Workplace Safety and Insurance Board

2018 Annual Report

Table of contents

Message from Chair and President & CEO 3
2018 highlights 4
Measuring our operational results 8
Board of Directors' biographies 10
Management's discussion and analysis 13
Consolidated financial statements 55
Notes to consolidated financial statements 64

Message from Chair and President & CEO

The WSIB reached a historic turning point in 2018 with the elimination of our unfunded liability almost ten years ahead of the legislated schedule. For the first time in recorded history, this organization is fully funded. This strong financial management should give Ontarians confidence that they will receive the benefits and support they need to recover and get back to work if they suffer a work-related injury or illness. Our strong fiscal foundation also allows us to focus on reducing burden and improving our service experience. We are proud that our 2018 results demonstrate significant progress to improve outcomes for people.

Some highlights include:

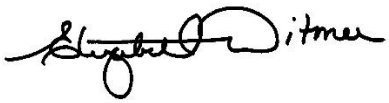
- In 2018, 93% of eligibility decisions were made within two weeks for claims registered during the year, even though registered claim volume was 5% higher than 2017;
- 9 out of 10 people who lost time at work due to an injury or illness returned to work within one year without any loss of income;
- More than 94% of people were able to find work after completing a return-to-work plan, up from 88% in 2017.

As well, 2018 saw the expansion of coverage to include chronic mental stress and changes to provide consistent indexing of benefits to inflation.

For the third year in a row, we were also able to reduce premium rates for Ontario businesses. We announced that the average premium rate for 2019 would be reduced by 29.8%. This gives Ontario businesses more funds to invest in new jobs, technology and health and safety efforts, making Ontario a more competitive province in which to open and run a business.

Finally, this past year we continued our efforts to engage businesses about our new premium rate-setting model. In June 2018, we published six new policies that will guide the governance of our new model, set to be implemented on January 1, 2020. This helps Ontario businesses stay informed and prepare for the coming changes.

As we reflect on 2018, we want to extend our sincere appreciation to our stakeholders, the Board of Directors and our staff for their hard work and commitment to helping those injured at work, their families and Ontario businesses.



Elizabeth Witmer,
Chair

Thomas Teahen,
President & CEO

2018 highlights

Financial highlights

Financial performance compared to budget

In 2018, we generated $2.2 billion of total comprehensive income versus a budget of $1.5 billion, reflecting the release of $1.1 billion in benefit liabilities primarily attributable to an increase in the discount rate used to value our liabilities, other comprehensive income of $354 million partially offset by a net investment loss of $519 million. Gross premiums exceeded budget by $230 million, or 4.8%, reflecting higher-than-anticipated gross premiums in the construction, health care, manufacturing, services and transportation industries that more than offset the 3.3% reduction in the published 2018 average premium rate. Total administration and other expenses, excluding costs related to the Workplace Safety and Insurance Appeals Tribunal, were lower than budget by $42 million, primarily reflecting lower costs for professional services, equipment and maintenance and amortization.

Elimination of the Unfunded Liability

In September 2018, we announced the elimination of our historic Unfunded Liability (“UFL”), 10 years ahead of the legislated schedule. The UFL, which had reached $14.2 billion in 2011, was retired in partnership with businesses across the province through premiums collected and through our ongoing positive investment and operational performance. As of year-end, our net assets on a Sufficiency Ratio basis stood at $2.6 billion. Being fully funded means people can have confidence they will receive the services and support they are entitled to if they are hurt on the job or develop an illness related to their work.

Premium rate reductions for Ontario businesses for the third year in a row

With the elimination of the UFL and the ongoing strength of our financial position, we were able to announce a 29.8% reduction to the average premium rate for 2019. This marks the third consecutive reduction to the average premium rate, for a total decrease of over $0.90 per $100 of insurable earnings since 2016.

Growth in premium revenue

Even though premium rates were lower in 2018, net premiums increased by $177 million, or 3.7%, compared to 2017. This is because there was strong insurable earnings growth primarily in the construction, health care, manufacturing, services and transportation industries.

Consistent indexation of benefits to inflation

As of January 1, 2018, the way benefits are indexed to inflation has changed. All wage-loss and survivor benefits are now adjusted using the Consumer Price Index. The transition to the new indexing approach was very smooth with no interruption to benefits.

Investment Management Corporation of Ontario ("IMCO") integration

In July 2017, IMCO officially launched and began managing the assets of the WSIB and the Ontario Pension Board. During 2018, we continued to transition and integrate select functions and resources related to our investment portfolio management with IMCO. This has resulted in a number of significant benefits over the past year, including:

- greater economies of scale;
- wider access to investment opportunities;
- increased diversification;
- enhanced risk management; and
- optimized internal and external investment management.

Investment performance is important to ensuring we have a strong financial foundation to continue to provide benefits to those who rely on us, while offering premium rate stability to Ontario businesses.

Operational highlights

Rate framework policies published in advance of implementation

In June, we published six new policies that will be used to govern the new premium rate-setting model that is set to be implemented on January 1, 2020. The policies were published well in advance of implementation to help businesses understand how they will be classified, how rates will be set and adjusted in the new model, and to prepare for the coming changes. In addition, all businesses registered with the WSIB were notified of their new classification information under the new model.

Higher claim volume

Registered claim volume has increased in each of the past three years. In 2018, we saw a 5% increase in registered claims compared to 2017 (210,863 Schedule 1 claims compared to 199,927). In particular, the number of lost-time claims increased in 2018 by 13%.

Fewer claims being locked-in

Once again in 2018, fewer claims were "locked-in" after 72 months than the prior year. The number of lock-ins decreased by 4% to 1,108 in 2018 from 1,153 in 2017.

Decision timeliness maintained

Even though more claims were registered in 2018, the time required to make eligibility decisions beat our target for the year. In 2018, we made 93% of eligibility decisions within two weeks, exceeding our target of 90%.

Also, 89% of appeals were resolved within six months, up 1% from 2017 and above the 87% target. We achieved this despite a 5% increase in the number of appeals registered with our Appeals Services Division.

Low level of permanent impairment

This year, 5.5% of claims experienced a permanent impairment compared to 5.9% in 2017. This is the lowest result in a decade.

Increase in the lost-time injury ("LTI") rate

There were more lost-time injuries per 100 workers in 2018 (0.99) than in recent years (2017 and 2016: 0.92), driven by the increase in lost-time claim volume. Even at 0.99, the rate remains low by historic standards and compared to other Canadian jurisdictions.

The LTI rate increased in 2018 in 11 of 16 industry sectors. Among the largest sectors, all but construction showed an increase, with the greatest increases in automotive (from 0.96 to 1.13) and health care (1.27 to 1.46).

Among Schedule 2 businesses, the LTI rate increased from 2.05 in 2017 to 2.22 in 2018.

Growth in short- and medium-term durations has slowed

More claims remained on benefits for longer in 2018 compared to 2017. However, durations of up to 12 months increased by less in 2018 than they did in 2017, which suggests that claim durations may be starting to stabilize. For instance, 3-month duration grew 0.8% in 2018, after growing 1.3% in 2017. 12-month duration grew 0.4% compared to 1.4% growth in 2017.

Longer-term durations remain stable

The percentage of claims requiring benefits at 48 months increased marginally, from 2.0% in 2017 to 2.1% in 2018. Meanwhile, 72-month duration was unchanged at 2.0%.

Improvements to benefits and services

Benefits for Chronic Mental Stress

In response to legislation that came into effect on January 1, 2018, we have been providing support and compensation for Ontarians experiencing work-related Chronic Mental Stress ("CMS"). We had the necessary policies and resources in place at the beginning of the year to effectively support people with eligible claims.

Mental health leadership training

We continue to lead by example on employee mental health. As we work towards the Gold level in Excellence Canada certification for mental health, we have now trained all of our senior leaders and 100% of our people leaders in the Leading a Mentally Healthy Workplace Program. As well, we provided specialized mental health training to our staff, to ensure they could provide proficient service for any CMS-related claims.

Launched the 2019 – 2021 Strategic Plan

In September, we released our new Strategic Plan (the "Plan"), which is guiding our work for the next three years. The Plan is built around making sure we deliver true public value to Ontarians. To do this, we must be able to respond positively to four key questions through all that we do:

- Are we making Ontario a safer place to work?
- Are we improving return-to-work and recovery outcomes for people with workplace injuries or illnesses in a compassionate way?
- Are we meeting our customers' service needs and expectations?
- Are we providing services in a financially responsible and accountable way?

Putting health and safety data in people's hands

Compass has become a popular online health and safety resource for people across the province. Compass allows people to view and compare health and safety statistics for individual workplaces across the province. It supports businesses to manage their risk and improve their health and safety performance. In 2018, we enhanced Compass so that people can compare health and safety statistics of businesses by industry, by rate group or by Schedule type, and added more options for searching and downloading results.

Helping people upload documents directly

People can now use our website to complete and upload claim-related forms and documents. We accept scanned or digitally photographed documents, making it easier for people to send us documents quickly and securely. Digitally uploading documents has reduced the time needed to process these documents and allows us to provide better, more efficient service.

Taking action on customer satisfaction

We are focused on reducing burden to make it easier to work with.

As noted above, in 2018 we introduced the ability for people to submit important documents online.

In 2018, 69% of those with workplace injuries and 76% of businesses were satisfied or very satisfied with their overall experience with the WSIB. These results, from our quarterly customer survey, were within our targets. Satisfaction results from the survey will continue to be used as a measure of success to ensure we are focusing on the areas that matter most to customers.

Measuring our operational results

	Strategic goal	Measure	2018 target	2018 results	
Health and Safety	Promote health and safety in Ontario workplaces	Lost-time Injury rate	0.90	0.99	The number of injuries or illnesses per 100 workers in Ontario increased compared to 2017 and fell short of the target set for 2018. Each of our largest industry sectors experienced employment growth, but even greater growth in the number of injuries/illnesses (with the exception of construction). To reverse this trend, we continue to work with our health and safety partners to increase workplace health and safety across the province. We released the first results from our award-winning Health and Safety Index to raise awareness of this issue and help direct improvement efforts. This year was also the second year of our Small Business Health and Safety Leadership Awards program, honouring small businesses excelling in health and safety in their workplaces. 2018 was also the second year since we launched Compass, our new data tool, an online resource that allows Ontarians to compare the health and safety statistics for businesses across the province.
Return-to-Work, Recovery and Fair Benefits	Achieve better return-to-work and recovery outcomes and administer benefits fairly	Return to work at 100% of pre-injury earnings within 12 months	92.0%	90.2%	Nine in ten people injured at work returned to work within 12 months with no wage loss in 2018. While this result continues to be strong, it is below our ambitious target of 92%. With the goal of improving on this important outcome, in 2018, the WSIB developed and launched an enhanced program to support safe, sustainable return to work following a workplace injury. The program emphasizes positive outcomes over process, offering a customer-centric experience and removing barriers. It contains six main elements: providing a customer-centric experience, focusing on “at risk” cases, optimizing our policies and procedures, delivering quality services, investing in a specialized workforce and strengthening our networks and partnerships.

Financial Sustainability	Eliminate the UFL and make Ontario's workers' compensation system financially sustainable	Sufficiency Ratio	99.8%	108.0%	In Q2 2018, the WSIB reported that the UFL had been eliminated and, for the first time in recorded history, we are over 100% funded. This milestone was achieved nearly a decade earlier than the legislated timeline of 2027. Because of the WSIB's strong financial position, we have been able to reduce the average premium rate for businesses three years in a row and ensure future benefits will be paid for anyone with a workplace injury or illness.
Innovation	Deliver service excellence, quality and care through innovation	Implementation of innovative solutions	Rate Framework on target at milestones	On target at milestones	Our new premium rate-setting model is set to be implemented on January 1, 2020. The WSIB continues to work hard to engage businesses in Ontario to ensure they are prepared for the coming changes. In Q2 of 2018, we released a set of six new policies that will govern the new model, such as how businesses will be classified and how premium rates will be set. The policies were released well in advance of their implementation to give businesses time to review and plan for the changes involved. In 2019, we will be increasing our education and outreach efforts for businesses all over the province to help them prepare for 2020.
Our People	Reach shared goals as a dedicated and collaborative team	Overall satisfaction with the WSIB	People with workplace injuries or illnesses: 68–72% Businesses: 75–79%	People with workplace injuries or illnesses: 69% Businesses: 76%	For 2018 as a whole, 69% of those with workplace injuries and 76% of businesses were satisfied or very satisfied with their overall experience with the WSIB. These results are within our targets and within range of long-term trends. The main challenges continue to be customers experiencing process complexities and communication difficulties. In September, we introduced an online tool for businesses, injured/ill people and health care providers to submit important documents online, making it faster and far more convenient for those without regular access to a fax machine. We're also committed to fixing the eServices issues raised in our customer surveys. Starting in summer 2019, the first of these fixes is set to be implemented, with more to follow.

Board of Directors' biographies

Elizabeth Witmer,

Chair, May 17, 2012 to May 16, 2020

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

Her leadership has been acknowledged with many awards such as the Queen's Golden Jubilee Medal and the Diamond Jubilee Medal, the Kitchener-Waterloo Citizen of the Year Award, the Asthma Society of Canada Innovation in Public Policy Award and the Doug Chalmers award for her commitment to workplace health and safety.

Elizabeth is a graduate of the University of Western Ontario and Althouse College of Education.

Thomas Teahen,

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

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

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

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

Mike Gallagher,

Member: March 26, 2014 to March 25, 2019

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

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

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

Raymond Hession,

Member: October 19, 2016 to October 18, 2019

Appointed Chair of eHealth Ontario's Board of Directors in 2010, Ray Hession has had wide experience in governance and management in the private, public, community service and broader health sectors. He is currently a director of HDR Inc., an Omaha, Nebraska-based engineering and architectural firm.

A graduate in economics from the Royal Military College, following military service, he entered the private sector, performing various marketing roles at IBM Canada. Joining Canada Mortgage and Housing Corporation in 1974, following his initial appointment as Executive Director, Management Information Systems, he served as its President and CEO, between 1976 and 1982.

Since 1982, he has served as Deputy Minister, Supply and Services Canada; Deputy Receiver-General and Deputy Minister, Regional Industrial Expansion; Chairman and CEO of XIOS Corporation, Paxport International Corporation; President of Hession, Neville and Associates; founding Chair of the Agency for Cooperative Housing and of the Ontario Health Quality Council; Chair of the Board of The Ottawa Hospital, The Rehabilitation Centre of Eastern Ontario, and the Royal Canadian Mint. He has also served as a trustee of the Royal Ottawa Health Care Group; and Fairness Commissioner for the development of the new Royal Ottawa Health Care Group facilities and the new Ottawa Convention Centre Corporation.

Ian Neita,

Member: December 20, 2018 to December 19, 2021

Ian Neita is currently Manager of Group Underwriting at one of Canada's leading insurers.

With almost 30 years of group underwriting experience (for insurers and reinsurers), Ian has priced disability benefits for groups of all sizes (3 – 5,000+).

Ian is a graduate of the University of Western Ontario.

Lea M. Ray,

Member: December 3, 2008 to December 2, 2019

Lea Ray is a certified director (ICD.D) of the Institute of Corporate Directors, at the Rotman School of Management, University of Toronto, and is a Chartered Professional Accountant. She holds a Bachelor of Commerce degree from the Odette School of Business, University of Windsor.

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

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

Sari Sairanen,

Member: September 24, 2008 to September 16, 2019

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

Prior to joining the National union, Sari was with the Airline division of Unifor, which represents members from coast to coast to coast in Canada.

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

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

Bryce Walker,

Member: January 23, 2017 to January 22, 2020

Bryce Walker brings with him a wealth of experience in health care and education governance. He is currently Chair of Faithlife Financial. He is past Vice-Chair of the Board of Trustees of the Healthcare of Ontario Pension Plan and past Chair of both Wilfrid Laurier University's Board of Governors and Grand River Hospital's Board of Directors.

Bryce Walker's professional experience includes his role as Senior Vice President of Group Benefits for Manulife Financial, from which he has retired. He has a Bachelor of Math degree from the University of Waterloo, is a Fellow of the Canadian Institute of Actuaries, a Chartered Financial Analyst and holds an ICD.D designation from Rotman School of Management.

Scott Wilson,

Member: December 5, 2012 to December 4, 2019

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

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

Management's responsibility for financial reporting

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

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

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

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

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

Thomas Teahen
President and Chief Executive Officer
April 18, 2019
Toronto, Ontario

Pamela Steer
Chief Financial Officer

Management's discussion and analysis

Table of contents

Section	Page
1. Our business	15
2. Our strategy	19
3. Financial highlights	20
4. Financial analysis	22
5. Changes in financial position	31
6. Reconciliation of the change in net assets (unfunded liability)	32
7. Summary of quarterly results	35
8. Liquidity and capital resources	37
9. Critical accounting estimates and judgments	39
10. Changes in accounting standards	41
11. Legal contingencies	43
12. Outlook for the year ending December 31, 2019	44
13. Internal control over financial reporting	45
14. Risk factors	45
15. Non-IFRS financial measure	52
16. Related party transactions	53
17. Forward-looking statements	54

1. Our business

Our mandate

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

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

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

How we are funded

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

Premiums

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

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

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

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

Investment returns

The WSIB also generates income through investment returns on our approximately $35 billion in invested assets as at December 31, 2018.

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

Investments

Our governance framework

We invest the portion of premiums collected but not required to be paid to or on behalf of people with work-related injuries or illnesses in the current year or to fund current operating expenses. As at December 31, 2018, we held $35 billion in investments to fund all future claims including the WSIB employee pension benefit obligations. Our investment strategy for these funds involves a prudent balance of income generation and capital appreciation.

Our governance framework operates in accordance with best practices for good governance as summarized below:

- Investment decisions that have the most impact on investment outcomes remain at the Board of Directors level. These decisions include establishing our overall governance framework and approving our investment beliefs and Statements of Investment Policies and Procedures ("SIPPs").
- The WSIB's SIPPs require that a detailed review of benefit liabilities and capital market assumptions be conducted no less frequently than every four years. This is to ensure that the long-term investment return objective, policy asset mix (which sets out the target allocations to various asset classes), and other provisions of the SIPPs remain relevant to the current and forecasted nature of the liabilities. These reviews inform changes to policies and strategies including changes to the SIPPs.
- With appropriate reporting and oversight, the Board of Directors delegates authority for certain matters to our Investment Committee, our senior management, and IMCO. The Investment Committee is appointed by the Board of Directors and consists of Board members and external advisers. The Investment Committee approves operational investment policies and investment strategies. Effective July 24, 2017, through an Investment Management Agreement, IMCO was delegated authority to implement the WSIB's investment strategies. IMCO and our investments are monitored by senior staff members under the direction of our Chief Investment Officer, President and Chief Executive Officer, the Investment Committee and, ultimately, our Board of Directors.
- Risk is inherent in each element of the investment decision-making process. Hence, risk management is an integral component of our governance framework. We believe the most significant investment risks to which we are exposed include market risk, credit risk, and liquidity risk. A discussion of our investment risks and mitigating strategies is contained in Section 14 – Risk factors in this MD&A and in note 12 in our consolidated financial statements. We use various financial and non-financial methods to assess, measure and monitor risk.

What we invest in

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

- ***Fixed income.*** Our fixed income portfolio includes bonds, debentures, and other fixed income securities. High quality fixed income investments provide safety, diversification and liquidity, particularly when economic conditions are weak, or when market or economic shocks precipitate a flight to lower-risk investments. Credit strategies are used to provide incremental return and diversification.
- ***Cash and money market.*** Cash and money market securities provide liquidity.
- ***Public equities.*** We invest in a diversified portfolio of domestic and international equities, or securities convertible into equity, to provide broad equity market exposure. Public equities are expected to provide higher investment returns than other asset classes over the long run, but exhibit a higher degree of variability in investment returns from year to year.
- ***Absolute return.*** Our absolute return portfolio includes investments in hedge funds, funds of hedge funds as well as foreign currency trading mandates. The objective of the absolute return strategy is to reduce overall investment volatility while maintaining return targets.

- ***Diversified markets.*** Our diversified markets portfolio provides a risk-controlled source of broad market returns across five asset classes. The strategy is executed through physical and derivative holdings of global equities, nominal bonds (developed and emerging markets), real return bonds, credit instruments and commodities.
- ***Real estate.*** We invest in real estate properties and investment funds diversified across office, retail, industrial, multi-residential and mixed-use properties located in Canada, the United States and internationally. Real estate provides us with a predictable source of income and is expected to keep pace over time with inflation.
- ***Infrastructure.*** Our global infrastructure portfolio consists of assets that provide essential services and facilities, many of which operate with regulated or monopolistic market positions. Revenues are generated typically under long-term contracts that offer stable long-term cash flows with long-term inflation sensitivity.

Claim costs

Types of claim payments

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

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

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

Provision for claims

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

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

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

Administration and other expenses

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

Legislated obligations and funding commitments

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

Grants program. The WSIB has a grants program, which supports practical, expert research studies and training initiatives delivered by professional individuals and organizations that address current and emerging challenges aimed at strengthening Ontario's workplace injury and illness insurance system now and in the future. In 2018, the WSIB awarded five research teams funding to conduct studies that may improve return-to-work and recovery outcomes for people who were injured or made ill at work.

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

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

2. Our strategy

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

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

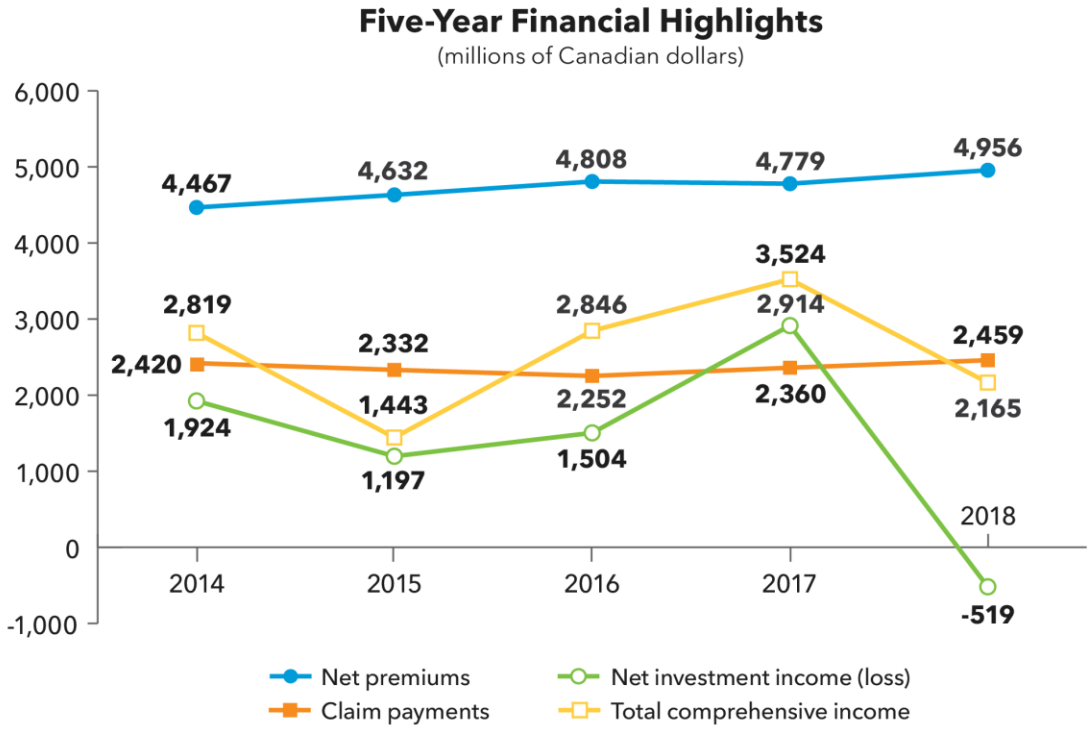
1. Promoting health and safety in Ontario workplaces;
2. Achieving better return-to-work and recovery outcomes and administering benefits fairly;
3. Eliminating the unfunded liability and making Ontario's workers' compensation system financially sustainable;
4. Delivering service excellence, quality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

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

Throughout 2018, the WSIB focused on executing our strategic objectives as well as setting our course for the next three years and creating a new strategic plan for 2019 until 2021.The new plan is designed to improve the public value we provide to Ontarians by reducing the disruption and devastation caused by workplace injuries and illnesses, while making Ontario a safer place to work. Our new strategic plan builds on our momentum and puts us on a clear path to achieve our vision to make Ontario the safest and healthiest place to work and set the standard for outcomes in recovery, return to work, occupational health care and claims decision-making.

3. Financial highlights

The following section should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2018 (the "consolidated financial statements").



Financial highlights for the year ended December 31, 2018 compared to the year ended December 31, 2017:

- In 2018, we generated $2,165 million of total comprehensive income primarily reflecting continued strong operating performance, the release of $1,080 million in benefit liabilities and other comprehensive income of $354 million partially offset by a net investment loss of $519 million. For the eighth consecutive year, we generated positive cash flow in our business as our premium revenues exceeded our operating expenses, thereby allowing us to transfer $1,275 million of cash generated from operating activities to our investment fund in 2018.
- Net premiums increased $177 million, or 3.7%, primarily reflecting higher gross Schedule 1 premiums attributable to a 6.3% increase in insurable earnings due to strong growth in the construction, health care, manufacturing, services and transportation industries, which more than offset the 3.3% reduction in the published 2018 premium rates, along with lower net payouts for mandatory employer incentive programs and higher reimbursement of administrative fees from Schedule 2 employers.
- Net investment income decreased by $3,433 million from $2,914 million to result in a net loss of $519 million. The return on investments was a negative return of 0.7% in 2018 compared to a positive return of 10.7% in 2017. We caution readers that current investment returns are not a reflection of expected future performance, and caution should be exercised in projecting investment income results into the future based on our current results.
- Claim payments increased $99 million, or 4.2%, primarily reflecting higher loss of earnings payments and health care costs, partially offset by lower workers' pensions and future economic loss claim payments.

- The actuarial valuation of benefit liabilities decreased $1,080 million to $27,210 million, reflecting the refinement of valuation assumptions, primarily a discount rate increase from 4.50% to 4.75% and the release of the retroactive provision for Chronic Mental Stress (“CMS”) benefits of $672 million.
- As expected, administration and other expenses, before allocation to claim costs, increased by $93 million, or 11.6%, reflecting $36 million of higher employee benefit plans expenses, $32 million of higher other operating expenses, $16 million of higher salaries and short-term benefits expenses, and $9 million of higher depreciation and amortization expenses.
- Other comprehensive income was $354 million, primarily attributed to the increase in the employee benefit plan’s discount rate and translation gains from net foreign investments, partially offset by lower-than-expected returns on pension plan assets.
- Our net assets on a Sufficiency Ratio basis were $2,550 million as at December 31, 2018, an increase of $3,899 million, or 100+%, since December 31, 2017.

4. Financial analysis

Financial results

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

(millions of Canadian dollars)	2018	2017	Change $	Change %
Revenues				
Net premiums	4,956	4,779	177	3.7
Net investment income (loss)	(519)	2,914	(3,433)	(100+)
	4,437	**7,693**	**(3,256)**	**(42.3)**
Expenses				
Total claim costs	1,827	3,147	(1,320)	(41.9)
Loss of Retirement Income Fund contributions	56	56	-	-
Administration and other expenses	474	409	65	15.9
Legislated obligations and funding commitments	269	252	17	6.7
	2,626	**3,864**	**(1,238)**	**(32.0)**
Excess of revenues over expenses	**1,811**	**3,829**	**(2,018)**	**(52.7)**
Total other comprehensive income (loss)	354	(305)	659	100+
Total comprehensive income	**2,165**	**3,524**	**(1,359)**	**(38.6)**
Other measures				
Core Earnings[1]	1,250	1,285	(35)	(2.7)
Return on investments[2]	(0.7%)	10.7%	n/a	(11.4%)
Net assets (unfunded liability)[3, 4]	1,484	(710)	2,194	100+
Net assets (unfunded liability) – Sufficiency Ratio basis[4]	2,550	(1,349)	3,899	100+
Sufficiency Ratio[4]	108.0%	95.8%	n/a	12.2%

1. Core Earnings is calculated as total comprehensive income, excluding the impacts of investment-related items, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 15 – Non-IFRS financial measure.
2. Return on investments is the investment income (loss), net of transaction costs and withholding taxes, generated over a given period of time as a percentage of the capital invested taking into account capital contributions and withdrawals.
3. Net assets (UFL) represent the net assets (deficiency of net assets) attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $4,642 million as at December 31, 2018 (2017 – $2,518 million) are allocated between the WSIB stakeholders and the non-controlling interests ("NCI") on the basis of their proportionate interests in the net assets of the WSIB. NCI represent the proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100% interest. NCI of $3,158 million as at December 31, 2018 (2017 – $3,228 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 net assets attributable to WSIB stakeholders as at December 31, 2018 was $1,484 million (2017 – deficiency of $710 million), which includes benefit liabilities. Refer to the consolidated statements of financial position for further details.
4. Refer to Section 6 – Reconciliation of the change in net assets (UFL) for further details.

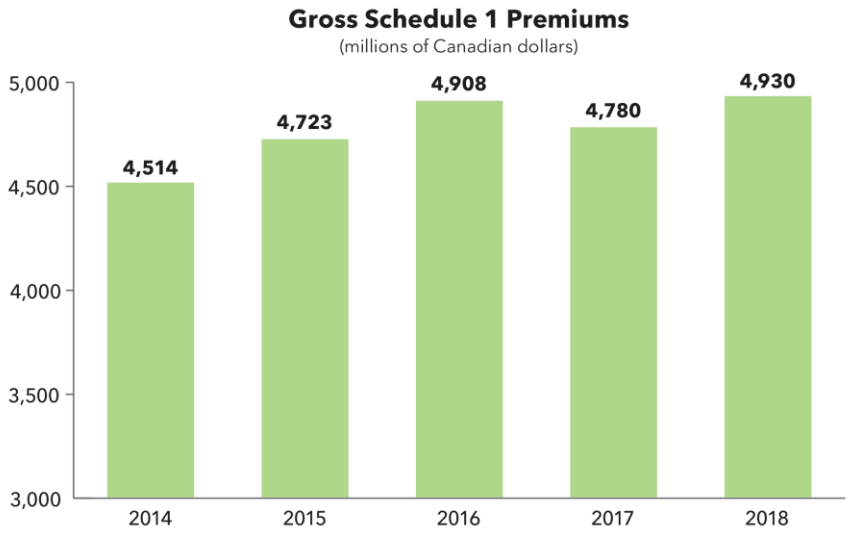
Net premiums

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

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Gross Schedule 1 premiums	4,930	4,780	150	3.1
Bad debts	(62)	(43)	(19)	(44.2)
Interest and penalties	69	63	6	9.5
Other income	3	1	2	100+
Schedule 1 employer premiums	**4,940**	**4,801**	**139**	**2.9**
Schedule 2 employer administration fees	88	78	10	12.8
Premiums	**5,028**	**4,879**	**149**	**3.1**
Net mandatory employer incentive programs	(72)	(100)	28	28.0
Net premiums	**4,956**	**4,779**	**177**	**3.7**

Gross Schedule 1 premiums increased $150 million, or 3.1%, reflecting a $294 million, or 6.3%, increase in insurable earnings driven by strong growth in the construction, health care, manufacturing, services and transportation industries, partially offset by a $144 million, or 3.0%, reduction in the realized average premium rate collected from employers as a result of the 3.3% reduction in the published 2018 premium rates.

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



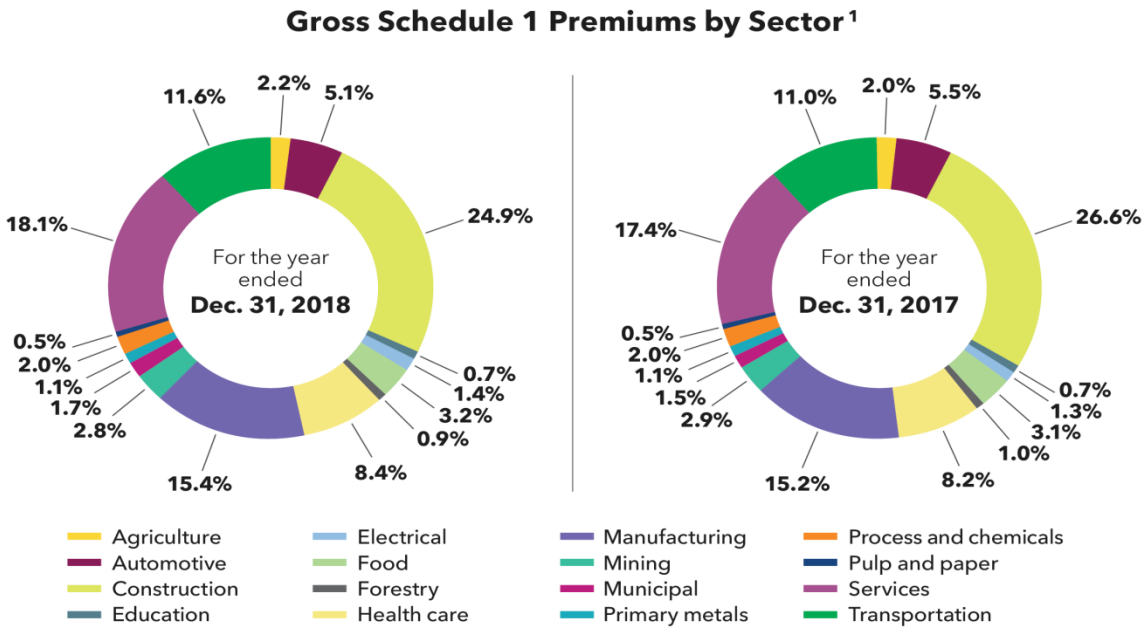
Net payouts for mandatory employer incentive programs decreased due to lower surcharges and rebates required under the retrospective experience-rating programs, principally the NEER program, reflecting employer claims experience.

A comparison of employment, insurable earnings and gross premiums for the year ended December 31, 2018, along with the percentage change from the prior year is as follows:

	Employment[1]		Insurable earnings		Gross premiums		
(millions of Canadian dollars)	**#**	**Change**	**$**	**Change**	**$**	**Change**	**% of total**
Industry Sector							
Agriculture	66,292	(1.2%)	2,409	10.9%	96	10.4%	2.2%
Automotive	165,515	3.6%	7,419	3.5%	226	(3.3%)	5.1%
Construction	426,686	0.7%	20,824	4.6%	1,108	(2.3%)	24.9%
Education	181,786	5.7%	7,494	7.1%	31	10.5%	0.7%
Electrical	91,173	4.7%	5,637	4.4%	62	10.9%	1.4%
Food	136,183	2.9%	5,226	6.2%	141	5.4%	3.2%
Forestry	10,013	(4.6%)	472	3.6%	41	(1.4%)	0.9%
Health care	609,337	0.8%	24,272	4.0%	372	6.2%	8.4%
Manufacturing	1,005,911	3.9%	41,377	7.8%	685	5.8%	15.4%
Mining	30,786	3.8%	2,054	5.4%	123	1.0%	2.8%
Municipal	46,228	5.2%	2,313	6.3%	74	11.5%	1.7%
Primary metals	35,151	7.9%	1,753	5.7%	50	5.5%	1.1%
Process and chemicals	112,805	2.5%	4,786	5.1%	91	5.5%	2.0%
Pulp and paper	16,840	(2.3%)	769	4.1%	23	2.9%	0.5%
Services	1,624,606	3.6%	54,267	10.1%	805	8.0%	18.1%
Transportation	264,662	3.2%	10,995	7.3%	514	9.3%	11.6%
Total	**4,823,974**	**3.0%**	**192,067**	**7.1%**	**4,442**	**4.0%**	**100.0%**
Premiums accrued but not reported			17,510	(1.3%)	488	(4.2%)	
Total			**209,577**	**6.3%**	**4,930**	**3.1%**	

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

The following charts display gross premiums by sector for the years ended December 31, 2018 and 2017:



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

Net investment income

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

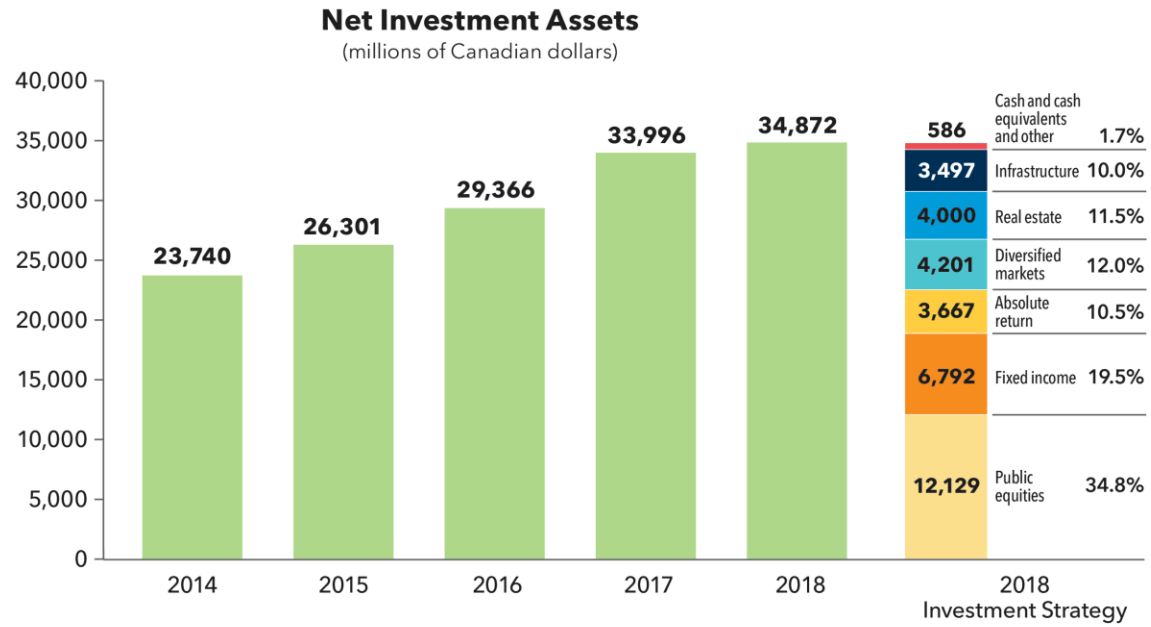
Investment strategy	2018				2017			
(millions of Canadian dollars)	Investment income (loss)	Return[1] %	Net asset value[2]	%	Investment income (loss)	Return[1] %	Net asset value[2]	%
Public equities	(561)	(4.9)	12,129	34.8	1,833	17.0	13,045	38.3
Fixed income	121	1.8	6,792	19.5	50	1.0	6,141	18.1
Absolute return	(98)	(1.0)	3,667	10.5	220	5.7	3,470	10.2
Diversified markets	(323)	(7.7)	4,201	12.0	460	13.2	4,441	13.1
Real estate	254	7.4	4,000	11.5	210	6.8	3,629	10.7
Infrastructure	312	10.8	3,497	10.0	314	15.8	2,574	7.6
Cash and cash equivalents	12	1.9	521	1.5	5	0.9	627	1.8
Other	-	-	65	0.2	-	-	69	0.2
Investment income (loss)	**(283)**	**(0.7)**	**34,872**	**100.0**	**3,092**	**10.7**	**33,996**	**100.0**
Investment expenses	(236)				(178)			
Net investment income (loss)	**(519)**				**2,914**			

1. Return percentages are based on investment income prior to adjustments such as translation gains and losses on net foreign investments.
2. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives within investment strategies.

2018 resulted in a net investment loss of $519 million compared to a net investment income of $2,914 million in 2017. Over 10 and 15 years, our investment returns prior to investment expenses were 6.2% and 7.2% per annum, respectively. Net investment income decreased by $3,433 million over last year, reflecting an overall negative return of 0.7% compared to a positive return of 10.7% in 2017. Public equity had a negative return of 4.9% due to poor performance of both Canadian and foreign equities. Infrastructure returns of 10.8% were driven by both capital and income returns and, while favourable, were below the 2017 returns of 15.8%. Diversified markets had a negative return of 7.7%, which was primarily driven by declines in global equity and energy commodities.

Past performance may not be indicative of future results. Our financial performance is heavily reliant on the amount of investment income we are able to generate as each 1% rate of return on investments represents approximately $346 million of net investment income equating to $0.16 of premium per $100 of insurable earnings, or about 7.0% of annual premiums.

The following chart displays the net asset values for the five consecutive years ended December 31 and the different components of net asset value for 2018:



Total claim costs

Total claim costs consist of:

- claim payments to or on behalf of people with work-related injuries or illnesses;
- claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and
- the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the dates of the consolidated statements of financial position.

A summary of total claim costs for the years ended December 31 is as follows:

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Claim payments	2,459	2,360	99	4.2
Claim administration costs	448	417	31	7.4
Change in actuarial valuation of benefit liabilities	(1,080)	370	(1,450)	(100+)
Total claim costs	**1,827**	**3,147**	**(1,320)**	**(41.9)**

Claim payments

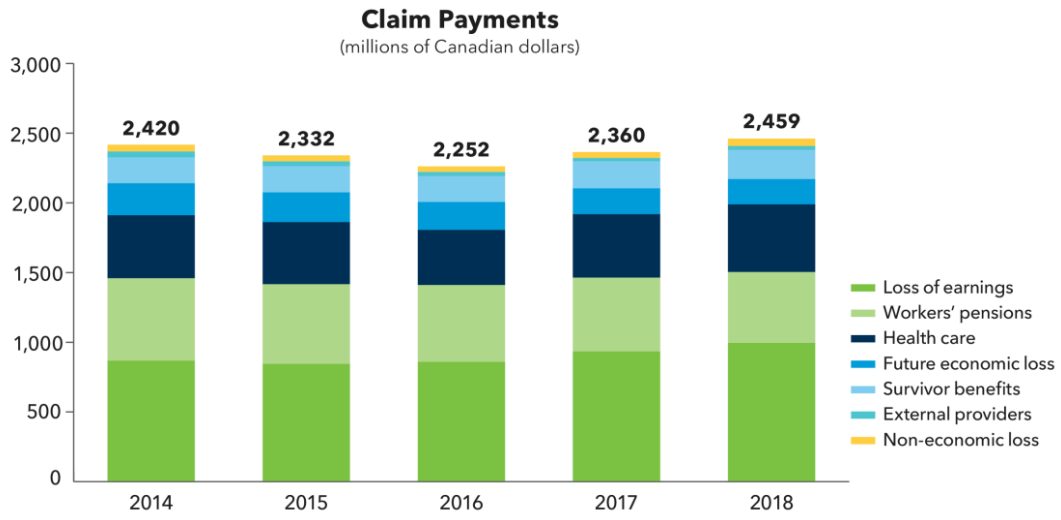
Claim payments represent cash paid during the year to or on behalf of people with work-related injuries or illnesses. Claim payments for the years ended December 31 are comprised of the following:

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Loss of earnings	991	929	62	6.7
Workers' pensions	515	526	(11)	(2.1)
Health care	484	455	29	6.4
Survivor benefits	209	194	15	7.7
Future economic loss	178	189	(11)	(5.8)
External providers	29	24	5	20.8
Non-economic loss	53	43	10	23.3
Total claim payments	**2,459**	**2,360**	**99**	**4.2**

A summary of the significant changes in claim payments for 2018 is as follows:

- Loss of earnings benefits increased primarily due to higher durations and new claim registrations for current injury year claims as well as higher claim durations for prior injury years.
- Workers' pensions decreased, reflecting the natural reduction of claims due to mortality.
- Health care expenses increased, reflecting the higher new claim volume as well as the higher cost of health services.
- Survivor benefits increased mainly as a result of retroactive payments in relation to newly allowed claims.
- Future economic loss benefits decreased, reflecting the natural reduction in the number of claimants reaching age 65, the age at which these benefits cease. This program has been discontinued.
- Non-economic loss benefits increased, reflecting the claim review initiative addressing pre-existing conditions.

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



Claim administration costs

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

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Allocation from administration and other expenses	419	391	28	7.2
Allocation from legislated obligations and funding commitments expenses	29	26	3	11.5
Total claim administration costs	**448**	**417**	**31**	**7.4**

For the year ended December 31, 2018, the change was attributed to higher costs for those expense items that are allocated to claim administration costs.

Change in actuarial valuation of benefit liabilities

Change in actuarial valuation of benefit liabilities represents the change in the present value of future payments for loss of earnings and other disability benefits, health care, survivor, labour market re-entry and claim administration related to claims that occurred on or before December 31, 2018, and for occupational disease claims expected to arise in the future as a result of exposures which were incurred in the workplace on or before December 31, 2018 in respect of occupational diseases currently recognized by the WSIB.

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Change in actuarial valuation of benefit liabilities	(1,080)	370	(1,450)	(100+)

For the year ended December 31, 2018, the change in actuarial valuation of benefit liabilities is detailed as follows:

(millions of Canadian dollars)	
Benefit liabilities as at December 31, 2017	**28,290**
Payments made in 2018 for prior injury years	(2,544)
Interest accretion[1]	1,214
Liabilities incurred for the 2018 injury year	1,587
One-time experience gain related to retroactive CMS claims[2]	(672)
Other experience losses	57
Valuation assumptions and methodologies change[3]	(722)
Benefit liabilities as at December 31, 2018	**27,210**
Change in actuarial valuation of benefit liabilities	(1,080)

1. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the year.
2. On December 14, 2017, passage of Bill 177 titled *Stronger, Fairer Ontario Act (Budget Measures), 2017* amended section 13 of the WSIA to provide CMS benefits for diagnoses on or after April 29, 2014. The legislated retroactive claims deadline was June 30, 2018. Because retroactive claims submitted and accepted up to this date were significantly lower than expected, the WSIB no longer holds a liability in respect of CMS claims for prior injury years. A one-time experience gain of $672 million was recognized.
3. Change in valuation basis includes:
   a. Updated loss of earnings data assumptions and methodologies, a decrease of $123 million;
   b. Updated methods and assumptions for future awards, an increase of $20 million;
   c. Updated methods and assumptions for health care and occupational diseases, an increase of $29 million; and
   d. Updated assumptions for discount rate, a decrease of $648 million.

Administration and other expenses

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

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Salaries and short-term benefits	443	427	16	3.7
Employee benefit plans	194	158	36	22.8
Depreciation and amortization	40	31	9	29.0
Other	216	184	32	17.4
	893	**800**	**93**	**11.6**
Claim administration costs allocated to claim costs	(419)	(391)	(28)	(7.2)
Total administration and other expenses	**474**	**409**	**65**	**15.9**

A summary of the significant changes in administration and other expenses, before allocation to claim costs, for the year ended December 31, 2018 is as follows:

- Salaries and short-term benefits increased $16 million, reflecting higher staffing levels as additional staff were hired to support CMS legislation and increases due to inflationary pressures.
- Employee benefit plans increased $36 million, reflecting a 45 basis point decrease in the discount rate used to value our pension obligations.
- Depreciation and amortization increased $9 million as the new accounts and claims management systems became operational.
- Other operating expenses increased $32 million, primarily reflecting new initiatives as part of our transformational efforts.

Legislated obligations and funding commitments expenses

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

			Change	
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**
Legislated obligations				
Occupational Health and Safety Act	107	102	5	4.9
Ministry of Labour Prevention Costs	110	110	-	-
	217	212	5	2.4
Workplace Safety and Insurance Appeals Tribunal	32	29	3	10.3
Workplace Safety and Insurance Advisory Program	15	16	(1)	(6.3)
Total legislated obligations	**264**	**257**	**7**	**2.7**
Funding commitments				
Grants	1	1	-	-
Safety program rebates	33	20	13	65.0
Total funding commitments	**34**	**21**	**13**	**61.9**
	298	**278**	**20**	**7.2**
Claims administration costs allocated to claim costs	(29)	(26)	(3)	(11.5)
Total legislated obligations and funding commitments	**269**	**252**	**17**	**6.7**

Legislated obligations and funding commitments expenses, before allocation to claim costs, increased by $20 million, reflecting higher safety program rebates, higher costs of the MoL to administer and enforce the OHSA and higher costs by the WSIAT for its caseload reduction initiative.

5. Changes in financial position

This section discusses the significant changes in our December 31, 2018 consolidated statements of financial position compared to year-end 2017.

			Change		
(millions of Canadian dollars)	**2018**	**2017**	**$**	**%**	**Commentary**
Assets					
Cash and cash equivalents	2,538	2,586	(48)	(1.9)	Decrease reflects improved efforts to direct resources to investment return generating initiatives. Refer to the consolidated statements of cash flows and Section 8 – Liquidity and capital resources for more details
Receivables and other assets	1,480	1,387	93	6.7	Increase primarily reflects higher investment receivables partially offset by lower surcharges on employer incentive programs
Public equity securities	12,548	13,414	(866)	(6.5)	Net change reflects performance of these asset classes and cash contribution from operating activities in 2018
Fixed income securities	7,634	6,800	834	12.3	
Derivative assets	159	342	(183)	(53.5)	
Investment properties	1,412	1,340	72	5.4	
Investments in associates and joint ventures	2,322	1,641	681	41.5	
Other invested assets	8,929	7,910	1,019	12.9	
Property, equipment and intangible assets	287	302	(15)	(5.0)	Decrease primarily reflects depreciation related to the accounts and claims management systems
Liabilities					
Payables and other liabilities	1,604	1,185	419	35.4	Increase primarily reflects higher investment payables, higher legislated obligations payable and higher administration expenses payable, partially offset by lower experience rating refunds payable
Derivative liabilities	448	88	360	100+	Increase largely reflects changes in our currency and futures positions within the investment portfolio
Long-term debt	114	115	(1)	(0.9)	No significant changes
Loss of Retirement Income Fund liability	1,867	1,915	(48)	(2.5)	Decrease reflects a net investment loss and disbursements in excess of contributions
Employee benefit plans liability	1,424	1,611	(187)	(11.6)	Decrease reflects actuarial gain due to financial assumption changes
Benefit liabilities	27,210	28,290	(1,080)	(3.8)	Decrease primarily due to the release of the retroactive provision for CMS benefits, increase in discount rate, lower loss of earnings claims and lower benefit liabilities for new injury year
Net assets (unfunded liability)	1,484	(710)	2,194	100+	Changes reflect total comprehensive income attributable to WSIB stakeholders
Net assets (unfunded liability) - Sufficiency Ratio basis	2,550	(1,349)	3,899	100+	Strengthening due to continued strong operating results
Sufficiency Ratio	108.0%	95.8%		12.2	

6. Reconciliation of the change in net assets (unfunded liability)

Premiums charged to employers are designed to offset the expected claims and associated administrative costs of injuries occurring in the current fiscal year as well as to retire an unfunded liability ("UFL"). Financial results are assessed for both the current injury year to ensure we are funding all current year costs as well as prior injury years to ensure that the funding requirements in *Ontario Regulation 141/12* as amended by *Ontario Regulation 338/13* (collectively, the "Ontario Regulations") are met. The UFL was retired in the second quarter of 2018, and the WSIB ended the 2018 year in a net assets position.

Set forth below is a segmentation of our financial results between the "Current injury year" for 2018 and "Prior injury years".

(millions of Canadian dollars)	Total	Current injury year	Prior injury years
Revenues			
Premiums[1]	5,028	3,122	1,906
Net mandatory employer incentive programs[2]	(72)	-	(72)
	4,956	3,122	1,834
Net investment income[3]	(519)	(7)	(512)
	4,437	**3,115**	**1,322**
Expenses			
Claim payments[4]	2,459	200	2,259
Claim administration costs[5]	448	219	229
Change in actuarial valuation of benefit liabilities[6]	(1,080)	1,587	(2,667)
	1,827	2,006	(179)
Loss of Retirement Income Fund contributions[7]	56	-	56
Administration and other expenses[8]	474	474	-
Legislated obligations and funding commitments[8]	269	269	-
	2,626	**2,749**	**(123)**
Remeasurements of employee benefit plans[9]	268	-	268
Translation gains from net foreign investments	86	-	86
Total comprehensive income	**2,165**	**366**	**1,799**
Non-controlling interests[10]	29	-	29
Total comprehensive income attributable to WSIB stakeholders	**2,194**	**366**	**1,828**

1. Calculated based on new claim and administration and other costs for the 2018 injury year.
2. Represents retrospective refunds arising from favourable experience for prior years.
3. The estimated current injury year's net investment income is calculated based on net cash flow reflecting premium revenues not required for claim payments and related expense in the current injury year.
4. Determined based on injury year for each payment.
5. Current year claim administration costs are calculated by applying appropriate expense factors to actual claims cash flows for the 2018 injury year.
6. Determined based on opening and closing liabilities by injury year.
7. Payments relate to prior years as Loss of Retirement Income Fund contributions are only made once a worker has been injured and on benefits for more than one year.
8. Relates entirely to current year.
9. Relates primarily to prior injury years.
10. Same proportionate split as net investment income.

As noted above, premium revenues for the current injury year were sufficient to offset current year injury and administration costs. We believe this result reflects our disciplined approach to premium rate setting and strong oversight of benefits and administration cost management. In addition, as a result of favourable claims experience and investment returns, we were able to eliminate the UFL in the second quarter of 2018.

Reconciliation of net assets (unfunded liability) on an IFRS basis

Set forth below is a reconciliation of the movement from the UFL position at December 31, 2017 to a net assets position at December 31, 2018 reflecting actuarial gains and losses as well as assumption and actuarial standard changes. A more detailed discussion of the actuarial gains and losses is contained in note 18 of the consolidated financial statements.

(millions of Canadian dollars)	
UFL as at December 31, 2017	(710)
Interest carrying charge on UFL[1]	(32)
Premium payment to reduce UFL	1,906
Expected net assets as at December 31, 2018	1,164
Experience gains (losses)	
Losses from investment return lower than expected[2]	(1,665)
Gains from remeasurements of employee benefit plans	268
Translation gains from net foreign investments	86
Gains and losses on claims/operations	
Current year claims cost lower than expected	366
Net mandatory employer incentive programs	(72)
Prior year claims cost lower than expected	615
Net actual losses	(402)
Changes in assumptions for future cost on existing claims	
Changes in discount rate	648
Changes in loss of earnings benefits	123
Changes in health care and occupational diseases	(29)
Changes in future awards	(20)
Net asset increase from assumption changes	722
Net assets as at December 31, 2018	**1,484**

1. The UFL represents the shortfall of current asset values from the discounted value of expected future payments in respect of injuries occurring in previous injury years. This shortfall represents an interest cost and must be taken into account in this reconciliation.
2. The discount rate at 2017 year-end was 4.5%. Investment experience, on an actuarial basis, was worse than the discount rate during 2018, leading to investment losses, which resulted to a decrease in the net asset.

As noted above, the change from a UFL position at December 31, 2017 to a net assets balance at December 31, 2018 was due to favourable movement of $2,194 million in 2018 reflecting the premium payment to reduce the UFL, strong operating performance other than investment returns and a decrease in benefit liabilities due to a change in the discount rate.

Reconciliation of the net assets (unfunded liability) on a Sufficiency Ratio basis

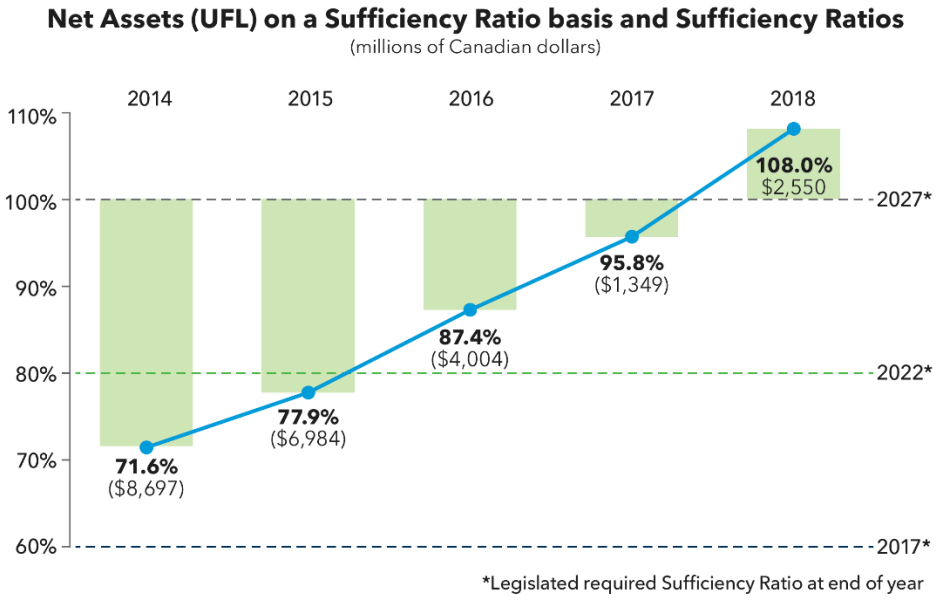
The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a different basis than that required under IFRS. For the purpose of the Sufficiency Ratio calculation, the amounts of total assets and total liabilities, as presented on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

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

As at December 31, 2018, the Sufficiency Ratio, as defined in the *Ontario Regulations*, was 108.0% (2017 – 95.8%). Set forth below is the reconciliation of the net assets (UFL) between the IFRS and Sufficiency Ratio basis:

(millions of Canadian dollars)	**December 31 2018**	**December 31 2017**
Net assets (UFL) attributable to WSIB stakeholders on an IFRS basis	1,484	(710)
Add (Less): Adjustments per Ontario Regulations:		
Change in valuation of invested assets	423	(1,720)
Change in valuation of employee benefit plans liability	694	925
Change in valuation of invested assets attributable to non-controlling interests	(51)	156
Net assets (UFL) attributable to WSIB stakeholders on a Sufficiency Ratio basis	**2,550**	**(1,349)**
Sufficiency Ratio	**108.0%**	**95.8%**

The following table displays the net assets (UFL) on a Sufficiency Ratio basis and Sufficiency Ratios for the five consecutive years ended December 31:



7. Summary of quarterly results

Selected financial information for the eight consecutive quarters ended December 31, 2018 is as follows:

	2018				2017			
(millions of Canadian dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net premiums	1,147	1,291	1,305	1,213	1,142	1,243	1,276	1,118
Net investment income (loss)	(1,306)	293	480	14	1,036	581	403	894
Claim payments	618	600	622	619	603	575	587	595
Claim administration costs	120	103	113	112	103	105	107	102
Change in actuarial valuation of benefit liabilities	(601)	(97)	(414)	32	296	(1)	(35)	110
Total claim costs	**137**	**606**	**321**	**763**	**1,002**	**679**	**659**	**807**
Loss of Retirement Income Fund contributions	14	13	15	14	14	14	14	14
Administration and other expenses	130	121	113	110	113	99	103	94
Legislated obligations and funding commitments	68	67	64	70	63	55	67	67
Excess (deficiency) of revenues over expenses	**(508)**	**777**	**1,272**	**270**	**986**	**977**	**836**	**1,030**
Total other comprehensive income (loss)	(44)	175	100	123	(306)	317	(243)	(73)
Total comprehensive income (loss)	**(552)**	**952**	**1,372**	**393**	**680**	**1,294**	**593**	**957**
Total comprehensive income (loss) attributable to WSIB stakeholders	**(435)**	**919**	**1,324**	**386**	**574**	**1,231**	**551**	**859**
Other measures								
Core Earnings[1]	197	387	378	288	246	395	398	246
Return on investments (%)[2]	(3.5)	0.9	1.6	0.4	3.5	2.0	1.5	3.4
Net assets (unfunded liability)[3, 4]	1,484	1,919	1,000	(324)	(710)	(1,284)	(2,515)	(3,066)
Net assets (unfunded liability) – Sufficiency Ratio basis[4]	2,550	1,596	653	(634)	(1,349)	(1,777)	(2,621)	(3,482)

1. Core Earnings is calculated as total comprehensive income excluding the impacts of investment-related items, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 15 – Non-IFRS financial measure.
2. Return on investments is the investment income (loss), net of transaction costs and withholding taxes, generated over a given period of time as a percentage of the capital invested, taking into account capital contributions and withdrawals.
3. Net assets (UFL) represent the net assets (deficiency of net assets) attributable to WSIB stakeholders as at the end of the reporting period. The total net assets of $4,642 million as at December 31, 2018 (2017 – $2,518 million) are 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 $3,158 million as at December 31, 2018 (2017 – $3,228 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 net assets attributable to WSIB stakeholders as at December 31, 2018 was $1,484 million (2017 – deficiency of $710 million), which includes benefit liabilities. Refer to the consolidated statements of financial position for further details.
4. Refer to Section 6 – Reconciliation of the change in net assets (UFL) for further details.

Notable items affecting our fourth quarter 2018 results compared to the fourth quarter 2017 results are as follows:

- Net premiums were $1,147 million compared to $1,142 million, an increase of $5 million, or 0.4%, reflecting a $24 million increase in gross Schedule 1 premiums, offset by a $24 million decrease in net payouts for mandatory employer incentive programs and a $5 million net change in other items.
- The fourth quarter of 2018 resulted in a net investment loss of $1,306 million representing a negative return of 3.5% compared to a net income of $1,036 million and a positive return of 3.5%, a decrease of $2,342 million primarily attributed to losses in public equities and diversified markets.
- Claim payments were $618 million compared to $603 million, an increase of $15 million, or 2.5%, primarily due to higher loss of earnings and health care costs.
- Claim administration costs were $120 million compared to $103 million, an increase of $17 million, or 16.5%, representing the allocations of administration and other expenses and legislated obligations and funding commitments expenses to claim costs.
- Administration and other expenses, before allocation to claim costs, were $242 million compared to $208 million, an increase of $34 million, or 16.3%, reflecting a $16 million increase in other operating expenses, $13 million increase in employee benefit plans expenses and $5 million increase in salaries and short-term benefits expenses.
- Legislated obligations and funding commitments, before allocation to claim costs, were $76 million compared to $71 million, an increase of $5 million, or 7.0%, reflecting higher safety program rebates.

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 and average wages of the industries we insure. Additionally, net investment income is influenced by volatile global capital markets. We anticipate the volatility in net investment income will continue in 2019.

Refer to Section 4 – Financial analysis for a discussion of the current annual results.

8. Liquidity and capital resources

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

Our funds are primarily used to satisfy claim payments and operating expenses. As at December 31, 2018, we held $2,538 million of cash and cash equivalents, of which $2,280 million was held for investing purposes and $258 million was held for operating purposes.

(millions of Canadian dollars)	2018	2017
Cash and cash equivalents, beginning of year	2,586	2,496
Cash provided by operating activities	1,350	1,260
Cash required by investing activities	(1,314)	(1,154)
Cash required by financing activities	(84)	(16)
Cash and cash equivalents, end of year	**2,538**	**2,586**

A summary of the significant changes in cash and cash equivalents for the year ended December 31, 2018 is as follows:

- Cash provided by operating activities was $1,350 million compared to $1,260 million in 2017, reflecting an increase in cash from higher amounts collected on receivables (excluding investments) and a decrease in amounts paid on payables.
- Cash required by investing activities was $1,314 million compared to $1,154 in 2017, reflecting an increase in deal flow in real estate and infrastructure investments offset by the increase of dividend and interest received.
- Cash required by financing activities was $84 million compared to $16 million in 2017. The increase in cash required for financing activities is mainly due to lower proceeds on the disposition of non-controlling interests in the period compared to the prior period and smaller distributions paid by subsidiaries to non-controlling interests, combined with an increase in cash used in the repayment of a demand loan held by a subsidiary.

Credit facilities

We maintain and use a $150 million unsecured line of credit with a commercial bank for general operating purposes. There were no outstanding borrowings under this credit facility as at December 31, 2018.

Commitments

(a) Lessee

The future aggregate minimum lease payments are as follows:

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

(i) Simcoe Place

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

(ii) Investment properties

The WSIB has two operating leases for investment properties. One of the leases has a remaining lease term of 33 years; the other has a remaining lease term of 69 years.

(iii) Office space and computer equipment

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 8 years.

During the year ended December 31, 2018, operating lease payments of $6 (2017 – $5) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

(b) Lessor

(i) Investment properties

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

(millions of Canadian dollars)	Within 1 year	2 – 5 years	Over 5 years	Total
Investment properties	63	213	181	**457**

(c) Mortgages

As at December 31, 2018, future principal payments on mortgages were as follows:

(millions of Canadian dollars)	Within 1 year	2 – 5 years	Over 5 years	Total
Mortgages	-	-	70	**70**

(d) Investment commitments

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

(millions of Canadian dollars)	2018	2017
Investment funds, infrastructure and real estate related investments	2,057	2,142
Investments in associates and joint ventures	80	88
Purchases or development of investment properties	32	48
Total investment commitments	**2,169**	**2,278**

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

(e) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2018 were approximately $274 million for 2019.

(f) Other commitments

As at December 31, 2018, the WSIB had additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $153 million (2017 – $159 million).

9. Critical accounting estimates and judgments

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

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

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

Benefit liabilities and claim costs

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

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

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

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

Employee benefit plans

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

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

10. Changes in accounting standards

(a) Standards adopted during the current year

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

The WSIB adopted IFRS 15 effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for items such as financial instruments, insurance contracts, and leases. The impact of IFRS 15 is limited to the WSIB’s revenue from the services provided to Schedule 2 employers and one-time gains on disposal of investment properties and property and equipment. Based on the nature of the WSIB’s revenues, the adoption of IFRS 15 did not have a material impact on the WSIB’s consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”)

The WSIB adopted IFRIC 22 effective for annual periods beginning on or after January 1, 2018. IFRIC 22 clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The adoption of IFRIC 22 did not have a material impact on the WSIB’s consolidated financial statements.

Annual Improvements to IFRSs 2014 – 2016 Cycle

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IAS 28 *Investments in Associates and Joint Ventures* effective January 1, 2018. The adoption of this amendment did not have a significant impact on the WSIB’s consolidated financial statements.

Amendments to IAS 40 *Investment Property* (“IAS 40”)

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

(b) Future changes in accounting standards

The following new or amended accounting standards have been issued by the IASB but are not yet effective.

IFRS 16 *Leases* (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a retrospective or a modified retrospective basis. The adoption of IFRS 16 is not expected to have a significant impact on the WSIB’s consolidated financial statements.

Amendments to IAS 19 *Employee Benefits* (“IAS 19”)

In February 2018, the IASB issued amendments to IAS 19 which require entities to use updated assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB’s consolidated financial statements.

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

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

Annual Improvements to IFRSs 2015 – 2017 Cycle

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

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

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. The WSIB will adopt the standard on the effective date of January 1, 2021; however, the IASB is considering deferring the effective date one year to January 1, 2022. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

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

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

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

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

The WSIB will defer IFRS 9 until January 1, 2021, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4 for companies whose activities are predominantly related to insurance (that is, insurance liabilities represent more than 80% of total liabilities). However, the IASB is considering deferring the effective date one year to January 1, 2022. Based on the nature of the WSIB's financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB's consolidated financial statements as most of the WSIB's financial instruments are measured at fair value.

Amendments to IFRS 3 *Business Combinations* ("IFRS 3")

In October 2018, the IASB issued amendments to IFRS 3, which clarify that to be considered a business, an acquired set of activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* (“IAS 1”) **and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** (“IAS 8”)

In October 2018, the IASB issued amendments to IAS 1 and IAS 8. The amendments clarify the definition of “material”. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the WSIB’s consolidated financial statements.

11. Legal contingencies

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

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

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

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

12. Outlook for the year ending December 31, 2019

The following contains forward-looking statements about the outlook for our business. Reference should be made to Section 17 – Forward-looking statements at the end of this MD&A. For a description of risk factors that could cause our actual results to differ materially from the forward-looking statements, please also see Section 14 – Risk factors in this MD&A and note 12 in our consolidated financial statements.

Premiums

Premium revenues are anticipated to decrease in 2019, reflecting the 29.8% reduction to the average premium rate, partially offset by moderate growth in insurable earnings and lower net payouts for mandatory employer incentive programs. The increase in insurable earnings is driven by an assumed 1.25% employment growth and a 2.0% increase in average wages.

Net investment income

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

Claim payments

Claim payments are anticipated to be higher than the level of claim payments in 2018. We caution readers that the level of claim payments may rise in part due to new types of compensable claims.

Administration and other expenses

Administration and other expenses are anticipated to increase in 2019 reflecting increases to information technology costs.

Legislated obligations and funding commitments

Legislated obligations and funding commitments are anticipated to decrease reflecting lower WSIAT costs.

Net assets

We anticipate the net assets position will continue to increase, based on current funding and benefit levels and employer contributions, as measured under current accounting and actuarial standards.

13. 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.

14. Risk factors

The WSIB closely monitors enterprise risks that may impact the achievement of strategic objectives and undertakes continuous engagement with leaders to assess and adjust risk mitigation activities and controls. The Board of Directors, the Governance Committee and senior executives receive quarterly reports of significant enterprise risks. Highlights of some of these risks are discussed below.

Reporting in accordance with IFRS 7

The shaded text in the following sections represents our disclosures on investment, liquidity, credit and market risks in accordance with IFRS 7 *Financial Instruments: Disclosures*, and includes a discussion on how we measure risk and our objectives, policies and methodologies for managing these risks. The shaded text represents an integral part of our consolidated financial statements for the year ended December 31, 2018 and does not imply that these disclosures are of any greater importance than the non-shaded text.

Insurance funding

We face two main insurance funding risks:

- Underfunding risk – the WSIB may not be able to maintain 100% funding, which affects the sustainability of benefits for people with work-related injuries or illnesses; and
- Overfunding risk – we hold funds in excess of a sustainability reserve. There is a risk of inconsistent decision-making on what to do with any surplus funding.

Our Sufficiency Ratio is now 108.0%, meaning that the risk of underfunding is low. This could change if new benefits with a significant retroactive impact are legislated. Overfunding risk is moderate. The WSIB will need to monitor and examine this new funding position to ensure overfunding does not become an issue.

One of our main priorities is to safeguard benefits and offer premium rate stability for businesses in the event of future economic shocks. We will review funding parameters, pricing and investment decisions to prepare for adverse economic conditions. We are already updating our Strategic Investment Plan that will continue into 2019 and support the mitigation activities of insurance funding risk.

The retirement of the unfunded liability allowed us to focus on reducing premium rates, specifically the phased elimination of the past claims cost. This may bring greater focus on the administrative cost of the WSIB's expenses, in proportion to its premiums, even though WSIB's rate is slightly below the median when compared to other workplace insurance boards across the country. This has operational implications.

We are already planning for transformational activities and service delivery improvements to enhance our customer experience and drive efficiencies that influence administrative costs.

Our mitigation of the risk includes:

(a) Premium revenue:

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

(b) Benefit liabilities:

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

(c) Investment revenue:

- Conducting periodic asset-liability studies to ensure that the long-term investment objective, policy asset mix, and other provisions of the SIPPs remain relevant to the current and forecasted nature of the liabilities under a wide range of capital markets scenarios;
- Developing an approach for Supplier Relationship Management activities and a performance scorecard with IMCO;
- Monitoring the capital markets and assessing actual investment performance relative to the WSIB's long-term investment return objective and policy asset mix; and
- Managing other financial risks which could impact revenues, specifically liquidity risk, credit risk and market risk. These risks are discussed below.

(i) Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting payment obligations when due through operational cash flows or sales of financial assets without incurring financial loss.

We mitigate this risk by:

- Monitoring and assessing operational cash flows and payment obligations and ensuring funds are available at appropriate times;
- Maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities; and
- Maintaining a $150 million unsecured credit facility.

(ii) Credit risk

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

We are exposed to credit risk in several ways including:

- Risk that our fixed income investments may become impaired;
- Counterparty risk relating to our securities lending, foreign currency hedging and derivatives in various asset classes, and annuity agreements with Canadian life insurance companies; and;
- Credit loss due to Schedule 1 employers not settling their premiums receivable and Schedule 2 employers not reimbursing us for their respective claim costs.

We mitigate our credit risk by:

- Reducing concentration risk by holding a diversified portfolio of debt instruments including a predominant component that is invested in high-credit-quality bonds;

- Appointing an experienced agent to manage the securities lending program including the management of borrower credit risk through daily marking-to-market and full collateralization with an additional margin for safety, and receiving an indemnity from the financial institution that manages the securities lending program;
- Setting minimum requirements for counterparties' credit ratings, diversification of counterparties, and monitoring of counterparties and exposures; and
- Monitoring premiums receivable from Schedule 1 employers and holding collateral from some Schedule 2 employers in the form of either letters of credit issued by highly rated financial institutions, or surety bonds issued by highly rated insurance companies.

(iii) Market risk

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

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

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

- Using foreign exchange contracts to hedge a portion of currency exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception;
- Reviewing interest rate risk through periodic asset-liability studies to determine the appropriate duration for fixed income investments in view of the impact of different interest rate scenarios on our assets and liabilities over a period of time; and
- Reviewing price risk through the periodic asset-liability studies to determine the appropriate policy asset mix (the target allocations to the various asset classes), in view of the level of risk we are willing to assume. The policy asset mix is the primary determinant of the portfolio's level of market risk. Our investment portfolio is further diversified in accordance with our investment policies to reduce the portfolio's exposure to a change in price in any particular issuer, group of issuers, geographic region, or sector of the market.

Management of claims

At the WSIB, we aim to manage claims to allow for optimal recovery and return to work outcomes for people with work-related injuries or illnesses. Any increases in volumes and claims complexity — such as possible reversing of previous claims decisions due to emerging science and evidence — places pressure on the existing claims management model. Also, delays in accessing timely health care treatment and return to work services could lead to longer claim durations, the development of permanent impairments and ultimately increased claims costs.

In July 2018, the WSIB introduced operating model changes with a focus on rehabilitation and early intervention. Some of the enhancements to the operating model included:

- Triaging claims earlier and more frequently to drive faster connections to return to work and recovery support;
- Introducing a new workforce management plan to allocate cases provincially based on available capacity; and
- Modernizing payment processing to increase efficiency and improve customer experience.

While these efforts resulted in short-term duration and LTI rates stabilizing, albeit at higher levels when compared to previous years, we experienced challenges in the form of increased call volumes and longer call wait times for customers. We adjusted resourcing and added staff to the live call service, which resulted in wait times reverting to acceptable levels.

We prepared and allocated staff to deal with CMS claims. The number of claims was less than expected. While there has been public scrutiny related to the low acceptance rate for these claims, we are confident that claims are being administered in accordance with legislation and policy.

Enterprise compliance

There is a risk of non-compliance with laws, regulations, government policies and directives or organizational standards and policies, which may lead to reputational/brand damage, adverse events that significantly disrupt business operations, financial costs, or criminal or civil fines and penalties. We have developed an overarching compliance framework to monitor and provide assurance with respect to our level of compliance with requirements such as laws and regulations. We initiated the following mitigation activities:

- The Enterprise Compliance Program, which has matured over the course of 2018;
- Developed a compliance policy, new tools and processes supported by Compliance Teams; and
- Legislative mapping is complete and monitoring and testing of programs is tracking to plan.

Program and project delivery

Our aim is to deliver projects on time, on budget, and within an identified scope that meets our strategic priorities and enhances our value. Over the past 12 months, the WSIB has focused on mitigating challenges related to these goals by strengthening our project management through a centralized approach.

This centralized approach has streamlined and strengthened project governance, oversight and execution, and ensures each project fits our strategic priorities. The WSIB's Enterprise Project Management Office ("EPMO") experienced capacity constraints in 2018 as resourcing demands exceeded the existing supply of staff. This led to leadership gaps and meant that some programs/projects were delayed.

Over the past year, we introduced the following mitigation activities:

- Transitioning the EPMO to a centralized model integrating portfolio governance with program/project delivery;
- Addressing concerns over recruitment, program leadership and resource and capacity constraints;
- Reviewing costing, deliverables and timelines for corporate projects, making necessary adjustments;
- Revising the gating model for corporate projects providing for improvement of portfolio governance;

- Creating a cross-functional intake group to support the triaging of new projects/initiatives;
- Developing delivery-focused playbooks to guide and standardize tools, templates and processes; and
- Enhancing collaboration between enterprise risk management and enterprise portfolio management.

Workforce

As the WSIB evolves, we may experience workforce, leadership, capacity and engagement challenges to deliver our vision and strategic objectives.

The following are risk mitigation activities undertaken in 2018:

- Developed retirement readiness assessment tools to support workforce planning;
- Implementation of the Enterprise Resource Plan is underway to ensure proper coordination of recruitment;
- Development of the 2019-2021 People Plan in support of the 2019-2021 Strategic Plan;
- Planning activities underway for the upcoming Collective Bargaining Agreement in 2020; and
- Developed a self-assessment tool that business areas can leverage to guide proper deployment of resources.

Business continuity management

Our stakeholders rely on our ability to provide services and operate our system without interruption. Our continuity of business may be subject to risks such as disruptions that lead to a failure to recover and maintain business continuity, due to inadequacies in business continuity plans and their execution, including IT disaster recovery plans and capabilities. Through 2018, the WSIB's business continuity program has continued to mature to address the needs for service continuity for our critical operations.

In preparation for a potential service disruption, the WSIB reviewed service options and processes to minimize the effects of a possible strike by Canada Post in 2018. As the WSIB mails over 1,000 cheques a day to people with work-related injuries or illnesses, this strike had the potential to severely disrupt our operations and those who rely on our support. When the postal strike took place in late 2018, its effects on the WSIB's daily operations were minimal due mainly to proactive measures taken by the WSIB that included alternative arrangements for direct deposit and the creation of in-person cheque pickup locations across the province.

The absence of a Disaster Recovery Plan for legacy applications presents a continuing high risk to WSIB. The Business Continuity Management ("BCM") Program identified key business processes across the organization, which have been exercised through various incidents. This allowed the related business continuity plans to identify the key dependencies and interdependencies related to IT applications and systems, other business processes, and business areas. Business areas are now reassessing their business processes to account for dependencies on third-party vendors and system applications. This will then allow us to map critical business processes to essential services provided by third-party vendors and understand the plans that need to be in place to support our operations in the event of a business disruption.

Our mitigation of these risks includes:

- Development and approval of a new BCM Policy;
- Launch of the BCM Program and its three-year cycle of exercises;
- Internal Audit's review of the BCM function with development of an action plan in response;
- Continued efforts to update business continuity plans with key vendors and applications; and
- Completed 2018 Emergency Management Exercise with senior executives leading to approval of action plans.

Information technology

We rely on multiple technologies and third parties to provide key components of our infrastructure. At the beginning of 2018, concerns associated with this risk included the pace of legacy information technology ("IT") system decommissioning, which may hinder business growth objectives, and the deficiencies in our IT security. The IT Security Roadmap (2019-2025) is currently being developed to address cyber security risk. This roadmap will address recent findings from internal and external assessments, in addition to maintaining vigilance against ever-changing cyber security threats. The other component of IT risk, resulting from our use of legacy systems, will continue to remain high until these systems are decommissioned. We also expect greater reliance on IT to continue to support and advance technologies to meet new business requirements.

The following are key risk mitigation activities undertaken in the course of the year:

- Development of the IT Security Breach/Threat Protocol and its subsequent presentation to the Board of Directors;
- Development of the new IT Security Roadmap in response to internal and external assessments;
- Development, approval and implementation of the IT Asset Management Policy;
- Roll-out of Windows 10, Office 365 and implementation of Service Now to enable facilities requests; and
- Planned remediation of high-risk applications completed for 2018, and funding has been secured for 2019.

Third-party vendors

Third-party vendors are used to extend our organizational capability and capacity; however, they also extend risk exposure. There is a risk that the lack of an adequate enterprise-wide approach to management of all significant third-party relationships may result in failure of third-party performance, compliance and/or delivery.

A current state assessment of contract management practices that was conducted in 2018 indicated variability in contract management maturity levels across the organization. Mitigation activities are being developed by each line of business to address the specific weaknesses in their areas towards the development of standardized vendor performance measures and an overarching Vendor Management Framework to manage third-party risk on an end-to-end basis.

In 2018, we recognized that insurance requirements in support of third-party relationships were managed on an ad-hoc basis across the organization. There was no systematic enterprise-wide view of managing third-party risk through insurance. In response, we developed a tool to inform business areas on adequate insurance provisions to include in contractual agreements with vendors and thereby enable efficient decision-making on insurance requirements.

The following are a list of our third-party risk mitigation activities:

- Development and roll-out of the Strategic Procurement Planner;
- Introduction of the Contract Management System on ServiceNow;
- Revision of the WSIB's Procurement Policy, which is near completion to align with new trade agreements;
- Partnership with Emergency Management and Business Continuity teams to identify vendors supporting critical business processes; and
- Development of an Insurance Framework for third-party vendors.

Legislative and regulatory change

Our business is subject to legislation and regulations, and changes may impact the organization's funding levels. Any amendments to the WSIA or other legislation could require us to make adjustments to our business processes. The risk remains that new requirements may be introduced that would present implementation challenges based on the scope and implementation requirements, and that such changes may materially impact organizational plans, or create new financial stress.

Our mitigation of the risk includes:

- Effective coordination on WSIA related matters with proactive engagement/relationship management;
- Legislatively driven policy updates on medical assistance in dying, post-traumatic stress disorder and firefighter coverage;
- Engagement on potential legislative amendments to address concerns such as funding impact and non-compliance; and
- Anticipation of the new provincial government's review of the WSIB and our ongoing cooperation.

Change management

The rapid pace of change that we are experiencing is expected to increase as we plan to change our business and improve our customer service. There are a number of initiatives currently underway to help us achieve our objectives. Accordingly, there is a risk that we exceed our capacity for change or we fail to manage change appropriately. Early findings from the Enterprise Change Management ("ECM") program have identified that some key projects and initiatives require dedicated change management resourcing to successfully deploy the scope of their work but have yet to have this need fulfilled. The following are key risk mitigation activities undertaken in the course of the year:

- The ECM program was operationalized with an approved operating model;
- Recruitment resources for the ECM office were completed;
- Commencement of change needs assessment of critical projects;
- Roll-out of the monthly ECM Insight Report; and
- Implementation of bi-weekly scrum sessions with business areas and projects.

15. Non-IFRS financial measure

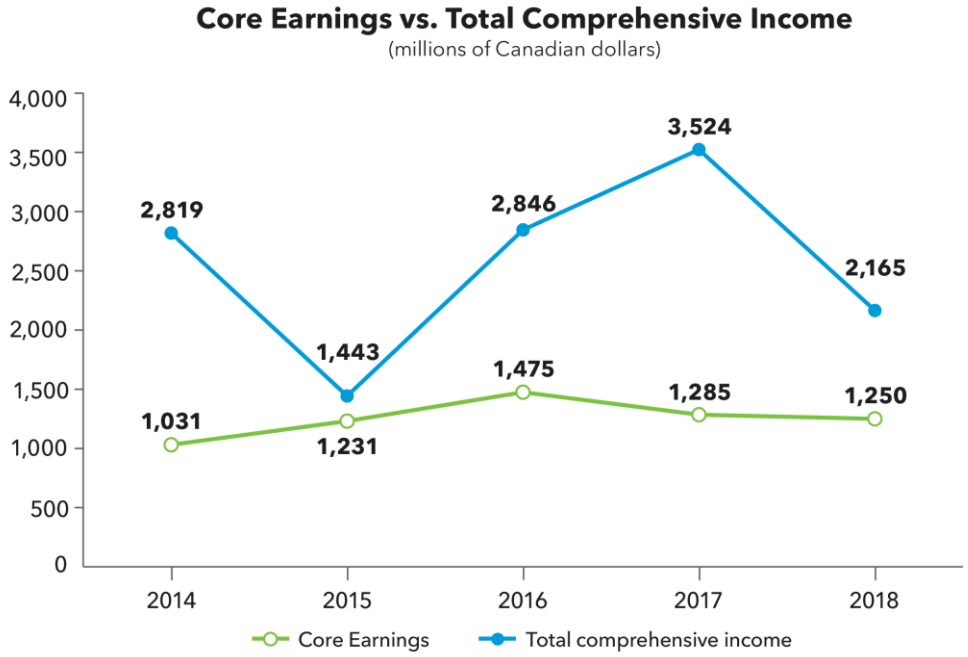
Core Earnings

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

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

(millions of Canadian dollars)	**2018**	**2017**
Total comprehensive income for the year	2,165	3,524
Add (Less): Net investment loss (income)	519	(2,914)
Add (Less): Translation losses (gains) from net foreign investments	(86)	32
Add (Less): Change in actuarial valuation of benefit liabilities	(1,080)	370
Add (Less): Change in actuarial valuation of employee benefit plans	(268)	273
Core Earnings	**1,250**	**1,285**

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



16. Related party transactions

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

Government of Ontario and related entities

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

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser. The WSIB also provides various grants and funding to carry on investigations, research and training. The total of this funding for the year ended December 31, 2018 was $265 million (2017 – $258 million) and is included in legislated obligations and funding commitments expenses.

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

Included in investments at December 31, 2018 are $1,376 million of marketable fixed income securities issued by the Government of Ontario and related entities (2017 – $1,171 million).

Reimbursements paid to the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to people with work-related injuries or illnesses are included in claim payments. Administrative fees paid to the MOHLTC are included in administration and other expenses.

Investment Management Corporation of Ontario

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

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

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

17. 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 statements that certain actions, events or results “could,” “may,” “might,” “will,” or “would,” be taken, occur or be achieved. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

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

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

Responsibility for financial reporting

Role of Management

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

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

Role of the Chief Actuary

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

Role of the External Auditors

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

Thomas Teahen
President and Chief Executive Officer
April 18, 2019
Toronto, Ontario

Pamela Steer
Chief Financial Officer

Independent auditor's report

To the Board of Directors of the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Opinion

Pursuant to the Workplace Safety and Insurance Act, 1997 (Ontario), which provides that the accounts of the Workplace Safety and Insurance Board (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the consolidated financial statements of the WSIB, which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statement of changes in net assets, and consolidated statement of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the WSIB as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the WSIB in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the WSIB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

using the going concern basis of accounting unless management either intends to liquidate the WSIB or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the WSIB's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the WSIB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the WSIB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the WSIB to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

April 18, 2019

Actuarial statement of opinion

On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2018

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (the "WSIB") for its consolidated statements of financial position as at December 31, 2018 (the "valuation date").

In my opinion, the benefit liabilities of $27,210 million make reasonable provision for future payments for loss of earnings, other short and long-term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the Workplace Safety and Insurance Act, 1997 (Ontario) (the "WSIA") and on the WSIB's policies and administrative practices in effect at the time of the valuation.

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

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB's strategic plan and investment policies. For this valuation, an annual discount rate of 4.75% was used to discount expected payments, a change from the 4.50% rate used in the previous valuation. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index ("CPI") of 2.0%, annual health care costs and annual wage escalation rates of 4.0% and 3.0% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

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

Changes to the actuarial basis caused liabilities to decrease by $722 million. The increase in the discount rate represented a reduction of $648 million, while other changes, mainly to the methods and assumptions used for the valuation of loss of earnings and health care benefits, represented a decrease of $74 million.

The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 18 to the consolidated financial statements.

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

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

Donald Blue, FCIA, FSA

Vice President and Chief Actuary

Workplace Safety and Insurance Board

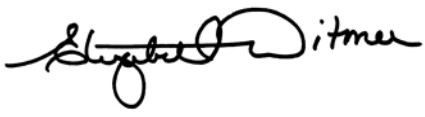
April 18, 2019

Toronto, Ontario

Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Note	December 31 2018	December 31 2017
Assets			
Cash and cash equivalents	4	2,538	2,586
Receivables and other assets	5	1,480	1,387
Public equity securities	7	12,548	13,414
Fixed income securities	7	7,634	6,800
Derivative assets	9	159	342
Investment properties	7	1,412	1,340
Investments in associates and joint ventures	10,11	2,322	1,641
Other invested assets	7	8,929	7,910
Property, equipment and intangible assets	13	287	302
Total assets		**37,309**	**35,722**
Liabilities			
Payables and other liabilities	14	1,604	1,185
Derivative liabilities	9	448	88
Long-term debt		114	115
Loss of Retirement Income Fund liability	15	1,867	1,915
Employee benefit plans liability	16	1,424	1,611
Benefit liabilities	18	27,210	28,290
Total liabilities		**32,667**	**33,204**
Net assets			
Reserves (deficit)		1,056	(792)
Accumulated other comprehensive income		428	82
Net assets (unfunded liability) attributable to WSIB stakeholders		1,484	(710)
Non-controlling interests	23	3,158	3,228
Total net assets		**4,642**	**2,518**
Total liabilities and net assets		**37,309**	**35,722**

Approved by the Board of Directors



Elizabeth Witmer

Chair
April 18, 2019

Lea Ray

Audit and Finance Committee (Chair)
April 18, 2019

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

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

	Note	2018	2017
Revenues			
Premiums	17	5,028	4,879
Net mandatory employer incentive programs	17	(72)	(100)
Net premiums		**4,956**	**4,779**
Investment income (loss)	6	(283)	3,092
Investment expenses	6	(236)	(178)
Net investment income (loss)		**(519)**	**2,914**
Total revenues		**4,437**	**7,693**
Expenses			
Claim payments	18	2,459	2,360
Claim administration costs	18	448	417
Change in actuarial valuation of benefit liabilities	18	(1,080)	370
Total claim costs		**1,827**	**3,147**
Loss of Retirement Income Fund contributions	15	56	56
Administration and other expenses		474	409
Legislated obligations and funding commitments		269	252
Total expenses		**2,626**	**3,864**
Excess of revenues over expenses		**1,811**	**3,829**
Other comprehensive income (loss)			
Item that will not be reclassified subsequently to income			
Remeasurements of employee benefit plans	16	268	(273)
Item that will be reclassified subsequently to income			
Translation gains (losses) from net foreign investments		86	(32)
Total other comprehensive income (loss)		**354**	**(305)**
Total comprehensive income		**2,165**	**3,524**

		2018	2017
Excess of revenues over expenses attributable to:			
WSIB stakeholders		1,848	3,517
Non-controlling interests	23	(37)	312
		1,811	**3,829**
Total comprehensive income attributable to:			
WSIB stakeholders		2,194	3,215
Non-controlling interests	23	(29)	309
		2,165	**3,524**

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

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

	Note	2018	2017
Reserves (deficit)			
Balance at beginning of year		(792)	(4,309)
Excess of revenues over expenses		1,848	3,517
Balance at end of year		**1,056**	**(792)**
Accumulated other comprehensive income			
Balance at beginning of year		82	384
Remeasurements of employee benefit plans	16	268	(273)
Translation gains (losses) from net foreign investments		78	(29)
Balance at end of year		**428**	**82**
Net assets (unfunded liability) attributable to WSIB stakeholders		**1,484**	**(710)**
Non-controlling interests			
Balance at beginning of year	23	3,228	2,929
Excess (deficiency) of revenues over expenses	23	(37)	312
Translation gains (losses) from net foreign investments	23	8	(3)
Change in ownership share in investments	23	(41)	(10)
Balance at end of year		**3,158**	**3,228**
Total net assets		**4,642**	**2,518**

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

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

	Note	2018	2017
Operating activities:			
Total comprehensive income		2,165	3,524
Adjustments:			
Amortization of net discount on investments		(27)	(18)
Depreciation and amortization of property, equipment and intangible assets	13	43	34
Changes in fair value of investments		1,250	(2,468)
Changes in fair value of investment properties		(62)	15
Translation (gains) losses from net foreign investments		(86)	32
Dividend income from public equity securities		(531)	(456)
Income from investments in associates and joint ventures	10	(90)	(101)
Interest income		(199)	(170)
Interest expense		8	8
Total comprehensive income after adjustments		**2,471**	**400**
Changes in non-cash balances related to operations:			
Receivables and other assets, excluding those related to investing activities		39	(6)
Payables and other liabilities, excluding those related to investing and financing activities		155	50
Loss of Retirement Income Fund liability	15	(48)	125
Employee benefit plans liability	16	(187)	321
Benefit liabilities	18	(1,080)	370
Total changes in non-cash balances related to operations		(1,121)	860
Net cash provided by operating activities		**1,350**	**1,260**
Investing activities:			
Dividends received from public equity securities, associates and joint ventures		595	508
Interest received		198	180
Purchases of property, equipment and intangible assets	13	(28)	(20)
Purchases of investments		(17,796)	(18,673)
Proceeds on sales and maturities of investments		16,390	17,908
Net additions to investment properties		(12)	(40)
Net additions to investments in associates and joint ventures		(661)	(1,160)
Proceeds on dispositions of associates and joint ventures		-	143
Net cash required by investing activities		**(1,314)**	**(1,154)**
Financing activities:			
Net proceeds on dispositions of non-controlling interests		109	188
Distributions paid by subsidiaries to non-controlling interests		(150)	(198)
Net issuance (repayment) of debt		(35)	2
Interest paid on debt		(8)	(8)
Net cash required by financing activities		**(84)**	**(16)**
Net increase (decrease) in cash and cash equivalents		**(48)**	**90**
Cash and cash equivalents, beginning of year		2,586	2,496
Cash and cash equivalents, end of year		**2,538**	**2,586**

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

Notes to Consolidated Financial Statements
December 31, 2018

Table of contents

Note	Page
1. Nature of operations	65
2. Significant accounting policies, estimates and assumptions	65
3. Changes in accounting standards	73
4. Cash and cash equivalents	76
5. Receivables and other assets	76
6. Net investment income (loss)	76
7. Fair value measurement and disclosures	77
8. Transferred finanial assets not derecognized	81
9. Derivative financial instruments	81
10. Joint arrangements and associates	82
11. Interests in structured entities	83
12. Risk management	84
13. Property, equipment and intangible assets	88
14. Payables and other liabilities	88
15. Loss of Retirement Income Fund liability	89
16. Employee benefit plans	90
17. Premium revenues	95
18. Benefit liabilities and claim costs	96
19. Leases	104
20. Commitments and contingent liabilities	105
21. Funding and capital management	106
22. Related party transactions	106
23. Information on subsidiaries and non-controlling interests	108

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

1. Nature of operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"), Canada. As a board-governed trust agency, in accordance with the Agencies and Appointments Directive, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to people 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 people with work-related injuries or illnesses. The WSIB is funded by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

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

2. Significant accounting policies, estimates and assumptions

Basis of preparation

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

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

The consolidated financial statements for the year ended December 31, 2018 were authorized for issuance by the WSIB's Board of Directors on April 18, 2019.

Use of estimates and assumptions

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Basis of consolidation

(a) Subsidiaries and non-controlling interests

The majority of the WSIB's subsidiaries hold investments.

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

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

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

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

(b) Investments in joint arrangements and associates

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

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

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Foreign currency

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

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

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

Invested assets

(a) Financial instruments

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

(b) Investment properties

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Financial instruments

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

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

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

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

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

(b) Loans and receivables

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

(c) Other financial liabilities

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

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

Fair value measurement

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

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

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

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

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

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

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

Investment income

Investment income is comprised of the following:

(a) Financial instruments

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

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

(b) Income from investments in associates and joint ventures

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

(c) Income from investment properties

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

Loss of Retirement Income Fund liability

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

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

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

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

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

Benefit liabilities and claim costs

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

Employee benefit plans

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

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

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

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

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

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

Property, equipment and intangible assets

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

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Impairment

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

Premium revenues

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

(a) Schedule 1 employer premiums

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

(b) Schedule 2 employer administration fees

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

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

Mandatory employer incentive programs

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

Legislated obligations and funding commitments

(a) Legislated obligations

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

(b) Funding commitments

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

(c) Voluntary employer incentive programs

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

Leases

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

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

IFRS 16 *Leases* is effective January 1, 2019 for the WSIB. See impact of the transition to IFRS 16 in note 3.

3. Changes in accounting standards

(a) Standards adopted during the current year

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

The WSIB adopted IFRS 15 effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for items such as financial instruments, insurance contracts, and leases. The impact of IFRS 15 is limited to the WSIB’s revenue from the services provided to Schedule 2 employers and one-time gains on disposal of investment properties and property and equipment. Based on the nature of the WSIB’s revenues, the adoption of IFRS 15 did not have a material impact on the WSIB’s consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”)

The WSIB adopted IFRIC 22 effective for annual periods beginning on or after January 1, 2018. IFRIC 22 clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The adoption of IFRIC 22 did not have a material impact on the WSIB’s consolidated financial statements.

Annual Improvements to IFRSs 2014 – 2016 Cycle

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IAS 28 *Investments in Associates and Joint Ventures* effective January 1, 2018. The adoption of this amendment did not have a significant impact on the WSIB’s consolidated financial statements.

Amendments to IAS 40 *Investment Property* (“IAS 40”)

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

(b) Future changes in accounting standards

The following new or amended accounting standards have been issued by the IASB but are not yet effective.

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a modified retrospective basis. The adoption of IFRS 16 is not expected to have a significant impact on the WSIB's consolidated financial statements.

Amendments to IAS 19 *Employee Benefits* ("IAS 19")

In February 2018, the IASB issued amendments to IAS 19 which require entities to use updated assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

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

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

Annual Improvements to IFRSs 2015 – 2017 Cycle

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

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

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. The WSIB will adopt the standard on the effective date of January 1, 2021; however, the IASB is considering deferring the effective date one year to January 1, 2022. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

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

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

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

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

The WSIB will defer IFRS 9 until January 1, 2021, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4 for companies whose activities are predominantly related to insurance (that is, insurance liabilities represent more than 80% of total liabilities). However, the IASB is considering deferring the effective date one year to January 1, 2022. Based on the nature of the WSIB’s financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB’s consolidated financial statements as most of the WSIB’s financial instruments are measured at fair value.

Amendments to IFRS 3 *Business Combinations* (“IFRS 3”)

In October 2018, the IASB issued amendments to IFRS 3, which clarify that to be considered a business, an acquired set of activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the WSIB’s consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* (“IAS 1”) **and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** (“IAS 8”)

In October 2018, the IASB issued amendments to IAS 1 and IAS 8. The amendments clarify the definition of “material”. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the WSIB’s consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

4. Cash and cash equivalents

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

	2018	2017
Cash	1,028	850
Short-term money market securities	1,510	1,736
Total cash and cash equivalents	**2,538**	**2,586**

5. Receivables and other assets

Receivables and other assets are comprised of the following:

	2018	2017
Premium receivables	340	298
Accrued premium receivables	473	493
Less: Allowance for doubtful accounts	(140)	(118)
Net premium receivables	**673**	**673**
Investment receivables[1]	376	244
Total receivables	**1,049**	**917**
Other assets[2]	431	470
Total receivables and other assets	**1,480**	**1,387**

1. Investment receivables include amounts of $22 (2017 – nil) which are expected to be received over a period of more than one year.
2. Other assets include employer incentive program surcharges of $356 (2017 – $416) which are expected to be received over a period of more than one year.

6. Net investment income (loss)

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

	2018	2017
Cash and cash equivalents	15	8
Public equity securities	(399)	1,880
Fixed income securities	208	73
Derivative financial instruments	(1,222)	721
Investment properties[1]	114	42
Investments in associates and joint ventures	90	101
Other invested assets		
Investment funds	792	276
Infrastructure related investments	77	126
Real estate related investments	34	29
Add (Less): Income attributable to Loss of Retirement Income Fund	8	(164)
Investment income (loss)	**(283)**	**3,092**
Less: Investment expenses[2]	(236)	(178)
Net investment income (loss)	**(519)**	**2,914**

1. Investment properties include rental income and service charges of $117 (2017 – $114), partially offset by net gains (losses) from increases (decreases) in fair values of $61 (2017 – ($15)), as well as operating expenses of $66 (2017 – $57).
2. Includes $136 of management fees paid to investment managers (2017 – $120).

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

7. Fair value measurement and disclosures

Fair value hierarchy

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

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

	December 31, 2018				December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3[3]**	**Total**
Assets and liabilities measured at fair value								
Cash and cash equivalents[1]	1,028	1,510	-	**2,538**	850	1,736	-	**2,586**
Public equity securities	12,493	55	-	**12,548**	13,305	109	-	**13,414**
Fixed income securities	-	7,634	-	**7,634**	-	6,800	-	**6,800**
Derivative assets	65	94	-	**159**	46	296	-	**342**
Investment properties	-	-	1,412	**1,412**	-	-	1,340	**1,340**
Other invested assets								
Investment funds	-	-	8,032	**8,032**	-	-	6,714	**6,714**
Infrastructure related investments	-	-	412	**412**	-	341	399	**740**
Real estate related investments	-	-	485	**485**	-	-	456	**456**
Derivative liabilities	(72)	(376)	-	**(448)**	(41)	(47)	-	**(88)**
Assets and liabilities for which fair value is disclosed								
Investment receivables[1]	-	376	-	**376**	-	244	-	**244**
Administration payables[1]	(336)	-	-	**(336)**	(304)	-	-	**(304)**
Investment payables[1]	-	(341)	-	**(341)**	-	(42)	-	**(42)**
Long-term debt[2]	-	(121)	-	**(121)**	-	(123)	-	**(123)**
Loss of Retirement Income Fund liability (note 15)	-	-	(1,867)	**(1,867)**	-	-	(1,915)	**(1,915)**

1. Due to their short-term nature, the carrying amounts of cash and cash equivalents, investment receivables and administration and investment payables approximate their fair values.
2. Carrying amount as at December 31, 2018 was $114 (2017 – $115).
3. The comparative amounts have been reclassified to be consistent with current year's presentation.

Transfers between levels within the hierarchy are recognized at the end of the reporting period. During the years ended December 31, 2018 and December 31, 2017, there were no transfers between Level 1 and Level 2.

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Level 3 fair value measurements

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

	Other invested assets					
For the year ended December 31, 2018	Investment funds	Infrastructure related investments	Real estate related investments	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2018	6,714	399	456	7,569	1,340	8,909
Net gains recognized in net investment income	684	35	24	743	62	805
Translation gains recognized in other comprehensive income	90	20	-	110	-	110
Purchases or asset acquisitions	909	-	5	914	4	918
Sales or disposals	(365)	(403)	-	(768)	(49)	(817)
Capital expenditures	-	-	-	-	55	55
Transfer into Level 3	-	361	-	361	-	361
Balance as at December 31,2018	**8,032**	**412**	**485**	**8,929**	**1,412**	**10,341**
Changes in unrealized gains included in earnings for assets and liabilities for positions still held	**744**	**11**	**24**	**779**	**62**	**841**

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

During the year ended December 31, 2018, infrastructure related investments with a carrying amount of $361 were transferred from Level 2 to Level 3 because the inputs used in their valuations were based on unobservable inputs, versus the previous period.

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

	Valuation methods	Key unobservable inputs	2018 Range of inputs		2017 Range of inputs	
			Low	High	Low	High
Investment funds	Net asset value	Net asset value	n/a	n/a	n/a	n/a
Infrastructure related investments	Discounted cash flow and market comparable	Discount rate and expected future cash flows	n/a	n/a	n/a	n/a
Real estate related investments and investment properties	Discounted cash flow and market comparable	Discount rate	4.8%	7.8%	5.0%	8.0%
		Terminal capitalization rate	4.3%	7.0%	4.3%	7.0%
Loss of Retirement Income Fund liability	Net asset value	Net asset value	n/a	n/a	n/a	n/a

Sensitivity of Level 3 financial instruments

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

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

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

8. Transferred financial assets not derecognized

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

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

As at December 31, 2018, the fair value of investments loaned under the securities lending program was $4,256 (2017 – $4,314) and the fair value of securities maintained as collateral was approximately $4,610 (2017 – $4,659).

9. Derivative financial instruments

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

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

Some derivatives are collateralized with cash and treasury bills. As at December 31, 2018, the fair value of the securities maintained as collateral was approximately $147 (2017 – $148).

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

	2018			2017		
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Forward exchange contracts	15,961	64	348	14,584	288	36
Fixed income futures	3,701	49	-	3,266	2	19
Commodity futures	705	13	34	949	26	16
Equity index futures	948	2	36	1,410	18	6
Foreign currency futures	(173)	1	1	-	-	-
Options	41	30	19	23	4	11
Swaps	564	-	10	680	4	-
Total	**21,747**	**159**	**448**	**20,912**	**342**	**88**

10. Joint arrangements and associates

Vancouver properties

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

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

	2018	2017
Current assets	26	17
Non-current assets	2,081	1,996
Current liabilities	(30)	(31)
Net assets	**2,077**	**1,982**
WSIB’s share of net assets	**1,038**	**991**

The above amounts of assets and liabilities include the following:

	2018	2017
Cash and cash equivalents	3	2
Current financial liabilities (excluding trade and other payables)	(2)	(3)

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

	2018	2017
Income	135	122
Gains from increases in fair values	66	63
Expenses	(52)	(47)
Total comprehensive income	**149**	**138**
WSIB's share of total comprehensive income	**75**	**69**

The Vancouver properties have no contingent liabilities or capital commitments as at December 31, 2018 (2017 – nil). During 2018, the WSIB received dividends from the Vancouver properties of $38 (2017 – $36).

Investments in other joint arrangements and associates

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

	Associates		Joint ventures		Joint operations	
	2018	2017	2018	2017	2018	2017
WSIB's share of net assets	**14**	**19**	**1,270**	**631**	**308**	**321**
WSIB's share of:						
Net income (loss)	2	-	13	32	(13)	(9)
Other comprehensive income	-	-	9	2	-	-

11. Interests in structured entities

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

Unconsolidated structured entities

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

	WSIB investment		WSIB maximum exposure to loss[1]	
	2018	2017	2018	2017
Real estate	1,508	1,449	1,508	1,449
Infrastructure	814	192	814	192
Total	**2,322**	**1,641**	**2,322**	**1,641**

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

12. Risk management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. These risks and the WSIB's risk mitigation policies and techniques are disclosed in Section 14 – Risk factors of the Management's Discussion and Analysis. Only the shaded text and tables form an integral part of these consolidated financial statements.

Investment risk

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

Liquidity risk

As at December 31, 2018, 57.7% (2017 – 59.3%) of the WSIB's investment portfolio was invested in readily marketable fixed income securities and publicly traded equities.

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

	Within 1 year	1 – 5 years	6 – 10 years	Over 10 years	No fixed maturity	2018
Cash and cash equivalents	2,538	-	-	-	-	**2,538**
Investment receivables	354	-	22	-	-	**376**
Public equity securities	-	-	-	-	12,548	**12,548**
Fixed income securities	48	5,783	798	940	65	**7,634**
Derivative assets	159	-	-	-	-	**159**
Other invested assets						
Investment funds	-	-	-	-	8,032	**8,032**
Infrastructure related investments	-	-	-	-	412	**412**
Real estate related investments	-	-	-	-	485	**485**
Investment payables	(341)	-	-	-	-	**(341)**
Administration payables	(336)	-	-	-	-	**(336)**
Derivative liabilities	(448)	-	-	-	-	**(448)**
Long-term debt	-	(6)	(81)	(27)	-	**(114)**
Loss of Retirement Income Fund liability	-	-	-	-	(1,867)	**(1,867)**

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

The WSIB maintains and uses a $150 unsecured line of credit with a commercial bank for general operating purposes. Although the line of credit was occasionally used for minimal amounts in 2018, as at December 31, 2018, there were no outstanding borrowings (2017 – nil).

Credit risk

(a) Fixed income securities

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

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

	2018		2017	
AAA	3,805	49.8%	3,434	50.5%
AA	1,543	20.2%	1,386	20.4%
A	2,106	27.6%	1,874	27.6%
BBB	115	1.5%	37	0.5%
Not rated	65	0.9%	69	1.0%
Total fixed income securities	**7,634**	**100.0%**	**6,800**	**100.0%**

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

	2018		2017	
Federal government and agencies	3,728	48.9%	3,295	48.4%
Provincial and municipal	2,973	38.9%	2,661	39.1%
Financial services	750	9.8%	626	9.2%
Utilities and telecommunications	87	1.1%	101	1.5%
Asset-backed securities	49	0.6%	57	0.8%
Other corporate	26	0.3%	31	0.5%
Consumer products and merchandising	13	0.2%	19	0.3%
Natural resources	5	0.1%	6	0.1%
Real estate	3	0.1%	4	0.1%
Total fixed income securities	**7,634**	**100.0%**	**6,800**	**100.0%**

(b) Securities lending program

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

(c) Receivables from Schedule 1 and Schedule 2 employers

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

Credit risk related to receivables from Schedule 2 employers is mitigated by holding collateral in the form of letters of credit and surety bonds. At December 31, 2018, the WSIB held collateral in the total amount of $242 (2017 – $259) with Schedule 2 employers.

Market risk

(a) Currency risk

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

The WSIB has an investment currency hedging policy which is reviewed and approved at least annually by the Investment Committee. The investment currency hedging policy provides guidelines on currency exposures to be hedged, permitted hedging instruments, hedge adjustments and other currency hedging controls and processes. To manage the currency risk, the WSIB regularly monitors the currency exposure in compliance with the currency hedging policy. The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the foreign currencies that represent 77.9% (2017 – 78.2%) of the WSIB's foreign currency exposure in its investment portfolio:

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

	2018		2017	
	Net exposure	Effect of 1% change	Net exposure	Effect of 1% change
United States dollar	4,106	41	4,354	44
Euro	419	4	624	6
Hong Kong dollar	598	6	482	5
Japanese yen	385	4	355	4
South Korean won	293	3	338	3
Foreign currency exposure	**5,801**	**58**	**6,153**	**62**

(b) Interest rate risk

The WSIB uses effective duration to measure the sensitivity of the fair value of fixed income securities to a change in interest rates. Parallel shifts in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of fixed income securities of approximately $496 (2017 – $386). This information is based on the assumption that the fixed income securities are not impaired and interest rates and equity prices move independently.

(c) Price risk

The WSIB is exposed to price risk through its investments in public equity securities. The WSIB's price risk mitigation strategies are discussed in Section 14 – Risk factors of the Management's Discussion and Analysis.

The estimated effect on the fair value of public equity securities resulting from a 10% change in market prices, holding all other factors constant, is $1,255 (2017 – $1,341).

Insurance funding risk – benefit liabilities

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

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

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

13. Property, equipment and intangible assets

	Property and Equipment				Intangible Assets		
	Land	Buildings	Leasehold improvements	Office and computer equipment	Internally developed software	Acquired software	Total
Cost							
Balance as at December 31, 2016	**40**	**102**	**73**	**23**	**282**	**12**	**532**
Additions	-	-	1	-	14	5	20
Adjustments[1]	-	-	(55)	-	(60)	(9)	(124)
Balance as at December 31, 2017	**40**	**102**	**19**	**23**	**236**	**8**	**428**
Additions	-	-	1	3	24	-	28
Balance as at December 31, 2018	**40**	**102**	**20**	**26**	**260**	**8**	**456**
Accumulated depreciation and amortization							
Balance as at December 31, 2016	-	**28**	**69**	**22**	**88**	**9**	**216**
Depreciation and amortization	-	4	1	-	27	2	34
Adjustments[1]	-	-	(55)	-	(60)	(9)	(124)
Balance as at December 31, 2017	-	**32**	**15**	**22**	**55**	**2**	**126**
Depreciation and amortization	-	3	2	1	35	2	43
Balance as at December 31, 2018	-	**35**	**17**	**23**	**90**	**4**	**169**
Carrying amounts							
At December 31, 2017	**40**	**70**	**4**	**1**	**181**	**6**	**302**
At December 31, 2018	**40**	**67**	**3**	**3**	**170**	**4**	**287**

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

The carrying amount for internally developed software as at December 31, 2018 includes $25 of costs (2017 – $10) for software that was not yet available for use and therefore was not yet subject to amortization.

The WSIB has determined that there was no impairment of property, equipment and intangible assets in 2018.

14. Payables and other liabilities

	2018	2017
Administration payables	336	304
Investment payables	341	42
Other liabilities	927	839
Total payables and other liabilities	**1,604**	**1,185**

Payables are expected to be paid within 12 months from the reporting date. As at December 31, 2018, other liabilities include experience rating refunds of $779 (2017 – $810) which are expected to be paid over the next three years.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

15. Loss of Retirement Income Fund liability

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

	2018	2017
Balance at beginning of year	1,915	1,790
Contributions from the WSIB	56	56
Optional contributions from injured workers	7	7
Contributions from Schedule 2 employers	6	5
Income earned on contributions	(4)	162
Benefits paid in cash	(113)	(105)
Balance at end of year	**1,867**	**1,915**

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

	2018		2017	
Cash and cash equivalents	385	20.6%	369	19.3%
Public equity securities	551	29.5%	641	33.5%
Fixed income securities	398	21.3%	390	20.4%
Derivative financial instruments	(13)	(0.7%)	12	0.6%
Investment properties	65	3.5%	64	3.3%
Investments in associates and joint ventures	94	5.0%	69	3.6%
Other invested assets				
Investment funds	356	19.1%	324	16.9%
Infrastructure related investments	18	1.0%	35	1.8%
Real estate related investments	22	1.2%	21	1.1%
Other	(9)	(0.5%)	(10)	(0.5%)
Total Loss of Retirement Income Fund assets	**1,867**	**100.0%**	**1,915**	**100.0%**

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

16. Employee benefit plans

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

Pension plans

(a) Employees' Pension Plan

The Employees' Pension Plan provides for partially indexed pensions based on years of service and the best consecutive five of the last 10 years of earnings. The Employees' Pension Plan is a registered pension plan under the *Pension Benefits Act* (Ontario) ("PBA") and the Canada Revenue Agency ("CRA").

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

The WSIB participated in the Broader Public Sector Temporary Solvency Relief Program as published in Regulation 178/11 under the PBA, amended by Regulation 350/16, until the filing of the December 31, 2017 actuarial valuation of the plan with the Financial Services Commission of Ontario ("FSCO") and CRA in December 2018. The temporary solvency relief provisions allowed the WSIB to make solvency special payments on an interest-only basis until December 31, 2018. New funding rules are effective for Ontario registered Single Employer Pension Plans ("SEPP"), which generally apply to reports with valuation dates on or after December 31, 2017 and which have been filed after April 30, 2018. The new rules include changes such as a reduced solvency funding target of 85% rather than 100%. The plan is expected to transition into the new funding rules based on the filing of the December 31, 2017 and 2018 actuarial valuations.

An application was filed with the Ontario Superintendent of Financial Services on November 1, 2018 to convert the plan from a SEPP into a jointly sponsored pension plan with a proposed conversion date of July 1, 2020. Should the filing receive approval, changes will include a shared governance model, a solvency funding exemption, higher employee contributions and changes to the indexation provisions.

(b) The Employees' Supplementary Pension Plan

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

Other benefits

(a) The Post-Retirement Benefit Plan

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

(b) Other employment benefits

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

Governance of the plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of

those to whom administrative duties and responsibilities were delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

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

Risks

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

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

b) Investment returns which are lower than expected;

c) Lower-than-expected rates of mortality; and

d) Health care cost inflation being higher than assumed.

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

Employee benefit plans expense

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

	Pension plans		Other benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Current service cost	113	90	20	19	133	109
Net interest on the employee benefit plans liability	30	24	28	29	58	53
Plan amendments	-	-	-	2	-	2
Long-term employee benefit (gains) losses	-	-	3	(6)	3	(6)
Employee benefit plans expense	**143**	**114**	**51**	**44**	**194**	**158**

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

	Pension plans		Other benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Actuarial gains (losses) arising from:						
Financial assumptions	339	(319)	106	(28)	445	(347)
Demographic assumptions	-	(79)	-	(23)	-	(102)
Plan experience	(36)	(15)	(7)	(6)	(43)	(21)
Return on plan assets excluding interest income	(134)	197	-	-	(134)	197
Remeasurements of employee benefit plans	**169**	**(216)**	**99**	**(57)**	**268**	**(273)**

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Employee benefit plans liability

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

	Pension plans		Other benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Present value of obligations[1]	3,880	4,029	744	819	4,624	4,848
Fair value of plan assets	(3,200)	(3,237)	-	-	(3,200)	(3,237)
Employee benefit plans liability	**680**	**792**	**744**	**819**	**1,424**	**1,611**

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

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

	Pension plans		Other benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Balance, beginning of year	4,029	3,481	819	746	4,848	4,227
Current service cost	113	90	20	19	133	109
Employee contributions	31	29	-	-	31	29
Interest expense on the employee benefit obligations	142	138	28	29	170	167
Plan amendments	-	-	-	2	-	2
Actuarial losses (gains) arising from:						
Financial assumptions	(339)	319	(108)	28	(447)	347
Demographic assumptions	-	79	-	23	-	102
Plan experience	36	15	12	-	48	15
Benefits paid	(132)	(122)	(27)	(28)	(159)	(150)
Balance, end of year	**3,880**	**4,029**	**744**	**819**	**4,624**	**4,848**

As at December 31, 2018, the Employees' Pension Plan was 98.9% of the pension plans obligation (2017 – 98.9%), and the Post-Retirement Benefit plan was 84.7% of the other benefits obligation (2017 – 85.5%).

The weighted average duration of the defined benefit pension plans and the other benefit plans as at December 31, 2018 is 16.4 and 17.3 years, respectively (2017 – 17.3 and 18.5 years, respectively).

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Fair value of plan assets

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

	Pension plans		Other benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Balance, beginning of year	3,237	2,937	-	-	3,237	2,937
Interest income on plan assets	112	114	-	-	112	114
Return in excess of interest income on plan assets	(134)	197	-	-	(134)	197
Employer contributions	86	82	27	28	113	110
Employee contributions	31	29	-	-	31	29
Benefits paid	(132)	(122)	(27)	(28)	(159)	(150)
Balance, end of year	**3,200**	**3,237**	-	**-**	**3,200**	**3,237**

Employer's contributions to the pension plans are estimated to be $81 for 2019.

Benefits to be paid from pension plan assets, during 2019, are projected to be $138, and other benefits to be paid directly by the employer are estimated to be $33.

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

	2018		2017	
Plan assets				
Public equities	1,112	34.7%	1,247	38.6%
Fixed income	623	19.5%	587	18.1%
Absolute return	337	10.5%	332	10.3%
Diversified markets	385	12.0%	425	13.1%
Real estate	360	11.3%	333	10.3%
Infrastructure	322	10.1%	247	7.6%
Cash and cash equivalents	52	1.6%	59	1.8%
Other	9	0.3%	7	0.2%
Total[1]	**3,200**	**100.0%**	**3,237**	**100.0%**

1. Includes $2.8 net assets of the Employees' Supplementary Pension Plan (2017 – $2.3).

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Actuarial assumptions

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

	2018	2017
Discount rate[1]		
Benefit plan expense	3.45%	3.90%
Accrued benefit obligation at end of year	3.95%	3.45%
Rate of pension increase at end of year[2]	1.31%	1.31%
Rate of compensation increase at end of year[3]	3.50%	3.50%
Health care trends at end of year		
Initial trend rate	5.50%	5.75%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend rate is reached	2023	2023
Dental care trend rate at end of year	4.00%	4.00%
Mortality		
Base table	104% of CPM[4]	104% of CPM[4]
Projection scale	MI-2017[5]	MI-2017[5]

1. Weighted average based on obligation (rounded to nearest 5 basis points).
2. Pension benefits are increased annually, every January 1, equal to 75% of the Consumer Price Index (i.e. inflation).
3. This is an approximation. Actual assumption is based on inflation of 1.75% per annum plus a unisex real pay merit scale.
4. 2014 Canadian Pensioners' Private Sector Mortality Table ("CPM").
5. Scale MI-2017 modified to have an ultimate rate of 0.8%.

The current longevities underlying the measurement of the employee benefit obligations as at December 31 are as follows:

	2018	2017
Longevity for those currently age 65		
Males	21.5 years	21.4 years
Females	24.0 years	23.9 years
Longevity at age 65 for those currently age 45		
Males	22.7 years	22.6 years
Females	25.1 years	25.0 years

Sensitivity of the actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans obligation. The sensitivity analysis below provides an estimate of the potential impact of changes in key assumptions as at December 31, 2018, with all other assumptions held constant:

	Increase (decrease) in the obligations		
Sensitivity in assumptions	**Pension plans**	**Other benefits**	**Total**
Discount rate			
1% increase in discount rate	(556)	(111)	**(667)**
1% decrease in discount rate	717	147	**864**
Rate of compensation increase			
1% increase in compensation rate	116	5	**121**
1% decrease in compensation rate	(103)	(5)	**(108)**
Rate of pension increase			
1% increase in pension benefits	395	n/a	**395**
1% decrease in pension benefits	(341)	n/a	**(341)**
Health and dental care trend rates			
1% increase in trend rates	n/a	130	**130**
1% decrease in trend rates	n/a	(100)	**(100)**
Mortality rates			
10% increase in mortality rates[1]	(74)	(17)	**(91)**
10% decrease in mortality rates[2]	81	19	**100**

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

17. Premium revenues

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

	2018	**2017**
Gross Schedule 1 premiums	4,930	4,780
Bad debts	(62)	(43)
Interest and penalties	69	63
Other income	3	1
Schedule 1 employer premiums	**4,940**	**4,801**
Schedule 2 employer administration fees	88	78
Premiums	**5,028**	**4,879**
Net mandatory employer incentive programs	(72)	(100)
Net premiums	**4,956**	**4,779**

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

18. Benefit liabilities and claim costs

Benefit liabilities

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

Benefit liabilities are comprised of the following:

	2018	2017
Loss of earnings	8,523	9,037
Workers' pensions	5,731	6,124
Health care	4,254	4,285
Survivor benefits	3,091	3,015
Future economic loss	982	1,120
External providers	94	106
Non-economic loss	285	289
Long latency occupational diseases	2,384	2,492
Claim administration costs	1,338	1,257
Loss of Retirement Income	528	565
Benefit liabilities	**27,210**	**28,290**

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

	Benefit liabilities, beginning of year	Claim costs recognized during the year	Payments processed during the year[1]	Interest expense on the liability	Impact of legislative change	Impact of actuarial remeasure-ment	Changes in claims experience	**Benefit liabilities, end of year**
Loss of earnings	9,037	836	(990)	382	-	(258)	(484)	**8,523**
Workers' pensions	6,124	-	(513)	264	-	(131)	(13)	**5,731**
Health care	4,285	512	(485)	179	-	(19)	(218)	**4,254**
Survivor benefits	3,015	121	(209)	131	-	(85)	118	**3,091**
Future economic loss	1,120	-	(181)	48	-	(12)	7	**982**
External providers	106	31	(29)	5	-	(1)	(18)	**94**
Non-economic loss	289	39	(53)	14	-	(4)	-	**285**
Long latency occupational diseases	2,492	-	-	112	-	(180)	(40)	**2,384**
Claim administration costs	1,257	474	(447)	51	-	(20)	23	**1,338**
Loss of Retirement Income	565	37	(56)	28	-	(12)	(34)	**528**
Total for 2018	**28,290**	**2,050**	**(2,963)**	**1,214**	**-**	**(722)**	**(659)**	**27,210**

1. Payments processed during the year relate to prior and current injury years.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

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

Claim payments

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

	2018	**2017**
Loss of earnings	991	929
Workers' pensions	515	526
Health care	484	455
Survivor benefits	209	194
Future economic loss	178	189
External providers	29	24
Non-economic loss	53	43
Total claim payments	**2,459**	**2,360**

Claim administration costs

Claim administration costs are comprised of the following:

	2018	**2017**
Allocation from administration and other expenses	419	391
Allocation from legislated obligations and funding commitments expenses	29	26
Total claim administration costs	**448**	**417**

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Change in actuarial valuation of benefit liabilities

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

	2018	2017
Changes in estimate of cost of claims	(1,572)	(1,456)
Changes in actuarial assumptions and methods	(722)	131
Changes in legislation	-	471
Accretion[1]	1,214	1,224
Total changes in actuarial valuation of benefit liabilities	**(1,080)**	**370**

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

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

	2018	2017
Changes in discount rate[1]	(648)	-
Changes in methods and assumptions for loss of earnings benefits	(123)	36
Changes in methods and assumptions for health care and occupational diseases	29	160
Changes in methods and assumptions for future awards	20	(65)
Total changes in actuarial assumptions and methods	**(722)**	**131**

1. The decrease reflects a 25 basis point increase in the discount rate from 4.50% to 4.75%.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Actuarial assumptions and methods

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

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

(a) Economic assumptions

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

	2018	2017
Discount rate	2019 and thereafter – 4.75%	2018 and thereafter – 4.5%
Indexation of benefits	2.0%	2.0%
Wage escalation rate	3.0%	3.0%
Health care costs escalation rate	4.0%	4.0%

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

(b) Wage loss

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

(c) Mortality

The assumptions for the mortality rates were the same as the rates used in 2017 except adjusted for an additional year of mortality improvement. The base mortality rates were updated in 2013 to reflect recent experience. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

(i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006 to 2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2018;

(ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009–2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2018; and

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

(d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2018. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

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

(e) Expenses

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

(f) Long latency occupational diseases

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Sensitivity of actuarial assumptions

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

Changes in assumptions	Increase in claim costs 2018	Increase in claim costs 2017
100 basis point decrease in the discount rate	2,876	3,065
100 basis point increase in the inflation rate:		
Impact of benefits indexation rate	1,716	1,972
Impact of wage growth	427	425
Impact of health care cost escalation	669	688

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2018 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in claim costs. The table below provides the development of the estimates related to claims incurred from 2009 to 2018.

	Year of injury										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Year of estimate											
2009	2,164										
2010	2,418	2,361									
2011	2,207	2,744	2,760								
2012	2,518	2,270	2,363	2,815							
2013	2,340	2,065	2,019	2,274	2,627						
2014	2,270	1,955	1,897	2,000	2,296	2,453					
2015	2,069	1,840	1,764	1,843	1,981	2,145	2,317				
2016	1,998	1,698	1,699	1,751	1,877	1,933	2,071	2,210			
2017	1,984	1,704	1,624	1,716	1,827	1,864	1,970	2,274	2,371		
2018	2,020	1,742	1,668	1,714	1,799	1,838	1,925	2,208	2,405	2,604	
Current estimate of cumulative claims costs	2,020	1,742	1,668	1,714	1,799	1,838	1,925	2,208	2,405	2,604	19,923
Cumulative payments made	(993)	(747)	(621)	(587)	(543)	(499)	(482)	(491)	(396)	(201)	(5,560)
Outstanding claims (undiscounted)	1,027	995	1,047	1,127	1,256	1,339	1,443	1,717	2,009	2,403	14,363
Effect of discounting	(444)	(451)	(490)	(537)	(611)	(649)	(709)	(824)	(934)	(1,028)	(6,677)
Discounted outstanding claims	583	544	557	590	645	690	734	893	1,075	1,375	7,686
Discounted outstanding claims prior to 2008 injury year											15,802
Claim administration costs											1,338
Long latency occupational diseases											2,384
Total outstanding claims											**27,210**

Claim costs for years of injury before 2015 generally exhibit a downward trend. Claim costs for years of injury in or after 2016, however, exhibit an upward trend, primarily due to the increase in lost-time injury and the worsening return to work experiences, compared to the previous injury years.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Rate setting

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

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

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

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

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

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risks are concentrated among the workplace risks associated with the various industries in the Province. The gross premiums by industry for the year ended December 31, 2018 are provided below.

Industry	Gross premiums	% of total
Agriculture	96	2.2%
Automotive	226	5.1%
Construction	1,108	24.9%
Education	31	0.7%
Electrical	62	1.4%
Food	141	3.2%
Forestry	41	0.9%
Health care	372	8.4%
Manufacturing	685	15.4%
Mining	123	2.8%
Municipal	74	1.7%
Primary metals	50	1.1%
Process and chemicals	91	2.0%
Pulp and paper	23	0.5%
Services	805	18.1%
Transportation	514	11.6%
Total	**4,442**	**100.0%**

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

Liquidity of benefit liabilities risks

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

	2018	2017
Up to one year	5%	6%
Over one year and up to five years	18%	17%
Over five years and up to ten years	18%	18%
Over ten years and up to fifteen years	15%	15%
Over fifteen years	44%	44%
	100%	**100%**

19. Leases

Lessee

The future aggregate minimum lease payments are as follows:

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

(a) Simcoe Place

The WSIB has a finance lease related to the land at Simcoe Place with minimum annual lease payments of $4 (2017 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council's approval. The effective interest rate on this finance lease is 19.59% (2017 – 19.59%).

(b) Investment properties

The WSIB has two operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 (2017 – $2) and interest rates ranging from 5.6% - 7.8% (2017 – 5.6% - 7.8%). One of the leases has a remaining lease term of 33 years; the other has a remaining lease term of 69 years.

(c) Office space and computer equipment

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

During the year ended December 31, 2018, operating lease payments of $6 (2017 – $5) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

Lessor

(a) Investment properties

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

	Within 1 year	2 – 5 years	Over 5 years	Total
Investment properties	63	213	181	**457**

20. Commitments and contingent liabilities

(a) Mortgages

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

As at December 31, 2018, future principal payments on mortgages were as follows:

	Within 1 year	2 – 5 years	Over 5 years	Total
Mortgages	-	-	70	**70**

(b) Investment commitments

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

	2018	2017
Investment funds, infrastructure and real estate related investments	2,188	2,142
Investments in associates and joint ventures	80	88
Purchases or development of investment properties	32	48
Total investment commitments	**2,300**	**2,278**

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

(c) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2018 were approximately $274 for 2019.

(d) Other commitments

As at December 31, 2018, the WSIB had additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $153 (2017 – $159).

(e) Legal actions

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

21. Funding and capital management

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

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. As at December 31, 2018, the WSIB's capital is represented by net assets attributable to WSIB stakeholders of $1,484 (2017 – unfunded liability of $710).

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

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

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

The WSIB prepares a quarterly Sufficiency Report to report on its progress towards meeting the legislated funding requirements. During the fiscal year 2018, WSIB achieved a Sufficiency Ratio of 100%, ahead of requirements. As at December 31, 2018, the Sufficiency Ratio was 108.0% (2017 – 95.8%), which exceeds the legislated 100% funding level required on December 31, 2027.

22. Related party transactions

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

Government of Ontario and related entities

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

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser. The WSIB also provides various grants and funding to carry on investigations, research and training. The total of this funding for the year ended December 31, 2018 was $265 (2017 – $258) and is included in legislated obligations and funding commitments expenses.

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

Included in investments at December 31, 2018 are $1,376 of marketable fixed income securities issued by the Government of Ontario and related entities (2017 – $1,171).

Reimbursements paid to the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to people with work-related injuries or illnesses are included in claim payments. Administrative fees paid to the MOHLTC are included in administration and other expenses.

Investment Management Corporation of Ontario ("IMCO")

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

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

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

Key management remuneration

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

	Appointees to the Board of Directors[1]		Executive personnel[2]		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Salaries and short-term benefits	0.9	0.9	3.7	4.2	4.6	5.1
Long-term employee benefit plans	-	-	0.5	0.6	0.5	0.6
	0.9	**0.9**	**4.2**	**4.8**	**5.1**	**5.7**

1. Includes the Chair and the President and CEO.
2. Includes the Chiefs, General Counsel and Special Advisor to the President and CEO.

Employee benefit plans

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

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

23. Information on subsidiaries and non-controlling interests

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

(a) Directly or indirectly owned subsidiaries

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

	WSIB's ownership		Country of incorporation and operation
	2018	2017	
Wholly owned subsidiaries			
799549 Ontario Inc.	100.0%	100.0%	Canada
WSIB VanIF GP Holdings Ltd.	100.0%	100.0%	Canada
WSIB VanLRI GP Holdings Ltd.	100.0%	100.0%	Canada
Simcoe Wight IF Holdings Ltd.	100.0%	100.0%	Canada
Simcoe Wight LRI Holdings Ltd.	100.0%	100.0%	Canada
WSIB Investments (International Realty (Non-Pension)) Limited	100.0%	100.0%	Canada
Partly owned subsidiaries			
Absolute Return (2012) Pooled Fund Trust	90.8%	90.4%	Canada
Diversified Markets (2010) Pooled Fund Trust	90.8%	90.4%	Canada
Diversified Markets (2009) Pooled Fund Trust	90.8%	90.4%	Canada
WSIB Investments (Fixed Income) Pooled Fund Trust	90.8%	90.4%	Canada
WSIB Investments (Infrastructure) Pooled Fund Trust	90.8%	90.4%	Canada
WSIB Investments (International Realty) Limited	91.1%	90.6%	Canada
WSIB Investments (Public Equities) Pooled Fund Trust	90.8%	90.4%	Canada
WSIB Investments (Realty) Limited	91.1%	90.6%	Canada
WSIB Investments (Total Return) Pooled Fund Trust	90.8%	90.4%	Canada
Simcoe Pacific Pooled Fund Trust	90.8%	90.4%	Canada

Notes to Consolidated Financial Statements
December 31, 2018
(millions of Canadian dollars)

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

Summary information from statements of financial position	**2018**	**2017**
Total assets	34,175	32,845
Total liabilities	(645)	(130)
Surplus of assets	**33,530**	**32,715**
Attributable to the WSIB Employees' Pension Plan	**3,066**	**3,124**

Summary information from statements of comprehensive income	**2018**	**2017**
Investment income	(337)	3,199
Investment expenses	(67)	(40)
Net investment income	**(404)**	**3,159**
Translation losses from net foreign investments	**90**	**34**
Attributable to the WSIB Employees' Pension Plan	**(29)**	**306**

(b) Reconciliation of non-controlling interests

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

	Non-controlling interests		
	Partly owned subsidiaries	**Other subsidiaries**	**Total**
Balance as at December 31, 2016	**2,828**	**101**	**2,929**
Excess of revenues over expenses	309	3	312
Translation losses from net foreign investments	(3)	-	(3)
Distributions paid by subsidiaries to non-controlling interests	(195)	(3)	(198)
Disposition of non-controlling interests	185	3	188
Balance as at December 31, 2017	**3,124**	**104**	**3,228**
Deficiency of revenues over expenses	(37)	-	(37)
Translation gains from net foreign investments	8	-	8
Distributions paid by subsidiaries to non-controlling interests	(145)	(5)	(150)
Net acquisition (disposition) of non-controlling interests	115	(6)	109
Balance as at December 31, 2018	**3,065**	**93**	**3,158**