308)**			

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

For the three months ended June 30, 2016, net investment income increased by $861 million over the same period last year, reflecting an overall return of 2.3% or net investment income of $553 million for the second quarter. All strategies delivered positive returns for the quarter, led by strong bond markets which drove fixed income and diversified markets strategy returns, strong infrastructure returns and moderate returns from equities, real estate and hedge funds.

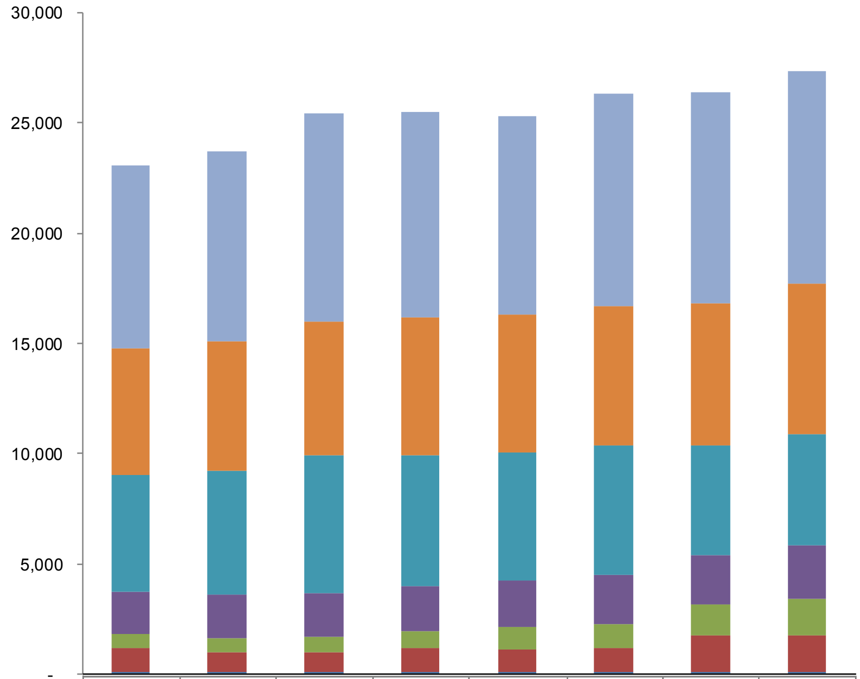
Asset Class	Six months ended June 30							
	2016				2015			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Public equity securities	(188)	(2.3)	9,672	35.3	688	8.1	9,358	36.6
Fixed income	255	4.2	6,793	24.8	145	2.5	6,217	24.3
Multi-asset	157	3.0	5,089	18.6	194	3.2	5,941	23.3
Real estate	40	2.0	2,405	8.8	24	1.5	2,037	8.0
Infrastructure	97	6.7	1,639	6.0	19	0.9	782	3.1
Cash and cash equivalents	3	-	1,699	6.2	2	-	1,117	4.4
Other	-	-	69	0.3	-	-	70	0.3
	364	**1.3**	**27,366**	**100.0**	**1,072**	**4.7**	**25,522**	**100.0**
Investment expenses	(76)				(71)			
Net investment income	**288**				**1,001**			

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

For the six months ended June 30, 2016, net investment income decreased by $713 million over the same period last year, reflecting an overall return of 1.3% or net investment income of $288 million year-to-date. Public equity returns (negative 2.3%) were impacted by a rising Canadian dollar offset by recovering resource stocks. Fixed income returns (4.2%) were driven by stronger bond markets. Multi-asset returns (3.0%) were driven by strong bond and commodity markets offset by weak hedge fund returns. Infrastructure returns (6.7%) were driven by gains on the sale of certain investments held by private market funds while real estate returns (2.0%) were comprised primarily of income returns.

The following chart displays the different components of net asset value for the eight consecutive quarters ended June 30, 2016:

Net Asset Value
(millions of Canadian dollars)



	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16
Public equity securities	8,317	8,653	9,466	9,358	8,956	9,594	9,569	9,672
Fixed income	5,722	5,886	6,071	6,217	6,285	6,353	6,447	6,793
Multi-asset	5,283	5,604	6,237	5,941	5,834	5,889	5,028	5,089
Real estate	1,953	1,967	1,958	2,037	2,076	2,212	2,241	2,405
Infrastructure	585	627	682	782	1,053	1,095	1,404	1,639
Cash and cash equivalents	1,129	929	939	1,117	1,019	1,086	1,646	1,699
Other	70	74	72	70	68	72	71	69
Total	**23,059**	**23,740**	**25,425**	**25,522**	**25,291**	**26,301**	**26,406**	**27,366**

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)	**2016**	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Benefit payments	586	575	11	1.9	1,168	1,167	1	0.1
Claim administration costs	101	98	3	3.1	203	197	6	3.0
Change in actuarial valuation of benefit liabilities	(28)	(7)	(21)	(100+)	102	55	47	85.5
Total benefit costs	**659**	**666**	**(7)**	**(1.1)**	**1,473**	**1,419**	**54**	**3.8**

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)	**2016**	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Loss of earnings	216	205	11	5.4	422	412	10	2.4
Workers' pensions	141	146	(5)	(3.4)	282	293	(11)	(3.8)
Health care	113	108	5	4.6	234	227	7	3.1
Future economic loss	52	53	(1)	(1.9)	103	108	(5)	(4.6)
Survivor benefits	49	46	3	6.5	97	92	5	5.4
External providers	8	9	(1)	(11.1)	15	18	(3)	(16.7)
Non-economic loss	11	11	-	-	21	22	(1)	(4.5)
Other	(4)	(3)	(1)	(33.3)	(6)	(5)	(1)	(20.0)
Total benefit payments	**586**	**575**	**11**	**1.9**	**1,168**	**1,167**	**1**	**0.1**

A summary of the significant changes in benefit payments for the three months ended June 30, 2016 is as follows:

- Loss of earnings benefits increased primarily due to higher cost per claim, as well as higher claim volume which increased 0.4% compared to the second quarter of 2015.
- Workers' pensions decreased reflecting the natural reduction of claims due to mortality.
- Health care increased due to higher cost per claim, partially offset by lower claim volumes.
- Survivor benefits increased reflecting annual indexation, as well as the impact of firefighter presumptive occupational diseases.

A summary of the significant changes in benefit payments for the six months ended June 30, 2016 is as follows:

- Loss of earnings benefits increased primarily due to higher current injury year claim volume and duration, as well as higher cost per prior injury year claim, partially offset by 1.4% decline in prior injury year claim volume (net of locked-in claims).
- Workers' pensions decreased reflecting the natural reduction of claims due to mortality.
- Health case increased due to higher cost per claim, partially offset by lower claim volumes.
- Future economic loss decreased reflecting the natural reduction in the number of claimants due to mortality or reaching age 65, the age at which these benefits cease. These programs have been discontinued.
- Survivor benefits increased reflecting annual indexation, as well as the impact of firefighter presumptive occupational diseases.

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)	**2016**	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Allocation from administration and other expenses	96	93	3	3.2	193	188	5	2.7
Allocation from legislated obligations and funding commitments expenses	5	5	-	-	10	9	1	11.1
Total claim administration costs	**101**	**98**	**3**	**3.1**	**203**	**197**	**6**	**3.0**

For the three and six months ended June 30, 2016, the change was attributed to higher costs for those expense items within administration and other expenses which 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)	**2016**	**2015**	**2016**	**2015**
Change in actuarial valuation of benefit liabilities	(28)	(7)	102	55

For the three months ended June 30, 2016, the change in actuarial valuation of benefit liabilities was $28 million, reflecting favourable experience in loss of earnings, as well as a lower New Claims Cost than forecasted in the prior quarter for the 2016 injury year.

For the six months ended June 30, 2016, the change in actuarial valuation of benefit liabilities was $102 million, which includes the impact of the legislative amendment of $35 million for presumptive posttraumatic stress disorder ("PTSD").

Change in actuarial valuation of benefit liabilities for the six months ended June 30, 2016 is detailed as follows:

(millions of Canadian dollars)	
Benefit liabilities as at December 31, 2015	**27,830**
Payments made in 2016 for prior injury years	(1,273)
Interest accretion[1]	646
Liabilities incurred for the 2016 injury year	775
Experience gains	(81)
Impact of legislative amendment[2]	35
Benefit liabilities as at June 30, 2016	**27,932**
Change in actuarial valuation of benefit liabilities	**102**

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. Impact of legislative amendment includes an increase of $35 million relating to PTSD. On April 5, 2016, Bill 163, *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016* was passed by the Legislature. This amends the *Workplace Safety and Insurance Act, 1997* with respect to first responders diagnosed with PTSD. The amendments provide that if a first responder is diagnosed with PTSD and meets specific employment and diagnostic criteria, that first responder's PTSD is presumed to have arisen out of and in the course of his or her employment, unless the contrary is shown. In specific circumstances, the presumption will apply to first responders diagnosed with PTSD up to 24 months before the coming-in-force date, as well as those claims for which a decision is pending from either the WSIB or the Workplace Safety and Insurance Appeals Tribunal on the date the legislation comes into force.

Administration and other expenses

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	2016	2015	$	%	2016	2015	$	%
Salaries and short-term benefits	106	101	5	5.0	213	206	7	3.4
Long-term employee benefit plans	33	36	(3)	(8.3)	74	76	(2)	(2.6)
Bad debts	10	29	(19)	(65.5)	17	27	(10)	(37.0)
Communications	3	4	(1)	(25.0)	6	6	-	-
Depreciation and amortization	5	4	1	25.0	9	5	4	80.0
Equipment and maintenance	17	15	2	13.3	34	30	4	13.3
Facilities	10	9	1	11.1	18	19	(1)	(5.3)
Systems development and integration	4	1	3	100+	5	2	3	100+
Other	9	9	-	-	18	16	2	12.5
	197	208	(11)	(5.3)	394	387	7	1.8
Claim administration costs allocated to benefit costs	(96)	(93)	(3)	3.2	(193)	(188)	(5)	2.7
Total administration and other expenses	**101**	**115**	**(14)**	**(12.2)**	**201**	**199**	**2**	**1.0**

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the three months ended June 30, 2016 is as follows:

- Salaries and short-term benefits increased $5 million reflecting inflationary pressures and higher premiums due to experience on long-term disability benefit.
- Long-term employee benefit plans expenses, including post-retirement benefits, decreased due to lower expenses for post-retirement benefit liabilities primarily due to net savings from the new retiree extended health benefits plan, partially offset by a 60 basis point decrease in interest rates used to value our liabilities for vacation and attendance credits.

- Bad debts decreased primarily due to new system reporting capabilities resulting in more reliable collectability estimates.
- Systems development and integration expenses increased $3 million reflecting new initiatives as part of our transformational efforts.

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the six months ended June 30, 2016 is as follows:

- Salaries and short-term benefits increased $7 million reflecting inflationary pressures and higher premiums due to experience on long-term disability benefit.
- Long-term employee benefit plans expenses, including post-retirement benefits, decreased due to lower expenses for post-retirement benefit liabilities primarily due to net savings from the new retiree extended health benefits plan, partially offset by a 60 basis point decrease in interest rates used to value our liabilities for vacation and attendance credits.
- Bad debts decreased primarily due to new system reporting capabilities resulting in more reliable collectability estimates.
- Depreciation and amortization increased $4 million reflecting the implementation of new accounts and claims management systems.
- Equipment and maintenance expenses increased $4 million reflecting higher infrastructure support services and higher software license fees.
- Systems development and integration expenses increased $3 million reflecting new initiatives as part of our transformational efforts.

Legislated obligations and funding commitments expenses

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2016**	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Legislated obligations								
Occupational Health and Safety Act	21	23	(2)	(8.7)	46	47	(1)	(2.1)
Ministry of Labour Prevention Costs	26	26	-	-	54	55	(1)	(1.8)
	47	49	(2)	(4.1)	100	102	(2)	(2.0)
Workplace Safety and Insurance Appeals Tribunal	7	5	2	40.0	12	10	2	20.0
Workplace Safety and Insurance Advisory Program	3	3	-	-	8	8	-	-
Total legislated obligations	**57**	**57**	**-**	**-**	**120**	**120**	**-**	**-**
Funding commitments								
Grants	-	1	(1)	(100.0)	-	1	(1)	(100.0)
Safety program rebates	13	13	-	-	26	28	(2)	(7.1)
Total funding commitments	**13**	**14**	**(1)**	**(7.1)**	**26**	**29**	**(3)**	**(10.3)**
	70	**71**	**(1)**	**(1.4)**	**146**	**149**	**(3)**	**(2.0)**
Claim administration costs allocated to benefit costs	(5)	(5)	-	-	(10)	(9)	(1)	11.1
Total legislated obligations and funding commitments	**65**	**66**	**(1)**	**(1.5)**	**136**	**140**	**(4)**	**(2.9)**

For the three months ended June 30, 2016, legislated obligations and funding commitments expenses, before allocation to benefit costs, decreased $1 million or 1.4%, reflecting lower Occupational Health and Safety expenses and lower grants expenses, partially offset by higher Workplace Safety and Insurance Appeals Tribunal expenses.

For the six months ended June 30, 2016, legislated obligations and funding commitments expenses, before allocation to benefit costs, decreased $3 million or 2.0%, reflecting lower Occupational Health and Safety expenses, lower grants expenses and lower safety program rebates, partially offset by higher Workplace Safety and Insurance Appeals Tribunal expenses.

3. Financial Condition

A discussion of the significant changes in our June 30, 2016 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 2016	Dec. 31 2015	Change $	Change %	Commentary
Assets					
Cash and cash equivalents	2,050	1,581	469	29.7	Increase primarily reflects cash generated from better operating performance. Refer to the unaudited condensed interim consolidated statements of cash flows for more details.
Receivables	1,774	1,614	160	9.9	Increase reflects higher surcharges on experience ratings and higher investment receivables.
Public equity securities	10,135	10,055	80	0.8	Increases reflect net investment income earned in 2016 and cash transferred from operating activities.
Bonds	7,289	6,756	533	7.9	
Derivative assets	189	68	121	100+	
Other invested assets	7,711	7,947	(236)	(3.0)	
Property, equipment and intangible assets	298	284	14	4.9	Increase reflects additions related to the new accounts and claims management systems.
Liabilities					
Payables and accruals	1,192	1,077	115	10.7	Increase reflects higher investment payables, higher refunds on experience ratings and higher administration expense payable.
Derivative liabilities	144	133	11	8.3	No significant changes.
Long-term debt	133	116	17	14.7	New mortgage on new investment property.
Loss of Retirement Income Fund liability	1,728	1,724	4	0.2	No significant changes.
Employee benefit plans liability	1,704	1,222	482	39.4	Increase reflects a reduction in the interest rate used for valuation.
Benefit liabilities	27,932	27,830	102	0.4	No significant changes.
Unfunded liability	(6,226)	(6,599)	373	5.7	Changes reflect total comprehensive income attributable to WSIB stakeholders.
Unfunded liability - Sufficiency Ratio basis	(5,633)	(6,984)	1,351	19.3%	Strengthening due to continued strong operating results.
Sufficiency Ratio	82.3%	77.9%		4.4%	

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

An explanation and discussion about the changes to the June 30, 2016 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.

On a going concern basis, investment assets are valued at fair value adjusted for the unamortized gains or losses relative to the long-term expected rate of return on those assets, less the interests in those assets held by third parties (non-controlling interests). Investment gains and losses that differ from the long-term expected rate of return are amortized over a five-year period. 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, 2016, the Sufficiency Ratio, as defined in *Ontario Regulation 141/12* and amended by *Ontario Regulation 338/13* (collectively, the "Sufficiency Regulation"), was 82.3% (December 31, 2015 – 77.9%). Set forth below is the reconciliation of the unfunded liability ("UFL") between the IFRS and Sufficiency Ratio basis:

(millions of Canadian dollars)	**June 30 2016**	**December 31 2015**
UFL attributable to WSIB stakeholders on an IFRS basis	6,226	6,599
Add/(Less): Adjustments per Sufficiency Regulation:		
Change in valuation of investment assets	450	981
Change in valuation of employee benefit plans liability	(987)	(465)
Change in valuation of investment assets attributable to non-controlling interests	(56)	(131)
UFL attributable to WSIB stakeholders on a Sufficiency Ratio basis	**5,633**	**6,984**
Sufficiency Ratio	**82.3%**	**77.9%**

5. Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended June 30, 2016 is as follows:

	2016		2015				2014	
(millions of Canadian dollars)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Net premiums	1,274	1,150	1,177	1,171	1,202	1,134	1,164	1,120
Net investment income (loss)	553	(265)	726	(528)	(308)	1,309	554	145
Benefit costs								
Benefit payments	586	582	591	574	575	592	610	586
Claim administration costs	101	102	102	99	98	99	68	100
Change in actuarial valuation of benefit liabilities	(28)	130	1,040	(65)	(7)	62	(153)	(216)
	659	814	1,733	608	666	753	525	470
Loss of Retirement Income Fund contributions	14	14	13	15	14	14	15	14
Administration and other expenses	101	100	120	87	115	84	131	68
Legislated obligations and funding commitments	65	71	61	62	66	74	56	72
Excess (deficiency) of revenues over expenses	988	(114)	(24)	(129)	33	1,518	991	641
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	(305)	(160)	(39)	15	193	(124)	34	(75)
Total comprehensive income (loss)	683	(274)	(63)	(114)	226	1,394	1,025	566
Total comprehensive income (loss) attributable to WSIB stakeholders	620	(247)	(148)	(57)	258	1,238	958	545
Other measures								
Core Earnings[1]	407	281	290	334	334	271	284	280
Return on investments (%)[2]	2.3	(1.0)	3.2	(2.1)	(1.2)	6.0	2.7	0.8
Unfunded liability[3,4]	6,226	6,846	6,599	6,451	6,394	6,652	7,890	8,848
Unfunded liability - Sufficiency Ratio basis[4]	5,633	6,420	6,984	6,584	7,331	8,105	8,697	9,366

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 increase in net investment income in the second quarter of 2016 reflects stronger bond markets and a modest recovery in global equities.

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 8 – 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 $3,387 million as at June 30, 2016 (December 31, 2015 – $3,797 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 $2,839 million as at June 30, 2016 (December 31, 2015 – $2,802 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, 2016 was $6,226 million (December 31, 2015 – $6,599 million) which includes benefit liabilities. Refer to the unaudited condensed interim consolidated statements of financial position for further details.
4. Refer to Section 4 – Reconciliation of the Unfunded Liability on a Sufficiency Ratio Basis for further details.

6. Outlook for the year ending December 31, 2016

The outlook for our business for the year ending December 31, 2016.

Original 2016 Expectation	Current 2016 Outlook
Premiums. Modest increase reflecting an assumed 1.2% increase in employment growth and a 1.3% increase in average wages, partially offset by $22 million of higher net mandatory employer incentive programs expense. While average premium rates in 2016 are anticipated to remain unchanged from the prior year, employers continue to contribute towards retiring the unfunded liability.	*Premiums.* Higher than anticipated insurable earnings and higher net mandatory employer incentive programs expenses reflecting continuing improved return-to-work-experience.
Net investment income. We anticipate a 5.25% return on assets, consistent with our long-term planning assumption.	*Net investment income*. Modest decrease reflecting a 4.08% return on assets given lower actual investment returns to date.
Benefit payments. Benefit payments are anticipated to be $2.3 billion in 2016, approximating the level of benefit payments in 2015.	*Benefit payments.* Benefit payments are anticipated to be slightly above the 2015 level as loss of earnings and health care costs are expected to increase.
Administration and other expenses. We anticipate an increase in 2016 reflecting increases for information technology costs and higher new systems development and integration expenses as a result of our transformational efforts.	*Administration and other expenses.* Modest increase reflecting higher short-term employee benefit rates and higher information technology costs.
Legislated obligations. We anticipate $300 million in 2016, an increase of $17 million or 6.0% reflecting an increase in safety program rebates.	*Legislated obligations*. No significant change.
Unfunded liability. We anticipate a decrease based on current funding and benefit levels, and as measured under current accounting and actuarial standards as a result of continued operational excellence.	*Unfunded liability.* No significant change.

7. 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.

8. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

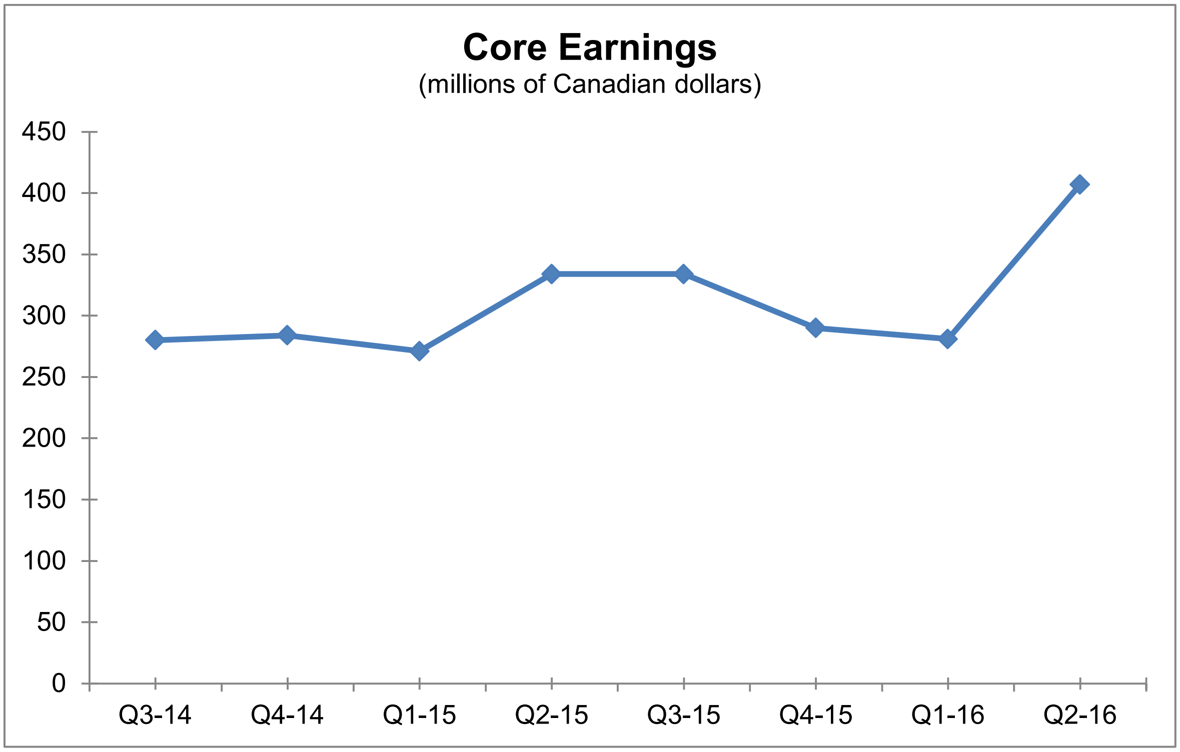
Core Earnings

The WSIB utilizes "Core Earnings," a non-IFRS financial measure, to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings are defined as total comprehensive income, excluding the impacts of net investment income, change 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 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)	**2016**	**2015**	**2016**	**2015**
Total comprehensive income for the period	683	226	409	1,620
Add/(Less): Net investment loss (income)	(553)	308	(288)	(1,001)
Add/(Less): Change in actuarial valuation of benefit liabilities	(28)	(7)	102	55
Add/(Less): Change in actuarial valuation of employee benefit plans	305	(193)	465	(69)
Core Earnings	**407**	**334**	**688**	**605**

The following chart displays Core Earnings for the eight consecutive quarters ended June 30, 2016:



9. 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.

WORKPLACE SAFETY AND INSURANCE BOARD

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

	Note	June 30 2016	December 31 2015
Assets			
Cash and cash equivalents	4	2,050	1,581
Receivables	3	1,774	1,614
Public equity securities	4	10,135	10,055
Bonds	4	7,289	6,756
Derivative assets	4	189	68
Other invested assets	4	7,711	7,947
Property, equipment and intangible assets		298	284
Total assets		**29,446**	**28,305**
Liabilities			
Payables and accruals		1,192	1,077
Derivative liabilities	4	144	133
Long-term debt		133	116
Loss of Retirement Income Fund liability		1,728	1,724
Employee benefit plans liability	5	1,704	1,222
Benefit liabilities	6	27,932	27,830
Total liabilities		**32,833**	**32,102**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(6,226)	(6,599)
Non-controlling interests		2,839	2,802
Total deficiency of assets		**(3,387)**	**(3,797)**
Total liabilities and deficiency of assets		**29,446**	**28,305**

Commitments and contingent liabilities (note 7)

The accompanying notes form an integral part of these unaudited 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 June 30		Six months ended June 30	
		2016	**2015**	**2016**	**2015**
Revenues					
Premiums		1,324	1,239	2,514	2,405
Net mandatory employer incentive programs		(50)	(37)	(90)	(69)
		1,274	1,202	2,424	2,336
Net investment income (loss)					
Investment income (loss)	4	595	(275)	364	1,072
Investment expenses	4	(42)	(33)	(76)	(71)
Total net investment income (loss)		553	(308)	288	1,001
Total revenues		**1,827**	**894**	**2,712**	**3,337**
Expenses					
Benefit costs					
Benefit payments		586	575	1,168	1,167
Claim administration costs		101	98	203	197
Change in actuarial valuation of benefit liabilities		(28)	(7)	102	55
		659	666	1,473	1,419
Loss of Retirement Income Fund contributions		14	14	28	28
Administration and other expenses		101	115	201	199
Legislated obligations and funding commitments		65	66	136	140
Total expenses		**839**	**861**	**1,838**	**1,786**
Excess of revenues over expenses		**988**	**33**	**874**	**1,551**
Other comprehensive income (loss)					
Remeasurements of employee defined benefit plans	5	(305)	193	(465)	69
Total comprehensive income		**683**	**226**	**409**	**1,620**

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Excess of revenues over expenses attributable to:				
WSIB stakeholders	925	65	838	1,427
Non-controlling interests	63	(32)	36	124
	988	**33**	**874**	**1,551**
Total comprehensive income attributable to:				
WSIB stakeholders	620	258	373	1,496
Non-controlling interests	63	(32)	36	124
	683	**226**	**409**	**1,620**

The accompanying notes form an integral part of these unaudited 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, 2014		(7,890)	2,644	(5,246)
Excess of revenues over expenses		1,427	124	1,551
Remeasurements of employee defined benefit plans	5	69	-	69
Change in ownership share in investments		-	17	17
Balance as at June 30, 2015		(6,394)	2,785	(3,609)
Excess (deficiency) of revenues over expenses		(181)	28	(153)
Remeasurements of employee defined benefit plans		(24)	-	(24)
Change in ownership share in investments		-	(11)	(11)
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	5	(465)	-	(465)
Change in ownership share in investments		-	1	1
Balance as at June 30, 2016		**(6,226)**	**2,839**	**(3,387)**

The accompanying notes form an integral part of these unaudited 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 June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Operating activities:				
Total comprehensive income	683	226	409	1,620
Adjustments:				
Amortization of net premium on investments	1	1	1	1
Depreciation and amortization of property, equipment and intangible assets	7	4	11	7
Changes in fair value of investments	(448)	465	(45)	(845)
Changes in fair value of investment properties	19	3	29	18
Dividend income from public equity securities	(107)	(98)	(188)	(162)
Income from joint ventures	(14)	(7)	(32)	(15)
Interest income	(62)	(58)	(118)	(109)
Interest expense	2	3	4	7
Total comprehensive income after adjustments	81	539	71	522
Changes in non-cash balances related to operations:				
Receivables, excluding those related to investing activities	(110)	(44)	(110)	(98)
Payables and accruals, excluding those related to investing and financing activities	115	86	25	18
Loss of Retirement Income Fund liability	25	(24)	4	53
Employee benefit plans liability	312	(182)	482	(46)
Benefit liabilities	(28)	(7)	102	55
Total changes in non-cash balances related to operations	314	(171)	503	(18)
Net cash provided by operating activities	**395**	**368**	**574**	**504**
Investing activities:				
Dividends received from public equity securities and joint ventures	109	100	188	168
Interest received	87	77	119	109
Purchases of property, equipment and intangible assets	(17)	(18)	(25)	(35)
Purchases of investments	(2,965)	(2,745)	(5,980)	(6,179)
Proceeds on sales and maturities of investments	2,522	2,362	5,628	5,449
Net additions to investment properties	(41)	(14)	(47)	(20)
Acquisitions of joint ventures	(6)	(5)	(7)	(10)
Net cash required by investing activities	**(311)**	**(243)**	**(124)**	**(518)**
Financing activities:				
Proceeds on dispositions of non-controlling interests	45	36	46	51
Distributions paid by subsidiaries to non-controlling interests	(31)	(16)	(45)	(34)
Net issue (repayment) of debt	21	(7)	22	(7)
Interest paid on debt	(2)	(3)	(4)	(6)
Net cash provided by financing activities	**33**	**10**	**19**	**4**
Net increase (decrease) in cash and cash equivalents	**117**	**135**	**469**	**(10)**
Cash and cash equivalents, beginning of period	1,933	1,328	1,581	1,473
Cash and cash equivalents, end of period	**2,050**	**1,463**	**2,050**	**1,463**

The accompanying notes form an integral part of these unaudited 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 (as classified in 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"), which have been adopted by the Accounting Standards Board of Canada as Canadian generally accepted accounting principles for public interest entities.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on September 29, 2016.

3. Receivables

Receivables are comprised of the following:

	June 30 2016	**December 31 2015**
Premiums receivable	230	259
Less: Allowance for doubtful accounts	(89)	(92)
	141	167
Accrued premiums receivable	525	507
	666	674
Employer incentive programs surcharges	458	353
Other assets	48	35
Accounts receivable	1,172	1,062
Investment receivables	602	552
Total receivables	**1,774**	**1,614**

Schedule 1 employer premiums are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the accrued premiums receivable.

Unaudited (millions of Canadian dollars)

4. Invested Assets and Net Investment Income

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 2016	Dec. 31 2015
Public equity securities	**9,678**	**-**	**457**	**-**	**-**	**-**	**10,135**	**10,055**
Bonds	**-**	**6,761**	**528**	**-**	**-**	**-**	**7,289**	**6,756**
Derivative assets	**13**	**-**	**163**	**-**	**13**	**-**	**189**	**68**
Alternative investments	-	-	3,601	570	1,501	69	5,741	6,024
Investment properties	-	-	-	1,379	-	-	1,379	1,361
Investments in joint ventures	-	-	-	458	133	-	591	562
Other invested assets	**-**	**-**	**3,601**	**2,407**	**1,634**	**69**	**7,711**	**7,947**

Net investment income (loss)

Net investment income (loss) is as follows:

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Public equity securities	169	(87)	(299)	905
Bonds	194	(109)	256	188
Alternative investments	110	(96)	(295)	506
Investment properties	(3)	11	2	9
Income from joint ventures	14	7	32	15
Derivatives	145	(18)	687	(485)
Cash and cash equivalents	-	-	1	1
Less: Loss (income) attributable to Loss of Retirement Income Fund	(34)	17	(20)	(67)
Investment income (loss)	**595**	**(275)**	**364**	**1,072**
Less: Investment expenses	(42)	(33)	(76)	(71)
Net investment income (loss)	**553**	**(308)**	**288**	**1,001**

Unaudited (millions of Canadian dollars)

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

	Three months ended June 30		**Six months ended June 30**	
	2016	**2015**	**2016**	**2015**
Net gains (losses) on financial instruments	448	(465)	45	845
Interest and dividend income	170	155	305	270
Income (loss) from investment properties	(3)	11	2	9
Income from joint ventures	14	7	32	15
Less: Loss (income) attributable to Loss of Retirement Income Fund	(34)	17	(20)	(67)
Investment income (loss)	**595**	**(275)**	**364**	**1,072**
Less: Investment expenses	(42)	(33)	(76)	(71)
Net investment income (loss)	**553**	**(308)**	**288**	**1,001**

Fair value measurement and disclosures

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	*Alternative investments* The fair value of alternative investments in real estate entities is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties. Alternative investments in private markets consist of investments in the infrastructure sector. The fair value of private market investments is estimated at cost in the year of acquisition. Subsequently, fair value is primarily based on estimated future distributable cash flows, terminal values and discount rates. *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.

Unaudited (millions of Canadian dollars)

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

	June 30, 2016				December 31, 2015			
	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]	822	1,228	-	2,050	624	957	-	1,581
Public equity securities	10,135	-	-	10,135	10,011	44	-	10,055
Bonds	-	7,289	-	7,289	-	6,756	-	6,756
Alternative investments	-	4,728	1,013	5,741	-	5,604	420	6,024
Investment properties	-	-	1,379	1,379	-	-	1,361	1,361
Derivative assets	-	189	-	189	-	68	-	68
Derivative liabilities	-	(144)	-	(144)	-	(133)	-	(133)
Liabilities for which fair value is disclosed								
Long-term debt[2]	-	(149)	-	(149)	-	(128)	-	(128)

1. Cash and cash equivalents include cash of $822 and short-term money market securities of $1,228 (December 31, 2015 – $624 and $957, respectively).
2. Carrying amount as at June 30, 2016 was $133 (December 31, 2015 – $116).

Alternative investments (Level 3 fair value measurements)

The tables below provide reconciliations of the fair value of real estate entities and private market investments:

	June 30, 2016			June 30, 2015		
For the three months ended	**Private market investments**	**Real estate entities**	**Total**	**Private market investments**	**Real estate entities**	**Total**
Balance, April 1	-	435	435	-	371	371
Purchases	147	2	149	-	67	67
Sales	-	(30)	(30)	-	-	-
Net gains (losses) recognized in net investment income	-	17	17	-	2	2
Transfers into Level 3	442	-	442	-	-	-
Balance, June 30	**589**	**424**	**1,013**	**-**	**440**	**440**

Unaudited (millions of Canadian dollars)

	June 30, 2016			June 30, 2015		
For the six months ended	**Private market investments**	**Real estate entities**	**Total**	**Private market investments**	**Real estate entities**	**Total**
Balance, January 1	-	420	420	-	372	372
Purchases	147	33	180	-	67	67
Sales	-	(30)	(30)	-	-	-
Net gains (losses) recognized in net investment income	-	1	1	-	1	1
Transfers into Level 3	442	-	442	-	-	-
Balance, June 30	**589**	**424**	**1,013**	**-**	**440**	**440**

During the six months ended June 30, 2016, private market investments with a carrying amount of $442 were transferred from Level 2 to Level 3 because their valuations, subsequent to acquisition, are based on unobservable inputs.

Valuations of private market investments are obtained from independent third parties who develop the quantitative unobservable inputs to the valuations. These inputs are mainly distributable cash flows, terminal values and discount rates. Holding other factors constant, an increase to future distributable cash flows or terminal values would tend to increase fair value, while an increase in the discount rate would have the opposite effect. Quantitative information about these inputs is not available from the valuators.

Fair values of real estate entities are obtained from qualified appraisers who develop the quantitative unobservable inputs to the valuations. Holding other factors constant, an increase to rental income inputs would increase the fair values, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect. During the six months ended June 30, 2016, changes in unobservable inputs did not have a significant impact on the fair value of the real estate entities. Refer to our fourth quarter 2015 consolidated financial statements for quantitative information about the significant unobservable inputs.

Unaudited (millions of Canadian dollars)

Investment properties (Level 3 fair value measurements)

The tables below provide reconciliations of the fair value of investment properties:

For the three months ended	June 30, 2016	June 30, 2015
Balance, April 1	1,357	1,185
Asset acquisitions	27	7
Capital expenditures	14	7
Net losses from changes in fair value	(19)	(3)
Balance, June 30	**1,379**	**1,196**

For the six months ended	June 30, 2016	June 30, 2015
Balance, January 1	1,361	1,194
Asset acquisitions	29	7
Capital expenditures	18	13
Net losses from changes in fair value	(29)	(18)
Balance, June 30	**1,379**	**1,196**

During the six months ended June 30, 2016, there were no transfers of investment properties between levels.

Fair values of investment properties are obtained from qualified appraisers who develop the quantitative unobservable inputs to the valuations. Holding other factors constant, an increase to rental income inputs would increase the fair value, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect. During the six months ended June 30, 2016, changes in unobservable inputs did not have a significant impact on the fair value of the investment properties. Refer to our fourth quarter 2015 consolidated financial statements for quantitative information about the significant unobservable inputs.

Unaudited (millions of Canadian dollars)

5. Employee Benefit Plans

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

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Actuarial gains (losses) arising from changes in financial assumptions	(340)	249	(446)	-
Actuarial gains (losses) arising from demographic and other experience	-	3	-	(2)
Excess (deficiency) of actual return on plan assets over interest income	35	(59)	(19)	71
Total remeasurements of employee defined benefit plans	**(305)**	**193**	**(465)**	**69**

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	June 30 2016	December 31 2015
Present value of wholly or partly funded obligations	3,683	3,243
Present value of unfunded obligations	823	736
Total present value of obligations	4,506	3,979
Fair value of plan assets	(2,802)	(2,757)
Employee benefit plans liability	**1,704**	**1,222**

6. Benefit Liabilities

Benefit liabilities are comprised of the following:

	June 30 2016	December 31 2015
Loss of earnings	9,198	9,096
Workers' pensions	6,441	6,587
Health care	4,019	3,938
Survivor benefits	2,896	2,860
Future economic loss	1,428	1,502
External providers	194	184
Non-economic loss	294	291
Long latency occupational diseases	2,161	2,137
Posttraumatic stress disorder	35	-
Claim administration costs	1,266	1,235
Benefit liabilities	**27,932**	**27,830**

Unaudited (millions of Canadian dollars)

7. Commitments and Contingent Liabilities

Investment commitments

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

	June 30 2016	December 31 2015
Real estate, multi-asset and infrastructure investments	1,341	1,322
Investments in joint ventures	107	110
Purchases or development of investment properties	6	7
	1,454	**1,439**

Legislated obligations and funding commitments

Known legislated obligations and funding commitments as at June 30, 2016 are approximately $254 for the period from July 1, 2016 to June 30, 2017.

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.

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 also provides grant funding to carry on investigations, research and training. The total funding provided under these legislated obligations and funding commitments for the three and six months ended June 30, 2016 were $57 and $120, respectively (2015 – $58 and $121).

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 and six months ended June 30, 2016 were $9 and $18, respectively (2015 – $9 and $18).

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 controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments as at June 30, 2016 are $1,636 of marketable fixed income securities issued by the Government of Ontario and related entities (December 31, 2015 – $1,515).

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 5 provides details of transactions with these post-employment benefit plans.