WCB-Alberta

Consolidated Financial Statements and Notes

For the year ended December 31, 2016

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Responsibility for Financial Reporting

The consolidated financial statements of the Workers' Compensation Board - Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls at December 31, 2016 operated effectively with no material weaknesses in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the consolidated financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the consolidated financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the consolidated financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the consolidated financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Independent Auditor’s Report outlines the scope of this independent audit and the opinion expressed.

E. James Kindrake

E. James Kindrake
Chair, Board of Directors
Workers’ Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers’ Compensation Board – Alberta

Ron J. Helmhold, FCPA, FCA
Chief Financial Officer
Workers’ Compensation Board – Alberta

Independent Auditor's Report

To the Board of Directors of the Workers' Compensation Board – Alberta

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Workers' Compensation Board – Alberta, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of comprehensive income, changes in funded position and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Workers' Compensation Board—Alberta as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCPA, FCA]

Auditor General

April 25, 2017

Edmonton, Alberta

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion

on the valuation of the claim benefit liabilities of the Workers' Compensation Board – Alberta as at December 31, 2016

I have completed the actuarial valuation of the claim benefit liabilities of the Workers' Compensation Board – Alberta (WCB) for the consolidated financial statements of the WCB as at December 31, 2016 (the "valuation date").

In my opinion, the actuarial liabilities of $7,553.0 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits with respect to claims which occurred on or before the valuation date, and for all 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 WCB. This amount provides for future claim administration costs, but does not include a provision for benefits and payments that are on a self-insured basis.

The valuation was based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. The impact of the payment adjustments made to self-managed personal care and housekeeping allowances has been considered.

The data on which the valuation is based were provided by the WCB; 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 that the data are consistent with WCB'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 are consistent with the WCB's funding and investment policies. For this valuation, a real rate of return of 2.50% per annum was used to discount expected payments subject to inflation, a change from the previous assumption of an annual rate of 2.75%. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.00%; in the previous valuation, they were assumed at a rate of 2.50% per annum. Escalation rates for health care costs and vocational rehabilitation benefits remained at annual rates of 2.50% and 1.00% respectively in excess of CPI. The annual increase for benefits subject to Cost of Living Adjustments is assumed at CPI minus 0.47%; previously it was assumed at CPI minus 0.50%. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The assumptions and methods 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 WCB'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 (i.e. actuarial methods and assumptions) caused liabilities to increase by $168.5 million. The revision of the economic assumptions represented an increase of $219.4 million. Changes to the methods and assumptions used for the valuation of long term health care benefits and of latent occupational disease claims represented an increase of $37.5 million and a decrease of $88.4 million respectively. 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 claim 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.

Richard Larouche

Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
April 24, 2017

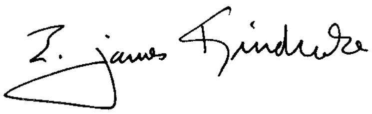
Workers' Compensation Board – Alberta

Consolidated Statement of Financial Position

As at December 31

($ thousands)	Notes	2016	2015
ASSETS			
Cash and cash equivalents	19(a)	$ 321,992	$ 293,694
Trade and other receivables	19(b)	65,187	59,500
Investments	5	10,052,375	9,954,104
Property, plant and equipment	7	58,664	54,289
Intangible assets	8	31,079	28,998
		$ 10,529,297	$ 10,390,585
LIABILITIES			
Trade and other liabilities	19(c)	$ 117,804	$ 90,229
Investment liabilities	5	743	90,677
Surplus distributions	19(d)	-	466,959
Safety rebates	19(e)	78,628	85,664
Employee benefits	10	121,325	133,665
Claim benefits	11	7,553,000	6,867,300
		7,871,500	7,734,494
FUNDED POSITION			
Fund Balance	4	2,204,597	2,244,091
Occupational Disease Reserve	4	453,200	412,000
		2,657,797	2,656,091
		$ 10,529,297	$ 10,390,585
LEASE AND OTHER COMMITMENTS	9		
CONTINGENCIES AND INDEMNIFICATION	18		

Approved by the Board of Directors on April 25, 2017:



E. James Kindrake
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

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

Workers' Compensation Board – Alberta

Consolidated Statement of Comprehensive Income

Year ended December 31

($ thousands)	Notes	2016 Budget	2016 Actual	2015 Actual
REVENUE				
Premium revenue	13	$ 1,124,406	$ 994,527	$ 1,024,635
Investment income	16(a)	409,951	750,760	675,045
		1,534,357	1,745,287	1,699,680
EXPENSES				
Claims expense	14	835,106	781,607	773,948
Claims management	14,15	119,552	118,064	113,689
Interest expense on claim benefit liabilities	11	349,700	348,900	336,300
Remeasurement of claim benefit liabilities	11	-	321,583	(129,248)
Corporate administration	15	95,461	91,303	90,122
Injury reduction	19(f)	69,287	67,737	64,292
Investment management expense	16(b)	40,733	36,959	39,252
Interest on employee benefit liabilities	10	5,884	5,136	5,870
		1,515,723	1,771,289	1,294,225
OPERATING SURPLUS (DEFICIT)		18,634	(26,002)	405,455
Funding policy surplus distributions	4,19(d)	(181,000)	9,400	(463,392)
NET FUNDING DEFICIT		(162,366)	(16,602)	(57,937)
OTHER COMPREHENSIVE INCOME				
Remeasurement of employee benefit liabilities	10	-	18,308	23,337
TOTAL COMPREHENSIVE INCOME		$ (162,366)	$ 1,706	$ (34,600)

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

Workers' Compensation Board – Alberta

Consolidated Statement of Changes in Funded Position

Year ended December 31

($ thousands)	Notes	**2016**	2015
FUND BALANCE			
Accumulated surplus			
Balance, beginning of year		$ 2,290,698	$ 2,362,835
Net funding deficit		(16,602)	(57,937)
Transfer to Occupational Disease Reserve		(41,200)	(14,200)
		2,232,896	2,290,698
Accumulated other comprehensive income			
Balance, beginning of year		(46,607)	(69,944)
Other comprehensive gain		18,308	23,337
		(28,299)	(46,607)
Fund Balance, end of year		2,204,597	2,244,091
OCCUPATIONAL DISEASE RESERVE	4		
Balance, beginning of year		412,000	397,800
Transfer from Fund Balance		41,200	14,200
Occupational Disease Reserve, end of year		453,200	412,000
		$ 2,657,797	$ 2,656,091

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

Workers' Compensation Board – Alberta

Consolidated Statement of Cash Flows

Year ended December 31

($ thousands)	2016	2015
OPERATING ACTIVITIES		
Cash inflows (outflows) related to business operations		
Employer premiums	$ 1,021,270	$ 1,084,483
Benefits to claimants and/or third parties on their behalf	(758,602)	(737,699)
Administrative and other goods and services	(214,287)	(219,923)
Injury reduction program	(67,737)	(64,292)
Net cash from (used for) operating activities	(19,356)	62,569
INVESTING ACTIVITIES		
Cash inflows (outflows) related to investment assets		
Interest income received	80,133	78,409
Dividend income received	51,022	56,646
Pooled fund distributions received	166,789	190,893
Settlement of derivatives	(15,053)	(166,292)
Investment management expenses	(36,695)	(39,345)
Proceeds from sale of investments, net of cash purchases	516,007	440,007
Purchase of investments through reinvestment of income received	(236,343)	(267,085)
Cash outflows related to operating assets		
Purchase of property, plant and equipment	(11,039)	(10,484)
Purchase of computer software	(9,608)	(8,097)
Net cash from investing activities	505,213	274,652
FUNDING ACTIVITIES		
Cash outflows related to funding activities		
Surplus distributions	(457,559)	(503,592)
Net cash used for funding activities	(457,559)	(503,592)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,298	(166,371)
Cash and cash equivalents, beginning of year	293,694	460,065
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 321,992	$ 293,694

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 with comparatives for the year ended December 31, 2015 (thousands of dollars unless stated otherwise).

1. REPORTING ENTITY

The Workers' Compensation Board - Alberta (WCB) is a provincial board created by legislation in 1918. As a statutory corporation, WCB administers the workers' compensation system for the province of Alberta under the authority of the *Workers' Compensation Act* (the Act). WCB's corporate head office is located in Edmonton, Alberta, with operations exclusively within the province of Alberta. WCB's legislated mandate is to provide disability benefits to workers who sustain injuries in the course of employment.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of the consolidated financial statements for all years presented, unless otherwise indicated.

GENERAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) as set out in Part I of the *Chartered Professional Accountants of Canada Handbook* as at and applicable on December 31, 2016.

These consolidated financial statements have been prepared on an historic cost basis except for investments reported at fair value. The principal accounting policies applied in the preparation of the consolidated financial statements on an IFRS basis are set out below.

Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of WCB and its wholly owned subsidiaries, both of which are Alberta registered corporations:

- **WCB Real Assets Ltd.** – holds portfolio investments in infrastructure and timberlands.
- **WCB Global Real Assets Ltd.** – holds portfolio investments in commercial real estate.

All intercompany transactions and balances have been eliminated on consolidation.

Financial statement presentation

WCB presents its consolidated statement of financial position in order of liquidity.

A financial asset and financial liability may be offset only when an entity currently has a legally enforceable and unconditional right of set-off and intends either to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously. Because WCB receivables with credit balances and derivative contracts in a payable position do not satisfy the critical condition of a legally enforceable right of set-off, they are reclassified and presented as trade and other liabilities and investment liabilities respectively.

The consolidated statement of comprehensive income reports operating results arising from WCB's primary activities: core business operations including risk underwriting, premium assessment and collection, benefit processing, injury treatment and vocational rehabilitation, and financial management including investment portfolio management and claim benefit liability valuation. Administration expense is presented in the consolidated statement of comprehensive income by function. Other comprehensive income consists of net changes in remeasurement of post-employment defined benefit plan liabilities, which is an item that will not be subsequently reclassified to income or expenses.

In addition to performance reporting, the consolidated statement of comprehensive income also reports funding actions arising from the application of the Funding Policy as established by the Board of Directors. Such actions include appropriations of excess surplus for distribution back to employers, or collection of special levies required to replenish funding deficits.

Critical judgements and accounting estimates

Management incorporates critical judgements and accounting estimates in developing and applying accounting policies for recognition and measurement. Such judgements and estimates, which reflect best information at a point in time, affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented. Actual results in subsequent periods could differ from the judgements and estimates used by management in these consolidated financial statements. These differences, which may be material, could require adjustment in those subsequent periods.

Some accounting measurements require management's best estimates for those transactions for which sufficient information may not be available to record a precise amount. Employee benefit liabilities (Note 10), Claim benefit liabilities (Note 11), Premium revenue and the Partnerships in Injury Reduction rebates accrual (Note 13) are the most significant items that are based on accounting estimates.

The areas where judgements affect the consolidated financial statements are described below.

Control over an investee

In preparing consolidated financial statements, WCB must apply judgement to determine whether it has control or significant influence with respect to the activities of its investees. Control arises from WCB holding voting or contractual rights to direct the activities of the investees affecting returns, and the ability to exercise its voting and/or contractual rights to affect those returns materially. Substantive voting power with respect to relevant activities confers control and results in consolidation of an investee.

For structured entities, such as limited partnerships and similar entities where control stems from contractual or other rights rather than voting power, significant use of judgement is required to evaluate the determinants of control. From its analysis, WCB has concluded that it does not control or have significant influence over its structured entities. As passive portfolio investments, such interests would apply financial instruments accounting.

For further details, see the section *Interests in unconsolidated structured entities* at the end of Note 5.

Fair value measurement

Certain externally managed investments are measured at fair value using valuation models based on discounted future cash flows, rather than directly from observable market prices. Judgement is required to design and build the valuation model(s) using appropriate quantitative methodologies and to select and/or customize the key input assumptions from observable inputs. This includes such factors as the expected yield (i.e., discount rate), revenue and expense growth rates, effect of future inflation, terminal value of assets, income taxes, and estimates of the timing and amount of the relevant cash flows.

For further details, see the section *Valuation of financial instruments* in Note 5.

Foreign currency translation

WCB's consolidated financial statements are presented in Canadian dollars, which is also the functional currency. All financial information presented is rounded to the nearest thousand, unless otherwise stated. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the consolidated statement of financial position. Exchange differences arising from settlement of monetary items are included in income in the period in which they arise. Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect when those transactions occurred.

Cash equivalents

Cash equivalents include short-term, liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use, and are accordingly included in investments.

Finance expense

Finance expense comprises primarily recognition of interest (i.e., time value of money) inherent in discounted liabilities. Significant discounted liabilities include claim benefit liabilities, employee benefit plans and lease obligations.

SPECIFIC ACCOUNTING POLICIES

To facilitate a better understanding of WCB's consolidated financial statements, specific accounting policies are disclosed in the related notes:

Note	Topic	Page
5	Investments	56
7	Property, plant and equipment	63
8	Intangible assets	64
9	Lease and other commitments	65
10	Employee benefits	66
11	Claim benefit liabilities	69
13	Premium revenue	74
16	Investment income and expense	76

3. ACCOUNTING POLICY CHANGES

STANDARDS, AMENDMENTS, AND INTERPRETATIONS ISSUED AS OF YEAR END BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 in its entirety, replacing previous versions and IAS 39. IFRS 9 (2014) retains but simplifies the classification and measurement model for financial assets and financial liabilities: amortized cost, fair value through OCI (FVOCI), and fair value through income (FVTI). A new expected credit loss (ECL) model supersedes the incurred loss impairment model used in IAS 39. IFRS 9 (2014) also relaxes the requirements for hedge accounting, and replaces restrictive hedge effectiveness testing with a qualitative assessment only. IFRS 9 (2014) is effective in its entirety for annual periods beginning on or after January 1, 2018, with early adoption permitted. Retrospective application is required. WCB currently applies IFRS 9 (2010) *Financial Instruments: Classification and Measurement*.

After completing its assessment of IFRS 9 (2014), WCB has concluded that its business model for portfolio investment does not qualify for the revised amortized cost and FVOCI classifications, with FVTI remaining the appropriate designation. Amortized cost is applicable to non-investment financial assets, principally trade receivables, for which WCB will apply the simplified impairment approach, resulting in recognition of a loss allowance for lifetime ECL at origination of the receivable. Under the revised rules for hedge accounting, which remains a policy choice under IFRS 9 (2014), hedging of WCB's currency risk continues to be ineligible for hedge accounting as it is considered a 'macro' hedge, which has been scoped out of the new standard.

Based on this assessment, IFRS 9 (2014) is not expected to have a material impact on results of operations or financial position. WCB has not yet decided on an adoption date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued May 2014, introduces new principles that an entity must apply to measure and recognize revenue. The core principle is that revenue reflects the expected consideration that the entity is entitled to receive in exchange for transferring goods or services to a customer.

For WCB, the scope of IFRS 15 could include contracts for claims and disability management services for self-insured injury compensation plans, and industry services related to safety education, occupational and vocational rehabilitation and sale of materials. These contracts are not material, and if applied, IFRS 15 will entail only presentation and disclosure changes. WCB has not yet concluded on the applicability of IFRS 15 to these service contracts.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 Leases

IFRS 16, issued in January 2016, will require lessees to apply a single 'on-balance sheet' model, similar to finance leases, for all leases except short-term leases of 12 months or less and leases of low-value assets. In addition to the single accounting model, a key principle of IFRS 16 is whether the lessee acquires control over the use of an underlying asset. Where such control exists, the requirements of the standard would apply. Absent such control, the arrangement is not a lease (i.e., the right to use the asset), but a contract for services only (i.e., delivered using an asset controlled by the vendor). If an in-scope leasing relationship has been established, at the lease commencement date a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognize interest expense on the lease liability and depreciation expense on the right-of-use asset separately.

WCB has not yet determined the impact of applying IFRS 16 on its financial results. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

4. FUNDING

Accident Fund

The Act stipulates the creation of an Accident Fund (the Fund) holding sufficient funds for the payment of present and future compensation. The Act requires WCB to maintain a minimum 100 per cent funded ratio at all times. This Funded Ratio represents the current funding status of the Fund.

The Funded Position is maintained through two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR). The Fund Balance represents accumulated net operating surpluses retained against financial uncertainty. The ODR was established through an appropriation from the Fund Balance to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. The ODR is maintained at six per cent of claim benefit liabilities in each year through a transfer from or to the Fund Balance.

FUNDING POLICY AND CAPITAL MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment and claim benefit liability risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114–128 per cent for the Funded Ratio (total assets divided by total liabilities) to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, surplus distributions may be paid. There were no changes to the described Funding Policy or capital management practices during the year.

($ thousands)	**2016**	2015
Accident Fund		
Total assets	$ 10,529,297	$ 10,390,585
Less:		
Total liabilities	7,871,500	7,734,494
Funded Position	$ 2,657,797	$ 2,656,091
Funded Ratio	133.8%	134.3%

5. INVESTMENTS

ACCOUNTING POLICY

WCB elected early adoption of IFRS 9 (2010) *Financial Instruments: Classification and Measurement* as at the date of transition to IFRS in 2011.

WCB's portfolio investments are classified at fair value through income and are managed in accordance with portfolio management objectives and the Investment Policy. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for purchases and sales of financial instruments.

Upon initial recognition, debt and equity securities, which include unit interests in pooled investments, are recognized at their fair value plus costs relating to trade settlement, if applicable. Changes in the carrying value of all portfolio investments arising from subsequent remeasurement are recognized in investment income in the period in which they occur, including the immediate expensing of transaction costs.

Derivatives are recognized at inception, and subsequently remeasured as at the reporting date, at their fair value. Gains and losses resulting from remeasurement are recognized in investment income in the respective periods in which they arise. Derivatives are not used for trading, but to manage economic and asset risk exposures. WCB does not apply hedge accounting with respect to such use of derivatives.

Cash, net receivables and payables held within the investment portfolio are carried at amortized cost.

Valuation of financial instruments

The fair value of financial instruments as at the reporting date is determined as follows:

Debt and equity securities

- Publicly traded equity securities are based on their closing prices. Debt securities traded over-the-counter are based on the average of the latest bid/ask prices provided by independent third party securities valuation companies.
- Non-publicly traded pooled funds are valued at the net asset value of the funds, which reflect the fair values of fund assets less fund liabilities.
  - The fair value of the underlying loans in the commercial mortgage fund is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.
- Structured entities such as limited partnerships and similar private equity funds are also valued at the net asset value of the funds.
  - The fair value of the underlying real assets in real estate, infrastructure, and timberlands funds are based on independent annual appraisals in accordance with generally accepted valuation standards, net of any financing liabilities against specific fund assets.

Further discussion of the valuation of structured entities is provided in the Level 3 fair value hierarchy disclosure in the following section.

Derivative contracts

- Foreign-exchange forward contracts are valued based on the change in the foreign-exchange forward rate of the underlying currency pairing specified in the forward contract.
- Equity index futures are valued based on their closing prices on the exchange in which they trade. These prices reflect changes in the equity market index specified in the futures contract.
- Currency futures are valued based on quoted prices on the exchange in which they trade. These prices reflect changes in the foreign-exchange forward rate of the underlying currency pairing specified in the futures contract.
- Bond futures are valued based on settlement prices on the exchange in which they trade. These prices reflect changes in the bid/ask prices of the underlying bonds in dealer markets.

INVESTMENT PORTFOLIO HOLDINGS

WCB's portfolio investments are all classified at fair value through income. The table in this section presents the fair value of WCB's investments as at December 31, together with their classifications under the fair value measurement hierarchy. Note 16 *Investment Income and Expense* provides a breakdown of investment income by type.

Fair value classification hierarchy

The fair value of WCB's investments recorded on the consolidated statement of financial position was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. It includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation. The most significant inputs affecting the fair value calculations include the projected operating and capital-related cash flows and the associated discount rate. The discount rate is responsive to changes in macroeconomic factors affecting the risk profile of invested assets such as demand, market conditions, financial risks, future inflation, and so on. This level includes pooled funds invested in debt securities, private equity, real estate, infrastructure and timberlands.

The table below summarizes the basis of fair value measurements for financial assets held in WCB's investment portfolio:

($ thousands)	Fair value through income Level 1	Level 2	Level 3	Fair Value	Amortized Cost[5]	2016	2015
Fixed income							
Nominal bonds	$ 5,324	$ 1,802,951	$ 412,405	$ 2,220,680	$ 28,693	$ 2,249,373	$ 2,170,537
Mortgages [1]	-	-	425,593	425,593	-	425,593	497,048
	5,324	1,802,951	837,998	2,646,273	28,693	2,674,966	2,667,585
Equities							
Domestic	533,558	539,334	-	1,072,892	2,051	1,074,943	864,601
Foreign [2]	1,795,134	893,813	120	2,689,067	27,710	2,716,777	2,759,641
	2,328,692	1,433,147	120	3,761,959	29,761	3,791,720	3,624,242
Inflation-sensitive							
Real estate [3]	223,318	-	1,175,156	1,398,474	772	1,399,246	1,434,764
Infrastructure [4]	448,545	-	904,043	1,352,588	7,367	1,359,955	1,448,603
Timberlands	-	-	97,738	97,738	-	97,738	96,320
Real-return bonds	-	699,355	-	699,355	2,671	702,026	682,590
	671,863	699,355	2,176,937	3,548,155	10,810	3,558,965	3,662,277
	3,005,879	3,935,453	3,015,055	9,956,387	69,264	10,025,651	9,954,104
Derivative assets	-	26,724	-	26,724	-	26,724	-
Derivative liabilities [6]	(583)	(160)	-	(743)	-	(743)	(90,677)
Investments (net of derivatives)	$ 3,005,296	$ 3,962,017	$ 3,015,055	$ 9,982,368	$ 69,264	$ 10,051,632	$ 9,863,427
Presented as:							
Investments	$ 3,005,879	$ 3,962,177	$ 3,015,055	$ 9,983,111	$ 69,264	$ 10,052,375	$ 9,954,104
Derivative liabilities [6]	(583)	(160)	-	(743)	-	(743)	(90,677)
Investments (net of derivatives)	$ 3,005,296	$ 3,962,017	$ 3,015,055	$ 9,982,368	$ 69,264	$ 10,051,632	$ 9,863,427

[1] *Mortgages include commercial mortgages and multi-unit mortgages, excluding single-dwelling residential mortgages.*
[2] *Foreign equities comprise U.S., EAFE (Europe, Australasia, and Far East),and Emerging Markets mandates.*
[3] *Real estate investments consist of pooled funds invested in commercial properties.*
[4] *Infrastructure consists of pooled funds invested in infrastructure projects.*
[5] *Includes portfolio cash, receivables,and payables whose cost approximates fair value.*
[6] *Derivative liabilities are presented as investment liabilities in the consolidated statement of financial position.*

Transfers between levels

There were no material transfers between levels during 2016 or 2015.

Reconciliation of Level 3 activity ($ thousands)	Fixed Income	Equities	Real Estate	Infrastructure	Timberlands	2016 Total	2015 Total
Balance, beginning of year	$ 870,075	$ -	$ 1,199,738	$ 1,010,249	$ 96,320	$ 3,176,382	$ 2,577,611
Income distributions	22,323	-	-	-	-	22,323	24,568
Fair value change	8,451	-	55,257	66,567	1,418	131,693	236,954
Purchases (capital returns) of Level 3 investments	237,176	120	14,457	161,369	-	413,122	493,216
Sale/settlement of Level 3 investments	(300,027)	-	(94,296)	(334,142)	-	(728,465)	(155,967)
Balance, end of year	$ 837,998	$ 120	$ 1,175,156	$ 904,043	$ 97,738	$ 3,015,055	$ 3,176,382

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

Through its investment program WCB is involved with structured entities, which comprise structured vehicles (i.e., limited partnerships and structured equity) invested in operating property assets, as well as pooled funds invested in financial instruments of property-based issuers. The following discusses some unique characteristics of such entities and the nature of the risks attached to them.

Relevant activities of the structured entities that affect returns include identification, selection and/or development, and operation of established properties with stable cash flows and strong capital appreciation potential. Development and execution of an exit strategy is another important activity.

Significant constraints are imposed on funds invested in structured entities, by virtue of their legal agreements, regulatory environment, and the nature and economics of the underlying assets. Once committed, an investor is expected to fund the entire subscribed amount over the term of the agreement (typically over the next five to ten years), unless the investment agreement provides otherwise. Once invested, funds are no longer available to the investor, and withdrawal through sale or transfer of interests is permitted only after a certain period as stipulated in the agreement.

The primary risk to WCB relating to these structured entities is lack of liquidity due to the size of the positions and the limited number of qualifying investors; and, these entities are invested in specialized or long-term assets that are difficult to liquidate due to the nature of their markets. WCB is also exposed to market and operating risks based on the underlying assets held by these entities.

WCB's financial exposure is limited to the net carrying amount of the investment.

The following table provides information about WCB's interests in unconsolidated structured entities:

($ thousands)	**2016**		2015	
Structured Entity Type by Mandate	**Carrying Value**	**Undrawn Funding Commitments**	Carrying Value	Undrawn Funding Commitments
Limited partnerships				
Nominal bonds	$ 18,066	$ -	$ 24,876	$ -
Real estate	224,727	11,475	232,894	7,893
Infrastructure	904,043	293,935	717,575	173,329
Timberlands	97,738	217,500	96,320	225,824
	1,244,574	522,910	1,071,665	407,046
Structured equity				
Real estate	545,408	-	506,554	-
	$ 1,789,982	$ 522,910	$ 1,578,219	$ 407,046

6. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall strategic direction and governance of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment risks, performance, and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy, and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim liabilities. In order to manage this funding risk, risk management for investments has been integrated with risk management of liabilities. WCB's primary risk mitigation strategy is effective execution of its Investment Policy. The Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, and engaging fund managers who represent a broad range of investment philosophies and styles, operating within a rigorous compliance framework.

WCB has identified key areas of investment risk that directly affect the sufficiency of its investments to fund current and future claim obligations:

Market risks • These risks include movements in equity market prices, interest rates, credit spreads, and foreign currency exchange rates.

Portfolio risks • These risks relate to specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risks, WCB's exposures, and their respective mitigation strategies.

MARKET RISKS

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate in the future because of price changes. WCB's mitigation strategy for equity market risk is to apply disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices.

The table below presents the effect on WCB's equity mandates of a significant adverse change[1] in the key risk variable — the amount of portfolio volatility:

($ thousands)	**2016**		2015	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in portfolio	(8.6%)	(17.1%)	(9.3%)	(18.7%)
Canadian	$ (92,000)	$ (184,000)	$ (80,754)	$ (161,508)
% change in portfolio	(9.3%)	(18.6%)	(8.8%)	(17.6%)
Global	$ (210,057)	$ (420,114)	$ (203,186)	$ (406,371)
% change in portfolio	(14.3%)	(28.5%)	(14.4%)	(28.8%)
Emerging markets	$ (64,896)	$ (129,792)	$ (64,905)	$ (129,810)

Fixed income pricing risk

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors, or individual issuers. This risk is generally manifested through changes in the security's credit spread. WCB's investment portfolio is exposed to fixed income pricing risk through participation in a Canadian mortgage pool and through direct holdings of Canadian and foreign fixed income securities.

[1] A change is considered to be material when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One standard deviation covers 68 per cent of all probable outcomes; two standard deviations include 95 per cent of outcomes. The benchmark deviations are based on 2016 data.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps[1] on the mortgage portfolio and non-government portion of the bond portfolio:

($ thousands)	2016		2015	
Change in credit spreads	+50 bps	+100 bps	+50 bps	+100 bps
Nominal bonds	$ (21,799)	$ (43,597)	$ (21,390)	$ (42,779)
Mortgages	$ (5,533)	$ (11,065)	$ (7,704)	$ (15,408)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The table below presents the effects of a nominal interest rate change of 50 and 100 bps on the respective bond and mortgage portfolios:

($ thousands)	2016		2015	
Change in nominal interest rate	+50 bps	+100 bps	+50 bps	+100 bps
Nominal bonds	$ (68,714)	$ (137,427)	$ (67,255)	$ (134,510)
Real return bonds	$ (54,969)	$ (109,937)	$ (53,925)	$ (107,849)
Mortgages	$ (5,533)	$ (11,065)	$ (7,704)	$ (15,408)

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

WCB is exposed to currency risk through foreign investments in fixed income, equities, infrastructure and timberlands. The exposures are economically hedged to the Canadian dollar by utilizing futures and forward contracts. The target hedge ratio (percentage of the exposure hedged to Canadian dollars) varies by asset class and currency. The target for fixed income, infrastructure and timberlands is 100 per cent. For foreign equities, the target is 25 per cent for the U.S. dollar and 50 per cent for other major currencies.

WCB's largest foreign currency exposure is to the U.S. dollar, with unhedged holdings of $1,210,702 (2015 – $1,060,346); euro exposure is next, with unhedged holdings of $182,477 (2015 – $137,124). For the current reporting period, the net gain from the currency overlay was $104,596 (2015 loss – $235,759).

The table below presents the effects on the foreign equity mandate of a material change in the Canadian/U.S. dollar and Canadian/euro exchange rates:

($ thousands)	2016		2015	
	CAD/USD	CAD/EURO	CAD/USD	CAD/EURO
December 31 spot rate	0.7457	0.7070	0.7199	0.6627
10% appreciation in the Canadian dollar	0.8203	0.7777	0.7919	0.7290
Global	$ (110,347)	$ (16,228)	$ (96,396)	$ (12,466)

PORTFOLIO RISKS

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial economic hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold or sell securities directly.

[1] *One basis point (bp) equals 1/100 of 1 per cent; 50 bps = 50/100 of 1 per cent or 0.5 per cent.*

The notional value of a derivative contract used in an economic hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position.

The table below summarizes the fair value of WCB's derivative portfolio of open contract positions in segregated funds as at December 31. Derivative contracts in a gain position (financial assets) have been presented separately from contracts in a loss position (financial liabilities) and are presented with their remaining terms to maturity.

($ thousands)		**2016**			2015		
	Term to Maturity	**Notional Principal**	**Derivative Contract Assets**	**Derivative Contract Liabilities**	Notional Principal	Derivative Contract Assets	Derivative Contract Liabilities
Asset replication contracts	Within 1 year	$ 40,957	$ -	$ (238)	$ 42,157	$ -	$ -
Foreign-exchange contracts	Within 1 year	2,236,249	26,724	(505)	1,931,697	-	(90,677)
		$ 2,277,206	$ 26,724	$ (743)	$ 1,973,854	$ -	$ (90,677)

WCB also has indirect exposure to derivatives risk through its pooled investments.

Liquidity risk

Liquidity risk is the risk that WCB will encounter difficulty in meeting obligations associated with its liabilities, particularly claim liabilities, which are funded from cash and cash equivalents, as well as investments where necessary. This risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for forced liquidations of portfolio assets in volatile markets and by holding a number of investments in readily marketable instruments (publicly traded equity and fixed income securities). Some investments, particularly those in structured entities, are not readily marketable or liquid, as discussed in the section *Interests in Unconsolidated Structured Entities* in Note 5.

To cover unanticipated cash requirements when market conditions are unfavourable, WCB also has an available standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2016.

Counterparty default risk

Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligations to WCB.

To mitigate counterparty default risk, WCB requires that credit ratings for counterparties not fall below an acceptable threshold. The Investment Policy permits bond issuers to have lower than a BBB- (or equivalent) score from a recognized credit-rating agency, but such holdings may not exceed ten per cent of total fixed income assets in the portfolio. Counterparties for derivative contracts will have at least an A- credit rating or equivalent from a recognized credit-rating agency. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those specified investment constraints.

As at December 31, 2016, the aggregate amount of fixed income securities in segregated funds with counterparty ratings below BBB- was $120,495 (2015 – $157,227). WCB also has indirect exposure to counterparty default risk through its pooled investments.

Securities lending risk

WCB participates in a securities-lending program sponsored by its custodian. Under IFRS 9, securities lending arrangements are considered transfers of assets that are not derecognized because the transferor retains substantively the risks and rewards of ownership, notwithstanding the transferee's right to sell or pledge those assets. WCB is protected against loss of the transferred securities by requiring the borrower to provide collateral in the form of marketable securities having a minimum fair value of 102 per cent of the loan. Such collateral is not recognized because it is available to the transferor only upon failure of the transferee to fulfil its commitments. In any event, the custodian is also contractually obligated to indemnify WCB for any losses resulting from inadequate collateral.

At December 31, 2016, securities on loan through the custodian totalled $1,296,229 (2015 – $1,472,157), secured by $1,391,200 (2015 – $1,573,130) of posted collateral. During 2016, the securities-lending program generated income of $4,705 (2015 – $4,022).

7. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment (PPE) are recognized as an asset if it is probable that WCB will realize future economic benefits. Items are initially measured at acquisition cost, and subsequently at amortized cost.

After initial recognition, property, plant and equipment is stated at historical cost less accumulated depreciation and impairment (if applicable) with the exception of land, which is not depreciated. Leased assets and leasehold improvements are depreciated over their lease term. All other items are depreciated over their expected useful life. Depreciation expense is recognized when an asset is ready for use.

Residual values, useful lives, and depreciation methods are reviewed at each financial year-end and adjusted if appropriate. Depreciation expense is included in claims management and corporate administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

WCB applies the following annual depreciation rates and methods:

Buildings .... 2.5 per cent straight-line
Leasehold improvements .... Straight-line over the expected lease term
Equipment:
- *Computer (owned) .... 35 per cent declining balance*
- *Computer (leased) .... Straight-line over the lease term*

Furniture and other .... 15 per cent declining balance
Vehicles .... 20 per cent straight-line

WCB evaluates its property, plant and equipment 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. When the carrying value exceeds the amount of future economic benefit through utilization, the item of property, plant and equipment is written down to the recoverable amount and the amount recognized as an impairment loss.

($ thousands)						2016	2015
	Land/ Buildings	Leasehold Improvements	Computer Equipment	Office Furniture/ Equipment	Vehicles/ Other	**Total**	Total
Cost							
Balance, beginning of year	$ 59,085	$ 1,841	$ 16,537	$ 19,583	$ 764	$ 97,810	$ 93,843
Current period activity:							
Capitalized expenditure	3,689	61	6,875	1,535	32	12,192	8,849
Transfer from PPE under construction	(891)	(61)	(3,668)	(397)	-	(5,017)	(3,516)
Disposals	-	-	(1,956)	(82)	(19)	(2,057)	(6,384)
PPE under construction	1,891	201	1,542	230	-	3,864	5,018
Balance, end of year	$ 63,774	$ 2,042	$ 19,330	$ 20,869	$ 777	$ 106,792	$ 97,810
Accumulated depreciation and impairment							
Balance, beginning of year	$ 22,717	$ 1,162	$ 6,178	$ 12,838	$ 626	$ 43,521	$ 43,848
Current period activity:							
Depreciation	1,221	157	4,173	1,060	53	6,664	6,057
Disposals	-	-	(1,956)	(82)	(19)	(2,057)	(6,384)
Balance, end of year	$ 23,938	$ 1,319	$ 8,395	$ 13,816	$ 660	$ 48,128	$ 43,521
Carrying value, beginning of year	$ 36,368	$ 679	$ 10,359	$ 6,745	$ 138	$ 54,289	$ 49,995
Carrying value, end of year	$ 39,836	$ 723	$ 10,935	$ 7,053	$ 117	$ 58,664	$ 54,289

Property, plant and equipment under finance leases

Included in property, plant and equipment is computer equipment acquired through finance leases at cost of $7,165 (2015 – $5,722), accumulated depreciation of $3,450 (2015 – $2,323), and carrying value of $3,715 (2015 – $3,399).

See Note 9 *Lease and Other Commitments* for accounting policy and further details on leased property, plant and equipment.

8. INTANGIBLE ASSETS

ACCOUNTING POLICY

WCB's intangible assets are composed of computer software developed internally or acquired through third party vendors and customized as necessary. Development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset in the manner intended.

Computer software is measured at cost upon initial recognition. After initial recognition, computer software is measured at cost less accumulated amortization and impairment (if applicable). Computer software is amortized on a straight-line basis at 20 per cent per year commencing from the date that the software is available for use. When the carrying value exceeds the amount of future economic benefit through utilization, the item is written down to the recoverable amount and the amount recognized as an impairment loss.

Amortization expense is included in claims management and corporate administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

($ thousands)			2016	2015
	In Use	Under Development	**Total**	Total
Cost				
Balance, beginning of year	$ 121,887	$ 2,015	$ 123,902	$ 126,292
Capitalized expenditure	-	10,242	10,242	8,114
Transfers from development	65	(65)	-	-
Disposals	-	-	-	(10,504)
Balance, end of year	$ 121,952	$ 12,192	$ 134,144	$ 123,902
Accumulated amortization and impairment				
Balance, beginning of year	$ 94,904	$ -	$ 94,904	$ 98,506
Amortization	8,161	-	8,161	6,902
Disposals	-	-	-	(10,504)
Balance, end of year	$ 103,065	$ -	$ 103,065	$ 94,904
Carrying value, beginning of year	$ 26,983	$ 2,015	$ 28,998	$ 27,786
Carrying value, end of year	$ 18,887	$ 12,192	$ 31,079	$ 28,998

9. LEASE AND OTHER COMMITMENTS

ACCOUNTING POLICY

Leases of property, plant and equipment where WCB acquires substantially all the risks and rewards of ownership are classified as finance leases. At lease commencement, finance leases are recognized in the consolidated statement of financial position as assets and corresponding obligations at the lower of the fair value of the leased property and the present value of future minimum lease payments.

Lease payments are allocated between the liability and finance charges using the effective interest method to achieve a constant rate of interest on the remaining balance of the lease. The interest portion of the payment is charged to income over the lease period, while the principal portion is applied against the lease obligation.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to income over the lease term.

Lease obligations

WCB has obligations under long-term non-cancellable finance lease agreements for mainframe and desktop computer equipment. The land for WCB's rehabilitation centre and office space in Edmonton and Calgary are held under operating leases. WCB's leases have remaining terms of between one and 15 years.

Undiscounted future minimum lease payments under finance leases are $4,251 (2015 – $3,759), with a carrying value of $4,040 (2015 – $3,532), the difference of $211 (2015 – $227) being the effect of discounting.

See Note 7 *Property, Plant and Equipment* for carrying values of computer equipment held under finance leases and Note 19(c) *Trade and Other Liabilities* for presentation of the current finance lease obligation.

Commitments

WCB enters into contractual commitments for purchases of goods and services as part of its regular business activities. Future undiscounted expenditure commitments are listed in the table below.

($ thousands)	Leases			2016	2015
	Finance	Operating	Other Commitments	Total	Total
2016	$ -	$ -	$ -	$ -	$ 17,408
2017	2,386	2,010	19,998	24,394	14,930
2018	1,052	1,879	2,576	5,507	3,185
2019	656	929	610	2,195	891
2020	157	291	598	1,046	180
2021 and beyond	-	1,891	95	1,986	1,576
	$ 4,251	$ 7,000	$ 23,877	$ 35,128	$ 38,170

WCB also has undrawn investment commitments for certain limited partnerships. See the section *Interests in Unconsolidated Structured Entities* in Note 5 *Investments*.

10. EMPLOYEE BENEFITS

ACCOUNTING POLICY

WCB provides active service and defined post-employment benefits to its employees. WCB also participates in certain multi-employer pension plans sponsored by the province of Alberta. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered.

For defined post-employment benefit plans, current service cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the projected unit credit actuarial method, a market interest rate and management's best estimate of projected benefit costs. The net plan liability as at the reporting date is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash outflows using a discount rate based on market yields of high-quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability less the fair value of plan assets. Current service cost and interest expense of pension and other post-employment benefits are estimated using different discount rates derived from the same yields, reflecting the different timing of benefit payments for past service (the defined benefit obligation) and future service (the current service cost). Current service cost, interest expense, and interest income comprise the amount required in each year to build up the liability over the projected benefit period to its future value.

Remeasurement changes in plan assets and benefit liabilities, arising from actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

ACTIVE SERVICE BENEFITS

WCB's short-term benefits for active employees include salary, compensated absence (sick leave, statutory holidays, and annual vacation), group life insurance, dental and medical coverage, employee family assistance program, education support, and health and wellness benefits.

Termination benefits are provided for through employment contracts, statutory requirements, or constructive obligations. As at December 31, 2016 and 2015, there were no material expenditures or provisions relating to termination benefits.

POST-EMPLOYMENT BENEFITS

Pension plans

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the province of Alberta, namely the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). Under defined benefit plan accounting, WCB must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts, service cost, interest expense and interest income prorated on WCB's share of total contributions.

Both plans have funding deficiencies that have statutory funding requirements by employers and employees to eliminate any plan deficiencies over a specific time horizon. The information in this note reflects the annual actuarial valuation of WCB's share of the plans' assets, benefit obligations, remeasurement amounts, service cost, interest expense and interest income.

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP). Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act*. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings for service since the inception of the SERP or appointment to a senior management position, whichever is later. Future pension benefits are based on the participants' years of service and earnings.

See Note 17 *Related Party Transactions* for a breakdown of SERP costs by executive position.

Post-retirement benefit plan

WCB provides a contributory benefit plan that provides dental and health care benefits to retirees on pensions between the ages of 55 to 65. As plan participants pay part of the benefit cost, the benefit obligation represents the difference between actual costs and contributions subsidized by WCB.

OTHER BENEFIT PLANS

Long-term disability plan

WCB administers a self-insured non-contributory long-term disability (LTD) income continuance plan for its employees. The LTD liability represents the present value of all future obligations arising from disability claims incurred up to and including the reporting date.

EMPLOYEE BENEFIT PLAN ASSUMPTIONS

The table below presents key assumptions applicable to WCB's employee future benefit plans.

	2016					2015				
	PSPP	MEPP	SERP	Post Retirement	LTD	PSPP	MEPP	SERP	Post Retirement	LTD
Date of most recent actuarial valuation	12/31/2016	12/31/2016	12/31/2016	12/31/2016	12/31/2016	12/31/2015	12/31/2015	12/31/2015	12/31/2015	12/31/2015
Economic assumptions										
Discount rate (nominal) for benefit obligation	4.0%	3.9%	4.0%	3.7%	3.3%	4.2%	4.1%	4.2%	3.9%	3.7%
Alberta inflation rate (long-term)	2.0%	2.0%	2.0%	n/a	n/a	2.3%	2.3%	2.3%	n/a	n/a
Salary escalation rate	3.0%	0% for 2 yrs; 2.8% thereafter	0.0%	n/a	2.0%	3.5%	3.5%	3.0%	n/a	3.0%
Multi-employer plan funding assumptions										
WCB share of plan contributory payroll	4.1%	1.2%				4.3%	1.3%			
Current service cost rate on contributory payroll	17.1%	23.3%				17.1%	22.6%			
WCB's contributions for the current period *($ thousands)*	$ 14,615	$ 1,547				$ 14,505	$ 1,645			
WCB's expected contributions for the following period *($ thousands)*	$ 15,053	$ 1,254				$ 15,012	$ 1,703			

DEFINED BENEFIT PLAN LIABILITIES

($ thousands)	Pension Liabilities [1]	Other Retirement Liabilities [2]	LTD	2016	2015
Change in defined benefit obligation					
Defined benefit obligation, beginning of year	$ 373,115	$ 10,742	$ 16,148	$ 400,005	$ 404,092
Current service cost [3]	16,190	825	2,300	19,315	19,949
Interest expense [4]	15,388	448	565	16,401	16,140
Remeasurement (gains) losses [5]	(23,563)	(784)	(3,238)	(27,585)	(25,818)
Benefit payments	(12,228)	(148)	(2,172)	(14,548)	(14,358)
Defined benefit obligation, end of year	$ 368,902	$ 11,083	$ 13,603	$ 393,588	$ 400,005
Change in fair value of plan assets					
Fair value of plan assets, beginning of year	$ 266,340	$ -	$ -	$ 266,340	$ 254,271
Employer contributions	16,163	148	2,172	18,483	18,638
Interest income [4]	11,265	-	-	11,265	10,270
Remeasurement gains (losses) [5]	(9,277)	-	-	(9,277)	(2,481)
Benefit payments	(12,228)	(148)	(2,172)	(14,548)	(14,358)
Fair value of plan assets, end of year	$ 272,263	$ -	$ -	$ 272,263	$ 266,340
Net plan liability					
Defined benefit obligation	$ 368,902	$ 11,083	$ 13,603	$ 393,588	$ 400,005
Fair value of plan assets	272,263	-	-	272,263	266,340
	$ 96,639	$ 11,083	$ 13,603	$ 121,325	$ 133,665

[1] *Pension liabilities include WCB's proportionate share of the PSPP and MEPP net unfunded liabilities.*

[2] *Other retirement liabilities include SERP and the post-retirement benefit plan.*

[3] *Current service costs are presented within corporate administration in the consolidated statement of comprehensive income.*

[4] *Interest expense is presented net of interest income in the consolidated statement of comprehensive income.*

[5] *Remeasurement gains and losses on plan obligations due to discount rate changes and experience are presented net of gains and losses on plan assets in the consolidated statement of comprehensive income.*

RISKS ARISING FROM DEFINED BENEFIT PLANS

Economic risks

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to the extremely long tails of post-employment benefits, and health care escalation due to increasingly higher costs of treatment and prescription drugs.

Demographic risks

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, WCB is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the pension boards or changes in the assumptions used to value liabilities.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

Sensitivity analysis

The following table shows the effect of a 25 basis point change in the assumed discount rate, inflation rate, and wage inflation rate on WCB's proportionate share of the accrued benefit obligations of PSPP and MEPP. The impacts of the assumption changes on WCB's other employee benefit plans, individually and in aggregate, are immaterial.

($ thousands)	**2016**		2015	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Discount rate based on market yields on high-quality corporate bonds	$ (14,464)	$ 14,464	$ (14,533)	$ 14,533
General inflation rate	$ 6,183	$ (6,183)	$ 6,229	$ (6,229)
Wage inflation rate	$ 2,380	$ (2,380)	$ 2,263	$ (2,263)

11. CLAIM BENEFIT LIABILITIES

ACCOUNTING POLICY

The claim benefit liability represents the actuarial present value of all expected future benefit payments for claims and for workplace exposures that have occurred before the valuation date that may result in recognized occupational disease claims after the valuation date. The liability includes a provision for future costs of managing claims but does not include claims and payments that are on a self-insured basis. Valuation of claim benefit liabilities complies with Standards of Practice issued by the Actuarial Standards Board (ASB) of the Canadian Institute of Actuaries.

Gains and losses resulting from the valuation of the liability arise from differences between actual claims experience and that expected based on the previous valuation, changes to actuarial methods and assumptions as well as changes in policy, legislation, and administrative practices. Such gains and losses are recognized in income in the period that they occur.

ACTUARIAL METHODOLOGY AND BASIS OF VALUATION

Claim benefit liabilities are independently valued annually at year end by WCB's external actuary. Claim benefit liabilities include a provision for all covered benefits and for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and the Medical Panel Office.

Estimated future expenditures are expressed in constant dollars increased to consider expected future escalation, and then discounted at the assumed long-term rate of return on investments.

The valuation is based on WCB legislation, policies, and administrative practices in effect as at the valuation date. Estimation of the liability requires the use of actuarial methods and assumptions that are periodically assessed and adjusted based on frequent monitoring of actual claims experience, the economy, and other relevant factors throughout the year.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in conditions within one year of the consolidated financial statement date could require material change in recognized amounts in a subsequent period or periods.

See Note 12 *Claim Benefit Risks* for further discussion of measurement uncertainty with respect to valuation of WCB's claim benefit liabilities.

ACTUARIAL ASSUMPTIONS

The most significant economic assumptions for the determination of claim benefit liabilities are the assumed rate of return on invested assets used for discounting expected future benefit payments, and the escalation rates for benefit costs into the future. All actuarial assumptions are determined on a "best estimate" basis, except for the real rate of return on investments (i.e., the difference between the expected long-term investment return and the expected long-term general inflation rate). The expected long-term investment return assumption is targeted at about 70 per cent probability level, which provides a margin for adverse deviation in the liability.

Long-term economic assumptions for general inflation and wage escalation are developed by using historical statistics and other economic indicators. The cost-of-living adjustment assumption is determined in accordance with policy and administrative practice. Health care escalation is developed from analysis of WCB health care cost experience, taking into consideration the results of external studies. This escalation rate represents general inflation plus excess inflation of 2.5 per cent, covering both the increases in the costs per treatment and in utilization.

The table below presents key long-term economic assumptions used to determine the claim benefit liabilities:

	2016	2015
Nominal rate of return	4.55%	5.32%
General inflation rate	2.00%	2.50%
Real rate of return	2.50%	2.75%
Cost-of-living adjustment	1.53%	2.00%
Wage escalation	3.00%	3.50%
Health care escalation	4.50%	5.00%

RECONCILIATION OF CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the movement in claim benefit liabilities, highlighting the significant changes for each major benefit category.

($ thousands)	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Rehabilitation	Claims Management	**2016**	2015
Claim benefit liabilities, beginning of year	$ 486,800	$ 2,649,300	$ 566,000	$ 2,467,900	$ 192,200	$ 505,100	$ 6,867,300	$ 6,629,800
Claim costs recognized during the year								
Provision for future costs of current year injuries and exposures	105,400	166,100	25,900	241,200	45,800	69,300	653,700	626,600
Claim benefits processed in the year	71,686	3,043	1,522	113,547	4,516	51,657	245,971	261,037
Total claim costs recognized during the year	177,086	169,143	27,422	354,747	50,316	120,957	899,671	887,637
Claim payments processed during the year								
Payments for current year injuries	(71,686)	(3,043)	(1,522)	(113,547)	(4,516)	(51,657)	(245,971)	(261,037)
Payments for prior years' injuries	(113,499)	(183,900)	(42,811)	(176,064)	(55,802)	(66,407)	(638,483)	(596,152)
	(185,185)	(186,943)	(44,333)	(289,611)	(60,318)	(118,064)	(884,454)	(857,189)
Interest expense on the liability	23,200	136,400	28,900	126,300	9,000	25,100	348,900	336,300
Remeasurement of the liability								
Changes in valuation methods and assumptions								
Economic assumptions	8,800	88,700	20,900	85,900	2,000	13,100	219,400	-
Latent occupational diseases valuation	8,100	(18,100)	13,800	(92,900)	(3,200)	3,900	(88,400)	-
Long term health care benefits	-	-	-	34,900	-	2,600	37,500	-
Changes to Act, Regulation, policies and administrative practices								
Payment increases for personal care and housekeeping allowances	-	24,600	-	128,100	-	-	152,700	-
Changes in claims experience								
Inflation and wage growth different than expected	(14,700)	(66,000)	(10,900)	(30,900)	(8,700)	(1,200)	(132,400)	(103,000)
Economic loss payments higher than expected	-	118,700	-	-	-	-	118,700	15,800
Other experience (gains) losses	16,099	4,300	(1,389)	(14,736)	10,102	(293)	14,083	(42,048)
	18,299	152,200	22,411	110,364	202	18,107	321,583	(129,248)
Claim benefit liabilities, end of year	$ 520,200	$ 2,920,100	$ 600,400	$ 2,769,700	$ 191,400	$ 551,200	$ 7,553,000	$ 6,867,300

See Note 14 *Claims and Claims Management Expenses* for details of the amounts recognized in income for the reporting period.

CLAIMS DEVELOPMENT

The table that follows presents the development of the estimated ultimate cost of claims and claim payments for accident years 2007–2016. The top part of the table illustrates how the estimate of total claim benefits for each accident year has changed with more experience over succeeding year-ends. The shaded claims triangle shows the estimated cost of claims for an accident year in the year of the accident, one year after the year of the accident, two years after the year of the accident and so on and compares the total estimated cost to the actual cumulative payments over the development period. Due to the extremely long duration of many WCB benefit types, significant amounts may be paid out in the distant future beyond the valuation date. The bottom part of the table reconciles the total outstanding benefits amount to the discounted amount reported in the consolidated statement of financial position.

	Accident Year											
($ millions)	Prior Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Total**
Estimate of cumulative claims benefits												
At end of accident year		1,313.6	1,407.8	1,301.8	1,333.5	1,444.3	1,320.8	1,423.6	1,438.2	1,421.3	*1,323.9*	
One year later		1,295.3	1,308.5	1,250.4	1,299.4	1,250.4	1,305.7	1,383.6	1,414.3	*1,353.1*		
Two years later		1,197.1	1,276.4	1,239.5	1,118.5	1,220.9	1,256.9	1,394.3	*1,407.1*			
Three years later		1,176.1	1,271.1	1,095.7	1,080.8	1,175.3	1,258.0	*1,343.6*				
Four years later		1,154.1	1,135.9	1,074.7	1,047.6	1,160.0	*1,212.5*					
Five years later		1,035.3	1,113.1	1,048.4	1,042.8	*1,119.5*						
Six years later		1,016.2	1,094.4	1,031.8	*999.3*							
Seven years later		1,006.5	1,077.6	*991.9*								
Eight years later		997.9	*1,043.4*									
Nine years later		*962.2*										
Current estimate of cumulative claim benefits		962.2	1,043.4	991.9	999.3	1,119.5	1,212.5	1,343.6	1,407.1	1,353.1	1,323.9	
Cumulative payments		(465.9)	(491.0)	(437.4)	(420.4)	(456.6)	(442.9)	(468.6)	(436.7)	(359.9)	(194.3)	
Outstanding benefits												
Undiscounted	$ 5,120.1	$ 496.3	$ 552.4	$ 554.5	$ 578.9	$ 662.9	$ 769.6	$ 875.0	$ 970.4	$ 993.2	$ 1,129.6	$12,702.9
Effect of discounting	(2,348.6)	(264.6)	(295.0)	(299.2)	(310.9)	(357.0)	(424.1)	(477.7)	(521.6)	(524.3)	(538.2)	(6,361.2)
	2,771.5	231.7	257.4	255.3	268.0	305.9	345.5	397.3	448.8	468.9	591.4	6,341.7
Claims management												
Undiscounted												1,057.8
Effect of discounting												(506.6)
												551.2
Latent occupational diseases												
Undiscounted												1,863.2
Effect of discounting												(1,203.1)
												660.1
Total claim benefits												
Undiscounted												15,623.9
Effect of discounting												(8,070.9)
Claim benefit liabilities												$ 7,553.0

LIQUIDITY OF CLAIM BENEFIT LIABILITIES

The following table presents the expected timing of future payments of the claim benefit liability as at December 31. As these payments extend well out into the future, any such estimates involve considerable uncertainty.

	2016	2015
Expected timing of future payments		
Up to 1 year	4%	4%
Over 1 year and up to 5 years	12%	10%
Over 5 years and up to 10 years	14%	12%
Over 10 years and up to 15 years	12%	11%
Over 15 years	58%	63%
Total	100%	100%

12. CLAIM BENEFIT RISKS

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work-related injuries, WCB bears risk with respect to its future claim costs, which could have material implications for liability estimation. In determining WCB's claim benefit liabilities, a primary risk is that the actual benefit payments may exceed the amount estimated in determining the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claim run-off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

The uncertainties associated with WCB claim benefit liabilities are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities. Wage inflation affects the liabilities through benefits such as vocational rehabilitation and home maintenance allowances. An increase in assumed wage growth would increase the respective liabilities. Health care benefits represent approximately 37 per cent of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the liability for health care.

EFFECT OF ASSUMPTION CHANGES ON CLAIM BENEFIT LIABILITIES

The table below shows the sensitivity of the claim benefit liabilities to an immediate 0.25 per cent increase or decrease in the assumed rates:

($ thousands)	**2016**		2015	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (231,600)	$ 245,400	$ (211,000)	$ 224,100
Wage inflation rate	$ 49,900	$ (47,800)	$ 47,900	$ (45,700)
Health care escalation rate	$ 87,500	$ (82,900)	$ 96,800	$ (91,200)

13. PREMIUM REVENUE

ACCOUNTING POLICY

Premiums are assessed and due when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the amount receivable. Premium revenue includes estimates for Partnerships in Injury Reduction (PIR) rebates and other items.

Premium revenue is fully earned and recognized over the annual coverage period. Any difference between actual and estimated premiums and rebates is adjusted in the following year.

($ thousands)	**2016**	2015
Premiums		
Assessed premium revenue for current year	$ 1,057,620	$ 1,095,722
Other premium-related revenue	9,654	7,558
	1,067,274	1,103,280
Deduct: Partnerships in Injury Reduction rebates	72,747	78,645
	$ 994,527	$ 1,024,635

Assessed premium revenue includes an accrual of $40,869 payable (2015 – $19,310 payable) for amounts related to yet to be reported insurable earnings for the current period. The accrual has been determined using an internally developed statistical model to estimate the amount of unreported earnings based on actual returns processed to date and historical patterns of processed to unprocessed returns at a specified point in time.

PIR is a voluntary program that pays rebates to registered employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. Earned rebates are payable in the following year. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement in claims experience and safety performance relative to industry benchmarks, among others. See Note 19(e) *Safety rebates* for supplemental information on the Partnerships in injury reduction rebates.

14. CLAIMS AND CLAIMS MANAGEMENT EXPENSES

The table below presents details of claims and claims management expenses reported in the consolidated statement of comprehensive income.

($ thousands)	2016			2015
	Current Year Injuries	Prior Years' Injuries	Total	Total
Claims expense				
Provision for future costs of current year injuries and exposures [1]	$ 653,700	$ -	$ 653,700	$ 626,600
Claim payments processed in the year				
Short-term disability	71,686	113,499	185,185	177,100
Long-term disability	3,043	183,900	186,943	174,055
Survivor benefits	1,522	42,811	44,333	44,692
Health care	113,547	176,064	289,611	297,225
Rehabilitation	4,516	55,802	60,318	50,428
	194,314	572,076	766,390	743,500
Claim payments related to prior years [2]	-	(638,483)	(638,483)	(596,152)
	194,314	(66,407)	127,907	147,348
	$ 848,014	$ (66,407)	$ 781,607	$ 773,948
Claims management [3]				
Claims-related administration	51,619	53,941	105,560	101,479
Appeals Commission	37	12,129	12,166	11,897
Medical Panel Office	1	337	338	313
	$ 51,657	$ 66,407	$ 118,064	$ 113,689
	$ 899,671	$ -	$ 899,671	$ 887,637

[1] *Provision for future costs of current year injuries represents the present value of all future obligations for benefit payments arising from current year injuries and occupational disease exposures.*

[2] *Although claim payments relating to prior years injuries are processed in the reporting period, they are not expensed in the current year but are charged to the liabilities established for prior accident years.*

[3] *Claims management represents WCB's internal functional costs related to claims processing as well as funding of the external decision review bodies. Claims management expenses are included in claim benefit liabilities for valuation purposes but are presented separately in the consolidated statement of comprehensive income, see Note 15* Administration Expense, *for Claims-related administration.*

15. ADMINISTRATION EXPENSE

WCB's primary administrative functions include:

- **Claims-related administration** – responsible for adjudicating claims, processing benefit payments, and the provision of return-to-work services to injured workers.
- **Corporate administration** – provides general management and administrative support.

The table below presents administration expenses broken down by nature of expense and by function:

($ thousands)	Corporate	Claims-related	**2016**	2015
Administration expenses				
Salaries and employee benefits	$ 63,751	$ 118,044	$ 181,795	$ 178,143
Technology	13,091	6,150	19,241	18,963
Office	4,021	1,312	5,333	5,548
Occupancy	2,723	6,280	9,003	9,321
Professional fees	1,329	2,634	3,963	4,062
Travel	544	406	950	984
Other	1,303	634	1,937	1,443
	86,762	135,460	222,222	218,464
Depreciation and amortization	7,980	6,842	14,822	12,779
	94,742	142,302	237,044	231,243
Less:				
Cost recoveries	68	7,484	7,552	8,053
Reclassifications to:				
Claims expense – rehabilitation services	-	29,258	29,258	28,364
Investment management expense [1]	3,371	-	3,371	3,225
	3,439	36,742	40,181	39,642
	$ 91,303	$ 105,560	$ 196,863	$ 191,601

[1] *Investment management expense represents internal expenses, see Note 16* Investment Income and Expense.

16. INVESTMENT INCOME AND EXPENSE

ACCOUNTING POLICY

The primary components of investment income include:

(a) Gains and losses from investments classified at fair value through income (including gains and losses from remeasurement and from disposition of assets) recognized in income in the period in which they arise;

(b) Interest revenue accrued using the effective interest method, net of amortization of any premium or discount recognized at date of purchase;

(c) Dividend income when a right to payment has been established based on the ex-dividend date for quoted securities; and

(d) Pooled fund distributions (fund income received as cash or reinvested in the fund) when a right to distributable income has been established. Fund distributions do not attribute underlying income by nature.

Investment expense is composed primarily of investment management expenses, for both external and internal portfolio managers. Fund management expenses of pooled investments, excluding investment management fees, are netted against the revenues of those respective funds.

(a) Investment Income

($ thousands)	Interest	Dividends	Pooled Fund Distributions [1]	Gains (Losses) on Investments [2]	Gains (Losses) on Derivatives [3]	**2016** Total	2015 Total
Fixed income							
Bonds	$ 75,462	$ -	$ 6,290	$ 7,479	$ 2,028	$ 91,259	$ 100,122
Mortgages	-	-	16,033	(2,489)	-	13,544	22,392
Short-term investments	3,243	-	-	-	-	3,243	3,792
	78,705	-	22,323	4,990	2,028	108,046	126,306
Equities							
Domestic equities	-	15,660	17,157	177,525	-	210,342	(78,756)
Foreign equities	-	35,909	37,638	(16,593)	44,892	101,846	405,433
	-	51,569	54,795	160,932	44,892	312,188	326,677
Inflation-sensitive							
Real estate	-	-	23,954	84,974	-	108,928	55,551
Infrastructure	-	-	59,203	98,171	52,891	210,265	160,505
Timberlands	-	-	5,972	1,418	3,943	11,333	6,006
	-	-	89,129	184,563	56,834	330,526	222,062
	$ 78,705	$ 51,569	$ 166,247	$ 350,485	$ 103,754	$ 750,760	$ 675,045

(b) Investment Management Expense

($ thousands)	**2016**	2015
Fund management fees	$ 33,188	$ 35,684
Custody fees	400	343
Investment administration [4]	3,371	3,225
	$ 36,959	$ 39,252

[1] *Pooled Fund Distributions include distributions received from pooled fund managers, irrespective of the distribution type.*
[2] *Gains (Losses) on Investments include realized amounts from disposition and fair value remeasurement.*
[3] *Gains (Losses) on Derivatives include fair value measurement and settlement gains and losses, as well as adjustments for counterparty default risk, if any.*
[4] *Investment administration represents internal investment management expenses, see Note 15* Administration Expense.

17. RELATED PARTY TRANSACTIONS

GOVERNMENT OF ALBERTA AND RELATED ENTITIES

WCB has transactions with various Alberta Crown corporations, departments, agencies, boards, educational institutions and commissions in the ordinary course of operations. Such transactions include premiums from the organizations and certain funding obligations relating to Occupational Health and Safety, the Appeals Commission and the Medical Panel Office that are in accordance with the applicable legislation and/or regulations. WCB is related to these entities by virtue of common influence by the Government of Alberta. WCB is considered a government-related entity and as such, is not required to disclose these transactions under IAS 24 *Related Party Disclosures*.

KEY MANAGEMENT COMPENSATION

Key management personnel of WCB, comprising the Board of Directors and the executive and their close family members, are also related parties in accordance with IAS 24. As at the reporting date, there were no business relationships, outstanding amounts or transactions other than compensation, between WCB and its key management personnel.

The tables below present total compensation of the board members and executive of WCB.

($ thousands)	2016				
	Base Salary [1]	Other Cash Benefits [2]	Non-Cash Benefits [3]	SERP [4]	Total
Chair, Board of Directors [5]	$ -	$ 47	$ 2	$ -	$ 49
Board Members [5]	-	90	5	-	95
President & Chief Executive Officer	475	235	49	127	886
Vice-President, Operations & Chief Information Officer	367	124	42	83	616
Chief Financial Officer	347	120	45	69	581
Vice-President, Employee & Corporate Services	285	81	44	49	459
Vice-President, Operations [7]	225	75	39	18	357
Secretary & General Counsel [8]	106	34	23	8	171
Secretary & General Counsel [9]	139	3	25	51	218
Vice-President, Operations & Disability Management [9]	77	18	15	45	155

	2015				
Chair, Board of Directors [5, 6]	$ -	$ 41	$ 4	$ -	$ 45
Board Members [5]	-	107	7	-	114
President & Chief Executive Officer	466	230	48	119	863
Vice-President, Operations & Chief Information Officer	360	125	41	83	609
Chief Financial Officer	341	117	43	68	569
Vice-President, Operations & Disability Management	286	93	41	39	459
Vice-President, Employee & Corporate Services	280	79	42	46	447
Secretary & General Counsel	274	106	45	49	474

[1] *Base salary is pensionable base pay.*
[2] *Other cash benefits include a component of base compensation that is paid out upon achievement of key objectives determined at the beginning of each fiscal year. Other cash benefits for Board Members comprise honoraria pay for meetings attended.*
[3] *Non-cash benefits include employer's share of all employee benefits and payments made to or on behalf of employees including statutory contributions, pension plans, extended health care benefits, group life insurance, and professional memberships.*
[4] *SERP represents employer's current service cost for benefits accrued under a supplemental executive retirement plan. See Note 10* Employee Benefits *for details of the plan, and the following table for the costs and obligations related to each named key management position.*
[5] *The Chair of the Board of Directors and the nine Board members are part-time positions. Four terms ended during 2016, two positions remain vacant from 2015, for a total of 6 vacancies at December 31, 2016.*
[6] *The former Chair's term ended on October 23, 2015. The current Chair's term commenced on October 24, 2015.*
[7] *Incumbent took office on February 1, 2016.*
[8] *Incumbent took office on July 1, 2016.*
[9] *Incumbent retired in 2016.*

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

($ thousands)	2016				2015	
	Current Service Cost [1]	Other Costs [2]	**Net Cost**	**Accrued Obligation**	Net Cost	Accrued Obligation
President & Chief Executive Officer	$ 127	$ 117	$ 244	$ 1,955	$ 215	$ 1,711
Vice-President, Operations & Chief Information Officer	83	(164)	(81)	921	88	1,002
Chief Financial Officer	69	(22)	47	728	73	681
Vice-President, Employee & Corporate Services	49	40	89	673	76	584
Vice-President, Operations [3]	18	13	31	31	-	-
Secretary & General Counsel [4]	8	2	10	10	-	-
Secretary & General Counsel [5]	51	1	52	663	67	611
Vice-President, Operations & Disability Management [5]	45	(55)	(10)	96	54	106

[1] *Current service cost represents the actuarial present value of future benefit obligations arising from employee service in the current period.*
[2] *Other costs include interest on the liability and actuarial gains and losses arising from assumption changes and/or experience: less any benefit payments.*
[3] *Incumbent took office on February 1, 2016.*
[4] *Incumbent took office on July 1, 2016.*
[5] *Incumbent retired in 2016.*

18. CONTINGENCIES AND INDEMNIFICATION

LEGAL PROCEEDINGS

WCB is party to various claims and lawsuits, related to the normal course of business, that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. Based on the total amount of all such actions, WCB has concluded that the outcomes will not have a material effect on the results of operations or financial position.

INDEMNIFICATION AGREEMENTS

In the normal course of operations, WCB enters into contractual agreements that contain standard contract terms that indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract, and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the consolidated financial statements in respect of these indemnifications.

19. SUPPLEMENTAL INFORMATION

(a) Cash and cash equivalents

($ thousands)	2016	2015
Cash in transit and in banks	$ 13,409	$ 11,613
Cash equivalents	308,583	282,081
	$ 321,992	$ 293,694

Cash equivalents are invested in a portfolio of high-quality, short- to mid-term, highly liquid fixed-income securities that generated an average annual return of 0.9 per cent (2015 – 1.0 per cent).

(b) Trade and other receivables

($ thousands)	2016	2015
Employer accounts receivable	$ 55,094	$ 49,469
Other	10,093	10,031
	$ 65,187	$ 59,500

Included in the accounts receivable total above is an allowance for doubtful accounts of $3.5 million (2015 – $3.5 million). Substantially all receivables are collected within one year.

(c) Trade and other liabilities

($ thousands)	Trade	Other	2016	2015
Trade payables	$ 109,581	$ -	$ 109,581	$ 81,682
Lease obligations	-	4,040	4,040	3,532
Other liabilities	-	4,183	4,183	5,015
	$ 109,581	$ 8,223	$ 117,804	$ 90,229
Current portion	$ 109,581	$ 2,251	$ 111,832	$ 83,335
Non-current portion	-	5,972	5,972	6,894
	$ 109,581	$ 8,223	$ 117,804	$ 90,229

See Note 9 *Lease and Other Commitments* for details of the lease obligations.

(d) Surplus distributions

	Change in Comprehensive Income		Surplus Distributions Payable	
($ thousands)	2016	2015	2016	2015
Surplus distributions, beginning of year			$ 466,959	$ 507,159
Payment of prior years' surplus distributions			(457,559)	(503,592)
			9,400	3,567
Adjustment of prior years' accruals	$ (9,400)	$ (3,567)	(9,400)	(3,567)
Outstanding balance from prior years			-	-
Surplus distributions authorized for the year	-	466,959	-	466,959
Surplus distributions, end of year	$ (9,400)	$ 463,392	$ -	$ 466,959

Substantially all surplus distributions are paid within one year.

(e) Safety rebates

($ thousands)	2016	2015
Safety rebates payable, beginning of year	$ 85,664	$ 91,997
Payment of prior years' rebates	(76,155)	(85,321)
	9,509	6,676
Adjustment of prior years' accruals	(3,628)	343
Outstanding balance from prior years	5,881	7,019
Rebates for the year	72,747	78,645
Safety rebates payable, end of year	$ 78,628	$ 85,664

Safety rebates represent amounts recognized under the PIR program. See Note 13 *Premium Revenue* for further details of the PIR program.

(f) Injury reduction

($ thousands)	2016	2015
Occupational Health and Safety	$ 46,808	$ 41,601
Industry safety associations	20,929	22,691
	$ 67,737	$ 64,292

Injury reduction is composed of statutory funding of Occupational Health and Safety and voluntary premium levies to fund industry-sponsored safety associations.