2016 Annual Report

Workers' Compensation Board - Alberta

WCB-Alberta

2016 Annual Report

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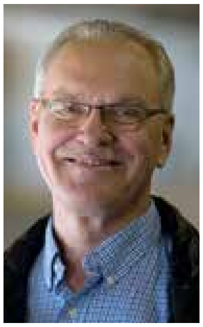
Brought back to life:
a three-and-a-half year journey following Ken's catastrophic workplace injury



Financials

Finding success when faced with uncertainty

> "I've come so far and overcome so much."

Those are the simple but profound words of Ken Stevens, one injured worker who represents the struggle of thousands. Thousands who face the uncertainty of a work injury, and push forward with the support of the people in their lives and the workers' compensation system to find a way through pain and disability to create a new normal.

Throughout 2016, we heard countless stories of resilience from workers like Ken and their employers. We saw workers navigate the challenges of a tenuous job market while recovering from injuries, and employers focus on providing safe workplaces while helping their workers return to work.

We're committed to helping our customers succeed in challenging times and their feedback on our worker and employer surveys helps us find new ways to improve. Last year, our customer satisfaction scores were the highest they've ever been and while we know there are always ways we can be better, this feedback reinforces that we're on the right track.

Together, we partnered towards common goals to deliver on what's important to all of us—ensuring injured workers receive the support and benefits they need, when they need them.

Innovation and partnerships see us through

Our workers deserve as much help as possible, which is why we are always looking for ways to innovate and adapt as they overcome new challenges. The Board of Directors shares this commitment and encourages management to continually assess worker benefits to ensure we're offering every support we can.

Last year, the board approved extending re-employment assistance for injured workers when economic circumstances make it especially difficult to find new jobs. We also enhanced benefits like housekeeping, accommodation and clothing allowances to help lessen the impact an injury can have on day-to-day life, so our workers can focus on their recovery.

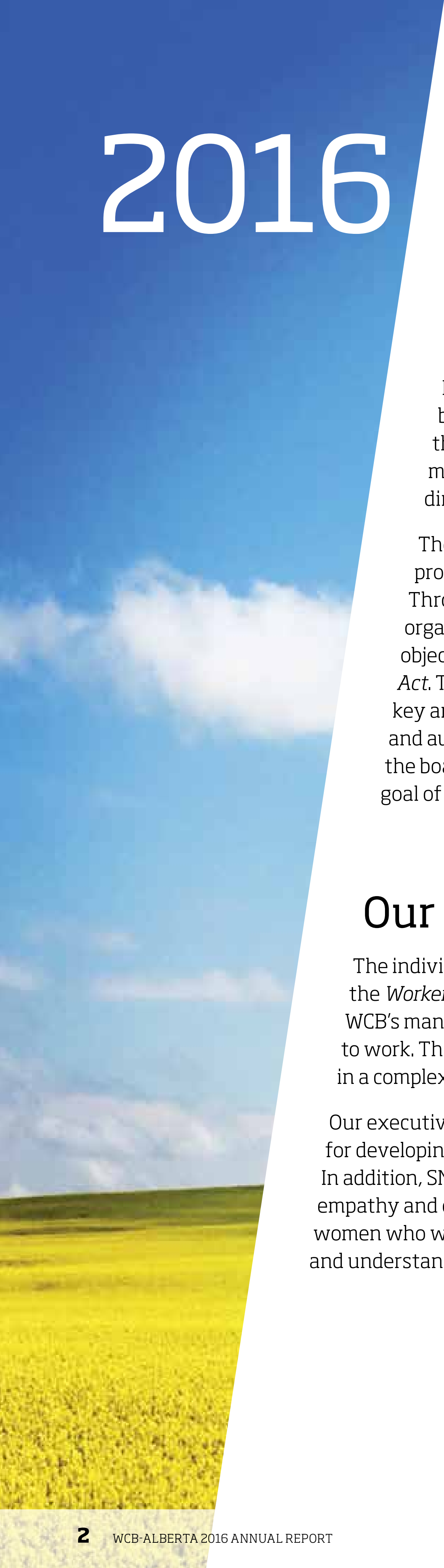
Our employees also continued to work with our partners to build on the strong foundation we've fostered together. We helped employers create effective return-to-work programs with meaningful modified work options. We partnered with health care providers to develop new rehabilitation programs. And we continued to collaborate with the Ministry of Labour to make the workers' compensation system the best it can be for our ever-changing province.

Perseverance through change

Through it all, our focus remains—we help injured workers get back to work and back to life. In the following pages, you'll read more about Ken: a worker, a father and a husband who has overcome seemingly insurmountable odds in his journey to recover from a catastrophic workplace injury. People like Ken are why we do what we do. And as we look forward to 2017, we hope you are as inspired by his determination as we are.

E. James Kindrake, Chair, Board of Directors

Guy R. Kerr, President & CEO



Board of Directors

Every member who sits on our Board of Directors—appointed by the Lieutenant Governor in Council—understands that the perspectives of workers, employers and all Albertans must be considered equally in determining the strategic direction of the workers' compensation system.

The board monitors the performance of our organization and provides guidance to our Strategic Management Council (SMC). Throughout the year, our board meets with SMC to review the organization's strategic direction and to discuss its annual corporate objectives, ensuring each adheres to the *Workers' Compensation Act*. To fulfil its commitments, the board provides oversight in key areas, including compensation policies, financial planning and auditing, and risk management and monitoring. Collectively, the board brings a richness and depth of experience, with the goal of keeping the system strong, stable and, above all, fair.

Our leaders

The individuals who make up SMC are tasked with administering the *Workers' Compensation Act* and maintaining focus on WCB's mandate, focusing on fair decisions and a safe return to work. These principles guide every process and interaction in a complex system that, at its root, is all about people.

Our executive is accountable to the Board of Directors and is responsible for developing solid business objectives, strategies, plans and policies. In addition, SMC is visible and accessible to staff, fostering a culture of empathy and excellence throughout the organization. The men and women who work at WCB share their leaders' passion and commitment and understand the responsibility they have to Albertans.

(L to R, front) Denis Herard, Guy R. Kerr, Alex McPherson
(middle) Roxy Shulha-McKay, Ron Helmhold, Wendy King, William Ostapek
(standing) Pieter Lambooy, E. James Kindrake, Fred Nowicki

Board of Directors

E. James Kindrake
Chair, Board of Directors

Denis Herard
Representative of the interests of the general public

Alex McPherson
Representative of the interests of employers

Fred Nowicki
Representative of the interests of workers

Strategic Management Council

Guy R. Kerr*
President & CEO

Ron Helmhold
Chief Financial Officer

Wendy King
VP, Operations and Chief Information Officer

Pieter Lambooy
VP, Operations and Disability Management

William Ostapek
Secretary and General Counsel

Roxy Shulha-McKay
VP, Employee and Corporate Services

*The President & CEO is also a non-voting member of the Board of Directors.

What happened to Ken Stevens

that cold, snowy day in November 2012 should not have been survivable.

In 2016, we worked on a total of 163,718 claims. Behind each claim, there is a story about an Alberta worker who was injured on the job. This is Ken Stevens' story.

An oilfield truck driver, Ken, 35, was working in Whitecourt when he was hit by a 750-pound gin pole, a 22-foot length of steel pipe used to move equipment on rig sites. The pipe struck Ken flush in the abdomen, the force of the impact pulverizing his pelvis and shattering his femur.

He remembers the accident, remembers the pole on top of him, remembers watching as his co-workers scrambled to free him. After the pipe's crushing weight was lifted off his body, he reached down to touch his right side and found it was "squished flat, like a pancake."

"I thought, 'Oh my god, I'm in really bad shape'"

"It was like there was nothing there," says Ken. "I thought, 'Oh my god, I'm in really bad shape.' I could see the puddle of blood around me getting bigger and bigger and bigger. I could see people around me. I started to feel really cold.

"And then I passed out."

He would learn later of the heroics of emergency first responders and doctors, on the ground and in the air.

He was taken first to Fox Creek Hospital, where he was assessed and transferred to Whitecourt Hospital. From there, he was transported by ground ambulance to the airport in Mayerthorpe to meet up with STARS air ambulance for the trip to emergency at the Royal Alexandra Hospital in Edmonton.

Ken was brought back from death five times

By the time he arrived, he had been brought back from death not once, not twice, but five times.

When he finally regained consciousness in the ICU, it was nearly Christmas.

He had been kept in a medically induced coma while doctors battled a rampant staph infection in his leg that had him in and out of the operating room no fewer than 10 times. By the time they managed to get it under control, they had cut away nearly 30 pounds of muscle, including most of his right buttock.

Meanwhile, his family—wife **Angela** and daughter **Alexandra** (then four years old)—had been keeping vigil in the hospital alongside Ken's mother, who had flown to Edmonton from New Brunswick.

"His mother was told he wasn't going to make it," says WCB case manager **Allison Hamilton**, who was assigned to Ken's claim.

A reassuring visit

WCB case managers will make hospital or home visits to injured workers, to introduce themselves and to provide information about the support and benefits available to the workers.

We want to reassure injured workers and their families that they can focus on healing and recovery—we'll take care of the rest. **In 2016, we made over 200 such visits.**

Allison helped allay Ken's family's financial fears while he was in ICU

Allison visited the Stevens family many times in the ensuing weeks, trying to allay their financial fears and provide comfort in the face of their mounting stress and worry, and the uncertainty about what the future held.

Allison didn't know it then, but the journey she was about to accompany them on would unfold over the course of three and a half years as Ken and his family struggled to establish a new normal in the face of incredible loss.

Allison wasn't alone. She was joined by **Harold Drok**, the health, safety and environmental manager for Northwell Oilfield, which was Ken's employer at the time of the accident.

Ken's employer was determined to help him get back to work

Northwell Oilfield always felt they had a good health and safety program, but Ken's horrific accident left everyone, from the owner on down, shaken to the core. "Ken went to work that day thinking he was going home that night, and that didn't happen," says Harold.

The incident impelled the company to take another look at their safety program and really think about how and where they could improve. In the months following the accident, Northwell restructured their entire program. Most of the changes involved hazard assessment processes, both in the field and in the shop.

Northwell also determined they would continue to support Ken. "The day Ken got hurt, it changed his life and his family's life, forever," says Harold. "Their lives will never be the same.

"We were responsible for him, and we were going to do whatever we could to help him get back to work."

CORPORATE MEASURE

Recovering from an injury

A workplace injury can affect so much, making everyday tasks a challenge. We want to help injured workers recover so we partner with a wide range of health care providers to make sure the right rehabilitation services are available at the right time. We also explore modified work options with employers so workers can stay connected to their jobs while they recover.

At year's end, **847** injured workers remained off work for longer than three months—even better than our goal of 867.

We want to reduce the impact of workplace injuries as much as possible by helping people regain their independence and quality of life. Each client is unique and in cases where they need more time to recover, we provide the ongoing support and long-term benefits they need.

CORPORATE MEASURE

Encouraging safe workplaces

We help employers create safe work environments with strong disability management practices, including meaningful modified work programs for their employees. To encourage employers' action in these areas, we offer voluntary pricing programs such as Industry Custom Pricing (ICP). At its core, ICP is about promoting employer accountability for safety and protecting valued employees against injury.

In 2016, **eight industries (and approximately 31,700 more workers) opted to participate in voluntary pricing programs** and take greater responsibility for their experience rating results. This represents **$1.5 billion** in insurable earnings, which surpassed our 2016 target of $1 billion.

CORPORATE MEASURE

Creating a safety culture—it's about the plan

Employers are key to making workplaces safer for Albertans, and we want to support them in every way we can. We work closely with employers to develop action plans to ensure employers are making the improvements needed to achieve our shared goal of creating healthy and safe workplaces.

We want workers to take comfort in knowing that their employers have programs in place to help in their recovery and safe return to work.

In 2016, we completed **461 action plans** with employers—11 more than our target of 450.

"We have gone through this together since day one."

Case manager

ALLISON HAMILTON

says Ken's claim is one she will never forget. "I have a strong relationship with Ken and his family; we have gone through this together since day one. It has never been easy for them, but Ken never gave up hope that somehow he would be able to go back to work one day."

Complicated injuries presented ongoing medical challenges

Ken spent months in the hospital and underwent upwards of 20 surgeries. He was plagued by a seemingly unending series of infections, both in his buttock and in his fractured heel. Multiple skin grafts proved to be unsuccessful, leaving him without his right buttock and with a permanent colostomy.

"I've given myself a nickname," says Ken, dryly. "I'm the one-cheek wonder."

That he can find humour in his situation is a testament to his spirit and, says Allison, something else.

"Ken is stubborn," Allison says with a smile. "And he's a fighter. I think that's what saved his life.

"But even more than that, he's incredibly resilient."

CORPORATE MEASURE

Shouldering responsibility for the right treatment

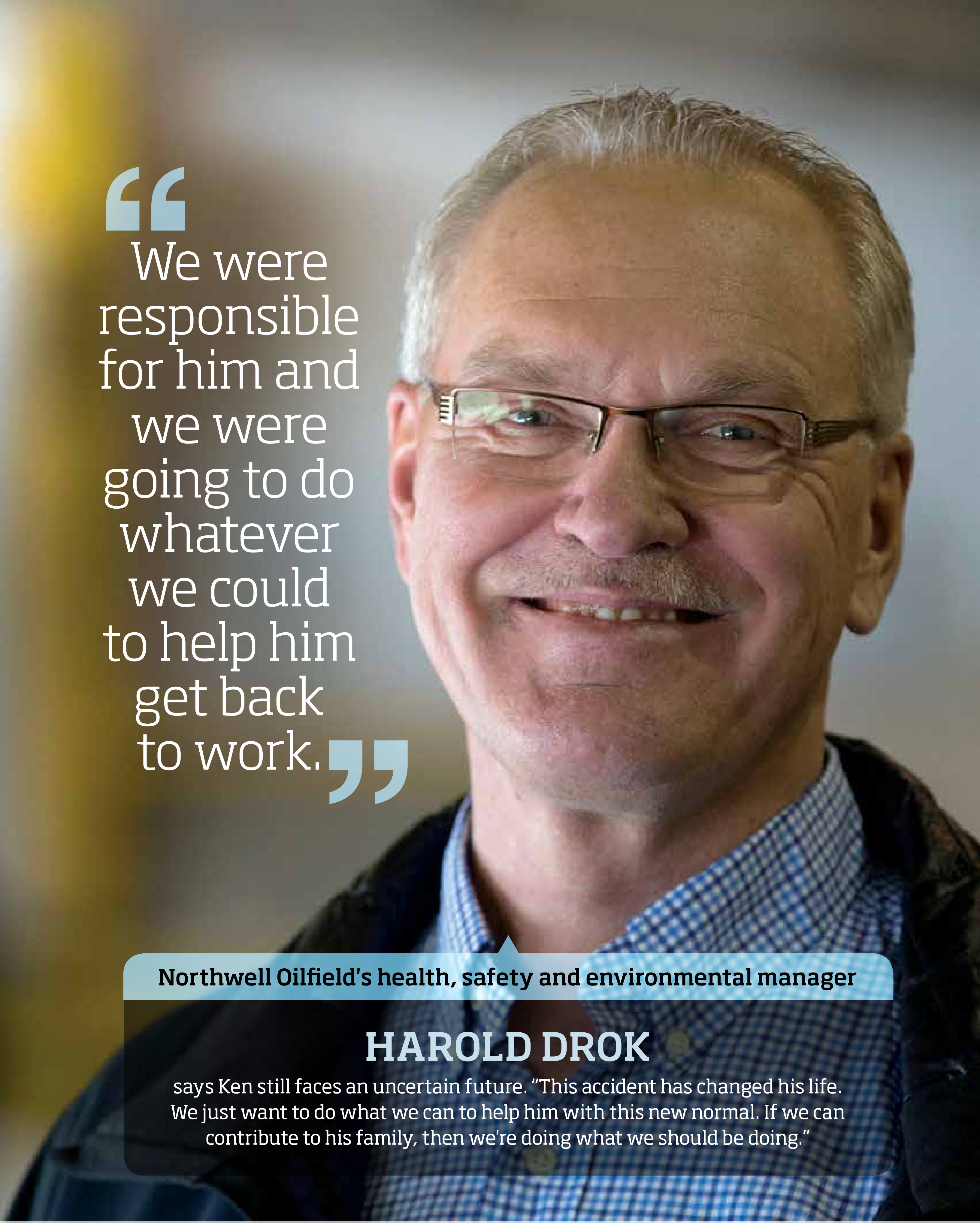
We know that healing from a workplace injury is not easy, which is why it's important for us to identify innovations that give our workers the very best chance at success. A good example is how we treat shoulder injuries, which can be complex.

In 2016, we introduced a province-wide shoulder program that brought together the worker, a surgeon and a physiotherapist to develop a specialized program for each worker. We want workers to receive the treatment that is best for them, which may or may not include surgery.

Our goal was to increase accurate surgical referrals by 18 per cent—we surpassed this and achieved a **23.8 per cent** increase.

Researching new solutions

Our shoulder program is just one example of how we work to reduce the impact of workplace injuries on Albertans. Our Research Program encourages scientific study into topics related to workers' compensation by offering funding to independent researchers whose work can make a positive difference to our business and our customers. From improving clinical and return-to-work outcomes to exploring ways to make our workplaces safer, we support research to benefit Alberta's workers.



“We were responsible for him and we were going to do whatever we could to help him get back to work.”

Northwell Oilfield’s health, safety and environmental manager

HAROLD DROK

says Ken still faces an uncertain future. “This accident has changed his life. We just want to do what we can to help him with this new normal. If we can contribute to his family, then we're doing what we should be doing.”

Stubbornness and resilience kept Ken moving forward

Allison says Ken was determined all along to return to his date-of-accident job as a truck driver, something that seemed unlikely given his injury and the scope of his permanent restrictions.

Still, when Ken was cleared for modified duties in May 2014, Northwell helped him test the waters, giving him a position as a pilot driver, driving an escort vehicle for oversize loads.

"[Northwell] always maintained that no matter what, if Ken could work again, they would find him a position," says Allison. "And they never wavered.

"Despite the recession, they held to that promise."

CORPORATE MEASURE

Working together to achieve fitness to work

When workers are injured, we do everything we can to help them recover and return to work. Together with workers, employers and health care providers, we focus on a treatment plan specific to their needs because we understand one size does not fit all. This ensures injured workers receive the support they need to recover so they can return to work safely.

In 2016, **91.7 per cent** of our workers achieved the fitness they needed to return to work, exceeding our goal of 90 per cent.

CORPORATE MEASURE

Staying active through recovery

We know the longer someone is off work with an injury, the less likely that person is to return. We want to support our workers as they recover, so we partner with them and their employers to explore modified work options that best match their abilities while they heal. Modified work involves changing job duties or reducing hours so injured workers can safely perform tasks and stay connected to their workplaces while recovering.

In 2016, we collaborated with workers and employers to negotiate suitable modified work options.

These partnerships were successful and achieved modified work for **56.3 per cent** of the cases tracked. We surpassed our goal of 53 per cent.

Modified duties as a pilot driver proved to be unsustainable

Ken's modified position proved to be unsustainable; sitting for hours at a time triggered yet another round of painful infections and the need for more surgery. It became clear to everyone, including Ken, that resuming his career as a truck driver would not be possible.

As Ken waited for a new surgery date, Harold continued to work behind the scenes to look for employment that would permanently accommodate his restrictions.

Allison, meanwhile, in a bid to enhance Ken's employability for possible positions within Northwell—or elsewhere—got him training in computer courses at WCB's rehabilitation centre, Millard Health. She also referred him for additional vocational services to determine his academic skills and to help him identify possible job options.

Ken underwent what proved to be his final surgery in August 2015—more than two and a half years after his accident—for another debridement and skin graft on a stubborn open wound to his right hip, which refused to heal.

Ken's physical limitations were daunting

It took several months for him to recover, but when he was able, Ken went to Millard Health for an assessment to determine the extent of his work restrictions once and for all.

Those restrictions proved to be considerable. Ken could not kneel, squat or climb and was restricted from sitting, standing, driving or walking for more than an hour at a time.

Allison referred him to the employment specialists at Millard to explore job positions that fit within his restrictions. She also recommended 12 weeks of re-employment assistance benefits to help Ken with things like job search techniques, resumé writing and interview skills—abilities he would need if Northwell was unable to find him a job within his restrictions.

Northwell made good on its promise to find work for Ken

That search was barely underway when Ken received a call from Harold with some welcome news.

One of Northwell Oilfield's sister companies, Direct Horizontal Drilling, had been using employees on modified duties to work overnight security at its warehouse in the Acheson industrial park, instead of hiring a security company.

"They weren't really happy with the way things were working out," recalls Harold. "When I heard about that, a light came on for me—this could be something for Ken."

It was.

"Ken is stubborn, and he's a fighter."

Allison Hamilton

Going back to work "keeps my mind moving," says Ken

The job not only addressed his physical limitations—he could get up and walk around or stretch anytime he needed to—it also gave him flexibility with days off. He jumped at the opportunity. Since August 2016, Ken has been working full time as a night patrol guard, a job that allows him to be home for his daughter, Alexandra, now 10 years old, while his wife Angela goes to work during the day.

The pain is always there. It never goes away. Some days it's tolerable. Other days it's so excruciating, it's all he can do to get out of bed and get moving. He does, though, because he has purpose: a job that helps him support his family and get on with his life.

"It's nothing like what I used to do," says Ken, "but I'm working again, and it keeps my mind moving."

He pauses.

"I've come so far and overcome so much"

"It's been a long road," Ken says. "When I look back, it's something I would never wish upon my worst enemy; it was that scary, that horrible. I've come so far and overcome so much."

He hasn't done it alone, something he's quick to point out.

"I can't say enough about Allison," says Ken. "She has been super fantastic—like my angel on my shoulder. Anything and everything I've needed, she's always taken care of me. And Northwell? Hey, a lot of companies would have said 'see you later' a long time ago, but they've always been there, always gone above and beyond for me, just like WCB.

"I'm the guy who died five times. But I'm the guy who has a beautiful wife, a beautiful daughter, a good job and a little bit of energy.

"What more can a fella ask for?"

CORPORATE MEASURE

Looking at a worker's potential in the face of permanent disability

A permanent disability affects every aspect of a worker's life. We want to minimize this significant impact by doing everything we can to maximize the worker's earning potential and job options. This is why we audit claim decisions for workers left with permanent disabilities, who may not recover their pre-accident wage. We review many aspects of the claim—most importantly, if the worker was included in the vocational plan to identify realistic job options with good earning potential.

Making the right decisions is important. We audit to ensure quality wage-loss decisions are made, and we aim to achieve a score of 90 per cent at least 92.5 per cent of the time. In 2016, we exceeded our goal, **reaching at least 90 per cent 96 per cent of the time**.

CORPORATE MEASURE

Reaching out to our customers

We know the decisions we make affect people's lives, which is why we want to make sure those decisions—and the reasons for them—are accurate, clear and easy for our customers to understand.

In 2016, we audited our claim decisions and achieved an average decision correctness score of **93 per cent**, surpassing our goal of 90 per cent.

We know that customer satisfaction is key to building strong relationships. Every year, we ask workers and employers: How did we do? Were you treated with courtesy and respect? Did you receive transparent information from us in a timely fashion?

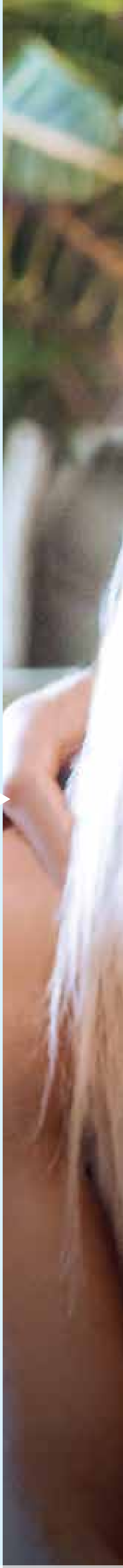
In 2016, approximately 1,600 workers and 1,600 employers were surveyed with a goal of attaining 82.5 per cent satisfaction with our service—we achieved **87.6 per cent**.

CORPORATE MEASURE

Committed to meaningful conversations

Our customers deserve our respect, our courtesy and, in difficult times, our empathy. By engaging workers, employers and health care providers fully in the claims process and answering their questions up front, we were able to decrease the number of times our clients needed us to return a phone call.

We reduced call backs by **35.6 per cent** as compared to 2015, exceeding our goal of 10 per cent.



> I'm the guy who died five times. But I'm the guy who has a beautiful wife, a beautiful daughter, a good job and a little bit of energy.

Ken Stevens

Despite everything, Ken has managed to keep the accident in perspective. "There are a lot of things that could have gone differently for me. I have friends in the oilpatch who are struggling, who are fighting just to hang onto their homes. I'm not rich. But I can still live."

Finding a new career isn't easy, and doing so after a workplace injury can be especially challenging, even scary.

When injured workers cannot return to their pre-accident occupation, we offer vocational services to help them determine their next steps. Our services—such as career counselling and coaching on resumé writing and interview skills—are designed to provide workers with the support they need to find meaningful work and a fresh start.

CORPORATE MEASURE

Our goal is for 75 per cent of workers who use these services to earn—or have the potential to earn—75 per cent or more of their pre-injury income.

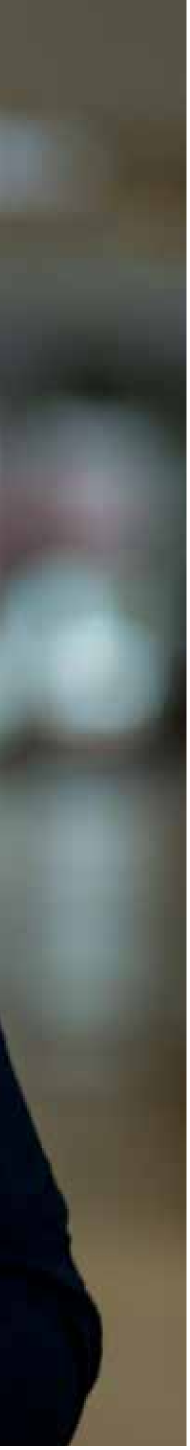
In 2016, we helped **69.4 per cent** of our clients achieve this success, falling short of our goal. Alberta's tight job market presented challenges for our clients, and even with a persistent focus on retraining and job search, desired positions and wages were not always available.

To lessen the impact of not being able to earn as much as they did before, we provide ongoing financial support for these workers to minimize the difference between how much they made before and what they are capable of earning after an injury.

In 2016, we issued a total of **$100.2 million** in these types of payments, almost $13 million more than the amount paid in 2015.

Employment specialist Shaley McTavish

Our workers are involved, engaged and supported.



We are committed to innovation

Given the challenges that come with a struggling economy, we knew this year would be a tough one. So we committed ourselves to finding new services we could offer and new ways to engage workers more fully in their vocational process. To do this, we created educational resources to help workers build the specific skills they need to be successful in finding employment.

Taking more time

Preparing for a career change takes time, so in 2016 we increased the length of our career counselling program from 18 to 25 business days. This allowed us to touch base more often with our workers throughout the return-to-work process as vocational rehabilitation professionals worked with them to explore their options, discuss potential barriers, share job leads and identify retraining options. Connecting with our workers regularly allowed us to better understand each person's needs and helped us provide the right support in their search for a new career.

Finding a tailor-made fit

We understand not all people respond the same way to a workplace injury—some face unique challenges that make it difficult to move forward. For them, a 25-day career counselling program may not be the best way we can help.

In these cases, we create a plan unique to the worker's needs. The focus of this tailor-made plan is to help the worker overcome challenges, build confidence, identify abilities and understand the vocational options available. With personalized interview coaching and debrief discussions, workers can move through the return-to-work process with their vocational rehabilitation professional by their side.

For injured workers, taking charge of a new vocational direction can be daunting and we are here to help. This is their life and their livelihood. We understand the importance of this challenge and are dedicated to making every effort to support them throughout their recovery and return to work.

(L to R) Employment specialist Cristie Semeniuk, job developer Jennifer Moran and case manager Tammy Smith

When injured workers can no longer do the job they had before they were injured, we offer them financial support (called re-employment assistance) while they actively look for a new job. Workers will receive this benefit for a maximum of 12 weeks. However, if a worker remains unemployed after the initial 12 weeks and Alberta's unemployment rate is at six per cent or more, we can give an additional four weeks of re-employment assistance.

Psychological injuries: A better understanding leads to innovation and positive outcomes

Psychological trauma affects everyone differently. For people experiencing anxiety, acute stress reactions, adjustment disorders, depression, post-traumatic stress disorder (PTSD) and other psychological injuries, our goal is to ensure they feel fully supported throughout their recovery.

> “The dogs are neutral ground for workers who are feeling anxious in an unfamiliar environment.”

Millard Health psychologist Lori Rossi, PhD

Fostering a community of healing

Support from employers, peers and the medical community is a critical element in healing. It is through these partnerships that we can truly understand the nature of the work environment and develop a plan that gives workers the very best chance for recovery and a successful return to work.

Our Traumatic Psychological Injury program at Millard Health offers innovative supports to help a worker's community promote their healing. For first responders with PTSD, for example, the support of their co-workers during exposure therapy is invaluable. This therapy involves gently exposing first responders to situations that trigger their anxiety and fear, but in a safe and controlled environment. Having the physical presence of a peer, someone who fully comprehends the nature of the job and its emotional impact, is a source of comfort and support and works well when combined with psychological counselling. Exposure therapy provides a means to build long-lasting coping strategies, making the triggers a lesser threat to a worker's well-being.

Therapy dogs Finnegan and Spike

Pet therapy is a growing field that incorporates animals into the healing process. Research suggests this form of therapy can help improve a person's mood and stress, as well as significantly increase motivation and build a positive outlook toward rehabilitation. It is a valuable complement to treatment, especially when a person is feeling isolated or is having difficulty with social interaction.

We recently introduced pet therapy at Millard Health to help our workers during their recovery. Therapy dogs Finnegan and Spike are on-site at Millard several times a week. Finnegan's owner, psychologist **Lori Rossi**, says the dogs are "neutral ground for workers who are feeling anxious in an unfamiliar environment." She says not only do they lend moral support to people during exposure therapy; they also attend group sessions where their presence helps people overcome barriers that might be preventing them from getting the most out of their recovery process.

"Finn and Spike are lovely icebreakers among clients who have been socially isolated since their injury," says Lori. "The dogs get them talking with each other."

Lori says using a broad mix of supports and resources gives people with psychological injuries the best chance to return to work, and to their lives.

When claim decisions are questioned, resolution is our goal

We are committed to making fair decisions and want our customers—both workers and employers—to understand all the decisions affecting a claim.

We know there are times when people don't agree with a decision we've made. When there is disagreement, our first step is to work with our customer to try to resolve the issue. We listen with the goal of understanding the customer's concerns. We explain the reasons behind the decision and verify that the information used in making the decision is still accurate.

Extra help is available

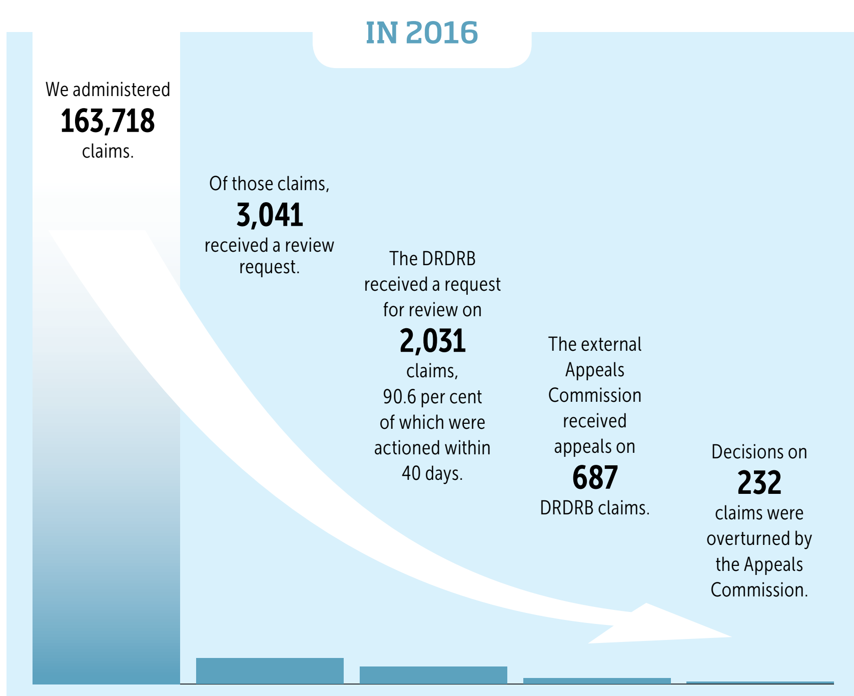
To support our commitment to resolving issues, we have services available to workers and employers as part of a rigorous review process.

The Office of the Appeals Advisor provides independent advice, assistance and advocacy to help workers address any issues on their claims. Appeals advisors work with Customer Service to try to resolve the dispute. If this attempt is unsuccessful, they then assist the worker in preparing and presenting their concerns to the Dispute Resolution and Decision Review Body (DRDRB) and/or the Appeals Commission.

When an employer disagrees with a claim decision, the **Employer Appeals Consulting (EAC) service** is there to help. This service focuses on resolving the employer's concerns by collaborating with Customer Service. When resolution is not possible, the EAC helps the employer understand the facts, policy and legislation behind the decision and provides information on the appeal process so the employer can make an informed decision on how to proceed.

The DRDRB becomes involved if the worker or employer requests assistance. Resolution specialists work to understand the concerns brought forward, review the decision and the information used to make it and ask whether there is any new information to consider. If the DRDRB find that the decision is correct, they will explain what the decision was based on. If they find the decision was incorrect, they work with Customer Service or Employer Account Services to fix it.

If workers or employers disagree with a DRDRB decision, they can appeal in writing to the **Appeals Commission** for Alberta Workers' Compensation, an external tribunal that reports to the Ministry of Labour.



Setting up our systems for future success

Always looking for ways to improve helps strengthen our business and allows us to offer our customers timely and supportive service. In 2016, we continued to update the systems that help us support our customers in several ways.

CORPORATE MEASURE

In 2014, we began building a new application to house all of our employer account information, to make accessing this information easier and more streamlined. The first phase of this upgrade launched in 2015 and in 2016, we added more functionality to help us provide even better service to the employers we work with.

CORPORATE MEASURE

We also began rebuilding the technology we use to manage claim payments for our injured workers. This technology has been in place since 1992 and has provided a stable means of issuing and tracking all benefit payments. Once rebuilt, the new version of our application will be part of our disability management application, allowing us to continue to deliver seamless customer service.

Rehabilitation coordinator Sakouna Kanyavong

Vonda Bobart and Chandra-Lily

Full team ahead

Our employees supported more than 40 charities, through volunteerism and our Employee Giving Program.

Through a series of retrofits in our buildings aimed at enhancing energy efficiencies, we have reduced our power and natural gas CO_2 emissions by 14 per cent, or 2,392,363 pounds, over the past five years.

Through our recycling programs, we diverted nearly 365,000 pounds of garbage from our landfills.

From the flames of the Fort McMurray wildfire comes a community of helping hands

Vonda Bobart needed everything when she and her six-year-old daughter Chandra-Lily were forced to flee the fury of the Fort McMurray wildfire last spring—but what she wanted most of all were skates.

"I know it sounds silly, but skating has always been our thing," says Vonda, a single mom. "It's our way to enjoy time together and to blow off steam. To me, the skates represented stability."

Her request found its way to **Heather Queenan**, a medical secretary in Medical Services at WCB, through a mutual friend in Lethbridge.

"I didn't know Vonda at the time," explains Heather, "but my friend asked me if I could help."

Giving back part of the culture at WCB

Heather reached out to **Jacquie Sturko**, a project manager in Corporate Services who oversees WCB's Community Works program. Giving back to the community is a hallmark for those who work at WCB, many of whom support a number of causes through donations or by volunteering. Fundraising efforts for a variety of charities take place organizationally year-round, in addition to regular blood donor drives. There is also a community giving program, where staff can make regular donations to non-profits through payroll deductions.

Jacquie helped Heather get the skates on Vonda's wish list, but she didn't stop there. WCB employees had filled an entire meeting room with donations of clothing, food and assorted household items to give to the tens of thousands of evacuees, among them injured workers and employers. Staff at WCB also logged countless hours of their own time volunteering for the Edmonton Emergency Relief Services Society, the agency that spearheaded the massive relief effort.

Acts of kindness when she needed it most

"Jacquie was so wonderful," says Heather. "She took me to this room that had all this donated clothing. Vonda was working in Edmonton by then but really didn't have much, so I was able to put together some business attire for her as well."

Vonda and her daughter have since resettled in St. Albert. Her house in Fort McMurray is still standing—it sustained only smoke damage—but she has no intention of returning.

"It's just too traumatizing; I can't go back there."

She says she will never forget the kindness shown to her by the people at WCB, at a time when she needed it most.

"I am so grateful," says Vonda. "Heather and Jacquie were just godsends."

The emotional fallout of that terrible time still resonates. Chandra-Lily started suffering bouts of separation anxiety after the fire, which still persist but are becoming less frequent. Vonda's sure they will disappear altogether. It's just going to take time, love—and maybe a few more laps around the rink.

Our vision statement, **"Albertans working—a safe, healthy and strong Alberta,"** represents everything we believe in and drives everything we do.

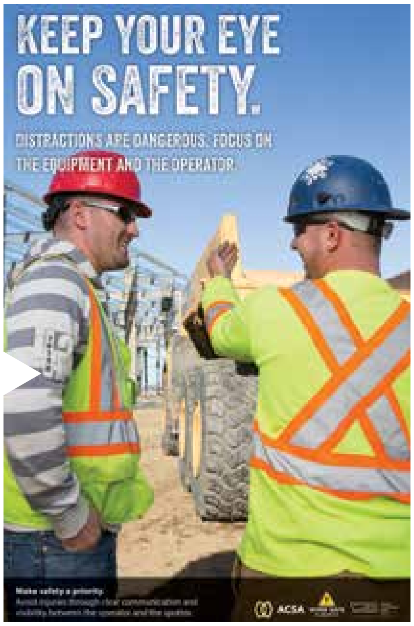
We believe we have an obligation to support and encourage employers and employees in their continuing efforts to create safe workplaces.

We are here to help injured workers, but ideally, no one would get hurt at all. We want workers to stay safe, healthy and strong.

Here are some of the ways we're helping:

Over 6,000 young Albertans were injured on the job in 2016. We want to reduce this number by raising awareness about safety in the workplace through our Heads Up–Young Worker Safety campaign.

We partner with safety associations to support awareness initiatives about injury prevention in the workplace. We have focused on topics like personal protective equipment, hearing protection, clean worksites, fall protection, ladder safety, eye protection and more. Have a look at the resources available online—visit wcb.ab.ca and search "Promoting safety in your workplaces."



Every year, we administer a portion of the premiums collected from employers to safety associations, to help them fund their injury prevention initiatives.

> "Prevention is everyone's business—including ours."

Financial stability—today and tomorrow

Our financial commitment is to ensure the workers' compensation system remains stable so we can provide the necessary support to injured workers, today and in the future.

CORPORATE MEASURE

Collecting enough employer premiums to cover the cost of injuries

Each year, we forecast the costs of wage loss, health care, vocational benefits and the administration needed to help injured workers recover and return to work. We base employer premium rates on this forecast to make sure we collect enough money to cover those costs. Basing our forecast on reasonable estimates ensures we have the funds we need to pay the current and future costs of workplace injuries while minimizing the impact to employer premiums.

Our goal is to break even, collecting sufficient revenue to cover the cost of injuries. In 2016, we saw a decrease in premium revenues due to a decline in insurable earnings (the gross amount of money paid to workers by employers); as a result, our costs exceeded our revenue and we had a year-end deficit of $64.2 million.

CORPORATE MEASURE

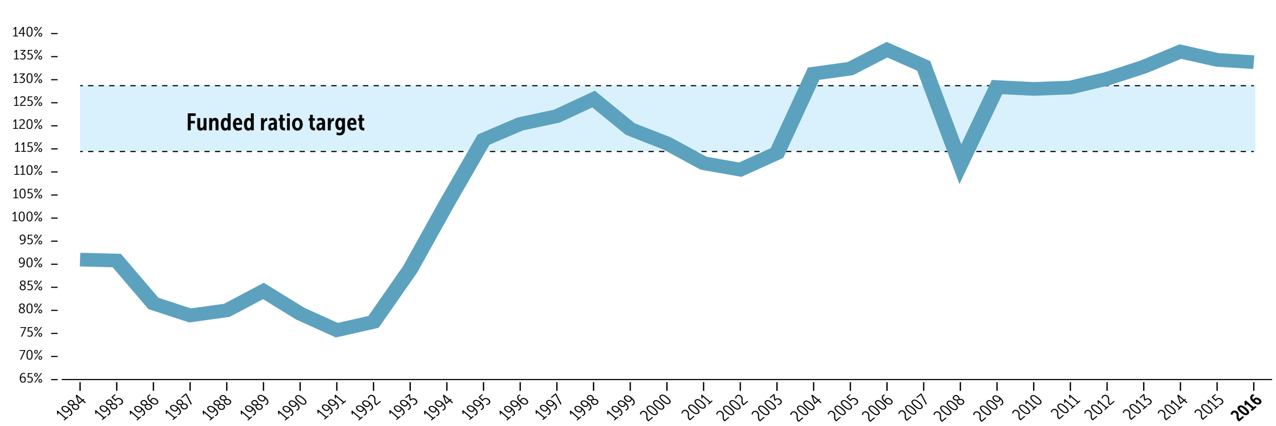
Our strong funding position protects worker benefits in the long term

We are required by the *Workers' Compensation Act* (the Act) to be fully funded, meaning we have enough money to help those who are injured for the entire duration of their claim. More specifically, being fully funded means that our assets (e.g., investments) are equal to or greater than our liabilities (e.g., claim benefits payable now and into the future).

When we take the value of our assets and express them as a percentage of our liabilities, we calculate a funded ratio. We strive for a funded ratio of 114 per cent to 128 per cent. This range provides a safeguard against volatility in the investment market and helps meet the requirements of the Act.

Our funded position remained strong in 2016, with a year-end funded ratio of 133.8 per cent.

OUR FUNDED POSITION, 1984-2016



Workers' Compensation Board – Alberta

Financial Statements

2016

Annual Report

WCB-Alberta

Management Discussion and Analysis of Consolidated Financial Statements and Operating Results

For the year ended December 31, 2016

Management Discussion and Analysis of 2016 Consolidated Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board–Alberta (WCB). The MD&A, prepared as of April 25, 2017, should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results. They also include the outlook for WCB's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB control; many are not. The reader is hereby cautioned not to place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Corporate profile

Founded in 1918, WCB is a statutory corporation with a legislative mandate under the *Workers' Compensation Act* (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Labour, WCB is independently funded and operated. Through the payment of premiums, over 162,000 employers fund the system, which covers more than 1.8 million workers.

WCB's mandate

In Canada, workers' compensation is a no-fault disability system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principles, the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required due to a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on WCB to ensure that it be fully funded.

At the highest and simplest level, WCB is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provides disability management for workplace injuries. Key business processes include rate setting, assessment and collection of premiums from employers, payment of compensation benefits to injured workers, return-to-work services and administration.

Financial management involves an integrated risk-based approach within an Asset Liability Management (ALM) framework to manage assets and liabilities so that sufficient assets are available to pay for claim-related obligations. Key business processes within the ALM framework include strategic financial planning, investment management, claim benefit liability analysis and valuation, financial risk management and financial performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB is meeting its financial obligations.

WCB's vision and mission

The core principles set out in WCB's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy.

> *Vision*
>
> ***Albertans working—a safe, healthy and strong Alberta.***
>
> Mission
>
> ***WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.***

WCB's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the guidelines for how it intends to conduct business.

2016 Financial Performance

OPERATING HIGHLIGHTS

The funding model for WCB operates on the premise that in a given year, 1) rate setting activities within customer operations will generate premiums to cover all operating costs on a break-even basis, and, 2) Financial Management activities will generate investment returns sufficient to cover the annual interest requirement on the claim benefit liability. Given the volatile performance of local and global economies, forecasting these activities is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans. Surpluses or deficits can arise when actual costs and returns are different from forecast expectations, which rely on economic and business assumptions based on available information at a point in time. Surpluses and deficits accumulate and are reflected in the funded position.

The factors contributing to surpluses or deficits are better understood when the Consolidated Statement of Comprehensive Income is reorganized to represent WCB's main business activities, as follows:

Customer operations – Lower than expected premium revenues resulted in a $64.2 million deficit.

- A weak Alberta economy in 2016 presented challenges for both injured workers and employers as modified work opportunities declined. The commitment of WCB's customer operations teams and the shared focus on return to work, modified work and early vocational rehabilitation planning helped to prevent job-loss and economic hardship in a particularly tough economy.
- Employer insurable earnings of $99.8 billion were $9.7 billion (8.9 per cent) below budget, and $6.1 billion (5.8 per cent) lower than 2015. As a result, premium revenue ended the year at $994.5 million, which was $129.9 million (11.6 per cent) below budget and $30.1 million (2.9 per cent) below 2015. This was partially offset by lower claim volumes and a decrease in the overall workforce exposure, which resulted in claims and claims management expenses of $899.7 million being $55.0 million (5.8 per cent) below budget and $12.1 million (1.4 per cent) above 2015. Overall, the premium rate collected was $1.01, compared to a required rate of $1.06.
- Disabling claim and lost-time claim volumes decreased by similar rates at 6.4 per cent, compared to 2015. Disabling claim volume decreased to 45,300 from 48,400 in 2015 and the resulting disabling injury rate per 100 covered workers was 2.4, unchanged from 2015. Lost-time claim volume decreased to 24,800 from 26,500 in 2015.

Financial management – Investment returns offset actuarial losses resulting in a $38.2 million surplus.

- Investment earnings were up in 2016, delivering net investment income of $713.8 million, which was $344.6 million (93.3 per cent) above budget, and $78.0 million (12.3 per cent) above 2015. Despite a collapse and subsequent rebound in commodity prices, heightened geo-political tensions, and fluctuating stock market valuations, the portfolio earned a total rate of return of 7.3 per cent, which exceeded the benchmark return of 5.8 percent and the budget return expectation of 4.1 per cent. Canadian equities, infrastructure and fixed income produced notably better than expected results.
- Negative actuarial remeasurement adjustments of $321.6 million were primarily driven by a decrease in the real rate of return assumption used for discounting the expected future benefit payments to present value and from adjustments to benefit payments. The rate decreased from 2.75 per cent to 2.5 per cent per annum.

Overall, the Funded Position ended the year at $2,657.8 million and the funded ratio (total assets over total liabilities) at 133.8 per cent.

The following tables represent the operating highlights for each of our key business activities:

Operating results by business activity

($ millions)	2016 Budget	2016 Actual	2015 Actual
Customer operations			
Premiums	$ 1,124.4	$ 994.5	$ 1,024.6
Claims and claims management	(954.7)	(899.7)	(887.6)
Corporate administration and injury reduction	(164.7)	(159.0)	(154.4)
Surplus (Deficit) from customer operations	5.0	(64.2)	(17.4)
Financial management			
Investment income	409.9	750.8	675.1
Investment management	(40.7)	(37.0)	(39.3)
Net investment income	369.2	713.8	635.8
Interest expense on claim benefit liabilities	(349.7)	(348.9)	(336.3)
Remeasurement gain (loss) on claim benefit liabilities	-	(321.6)	129.2
Other expense items	(5.9)	(5.1)	(5.8)
Financial management expenses	(355.6)	(675.6)	(212.9)
Surplus from financial management	13.6	38.2	422.9
OPERATING SURPLUS (DEFICIT)	$ 18.6	$ (26.0)	$ 405.5

Sources of operating surplus (deficit)

($ millions)	2016 Budget	2016 Actual	2015 Actual
Surplus (Deficit) from customer operations			
Premiums			
Premium revenue shortfall resulting from the actual premium rate collected of $1.01 (2015 – $0.97) being lower than the required premium rate of $1.06 (2015 – $0.98), based on insurable earnings	$ -	$ (55.8)	$ (8.5)
Other revenue (expense) items	5.0	(8.4)	(8.9)
	5.0	(64.2)	(17.4)
Surplus from financial management			
Investments			
Net excess of investment revenue over the claim benefit liability interest expense of $348.9 million (2015 – $336.3 million)	19.5	364.9	299.5
Other expense items	(5.9)	(5.1)	(5.8)
	13.6	359.8	293.7
Actuarial remeasurement			
Changes in actuarial methods and assumptions	-	(168.5)	-
Changes in policies and procedures	-	(152.7)	-
Gain (loss) due to claims experience	-	(0.4)	129.2
	-	(321.6)	129.2
	13.6	38.2	422.9
OPERATING SURPLUS (DEFICIT)	$ 18.6	$ (26.0)	$ 405.5

Customer Operations

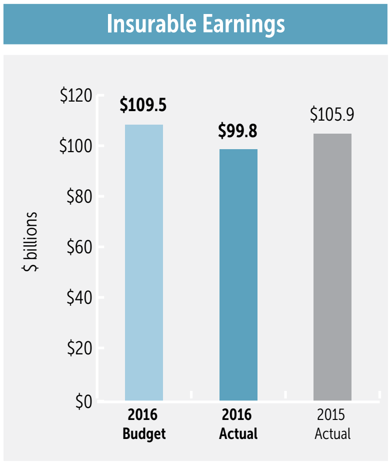
PREMIUMS

Insurable earnings

$9.7 billion (8.9 per cent) under budget

$6.1 billion (5.8 per cent) lower than prior year

The recessionary environment in Alberta led to insurable earnings being below both budget expectations and prior year. Reductions reflected a decline in the total number of hours worked in the province, as well as a reduction in the average hourly wage. Sectors most notably impacted were construction; mining, oil and gas; and manufacturing.



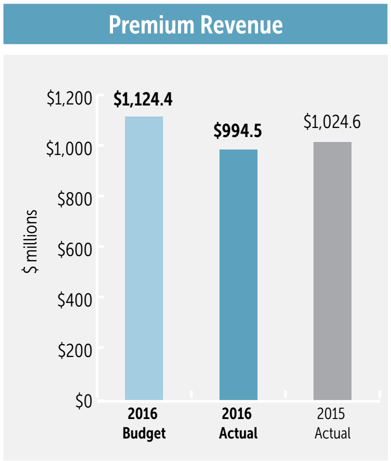
Premium revenue

$129.9 million (11.6 per cent) under budget

$30.1 million (2.9 per cent) lower than prior year

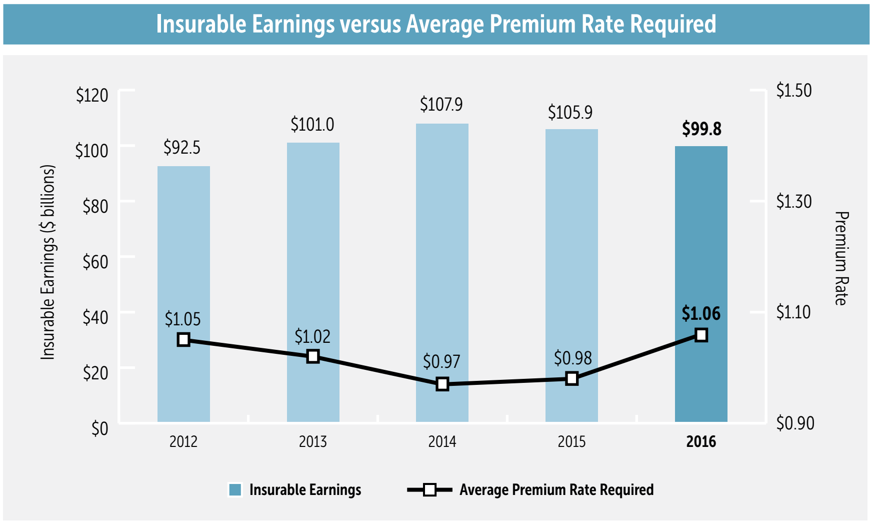
Weakness in insurable earnings negatively affected premiums. Sectors that primarily contributed to the $129.9 million negative budget variance were construction; mining, oil and gas; and manufacturing.

Premium revenue decreased by 2.9 per cent to $994.5 million in 2016, due in part to a year-over-year decline of 5.8 per cent in employer insurable earnings, partially offset by a 4.1 per cent increase in the average collected premium rate, from $0.97 to $1.01.



Premium rates and insurable earnings

The chart below presents insurable earnings vs average premium rate required from 2012 through 2016. The trending decline in the average premium rate required up to 2014 was the result of growth in insurable earnings, which outpaced growth in claims expense. Since 2015, the trend has reversed with the average premium rate required increasing due to insurable earnings declining at a greater pace than the decline in claims expense.



CLAIMS AND CLAIMS MANAGEMENT EXPENSES

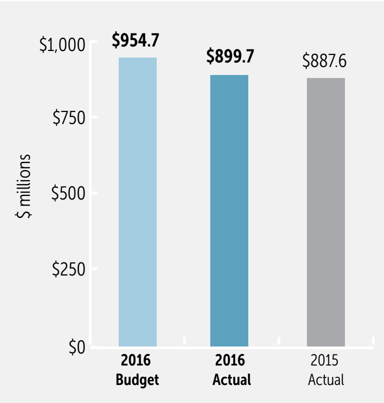
Claim expenses are an estimate of current and future costs arising from compensable injuries and exposures to occupational diseases occurring in 2016, as well as the future costs to administer these claims.

$55.0 million (5.8 per cent) lower than budget

$12.1 million (1.4 per cent) higher than prior year

Claims and claims management expenses were below budget primarily due to lower health care costs resulting from lower claim volume. The increase over 2015 is primarily due to actuarial adjustments.

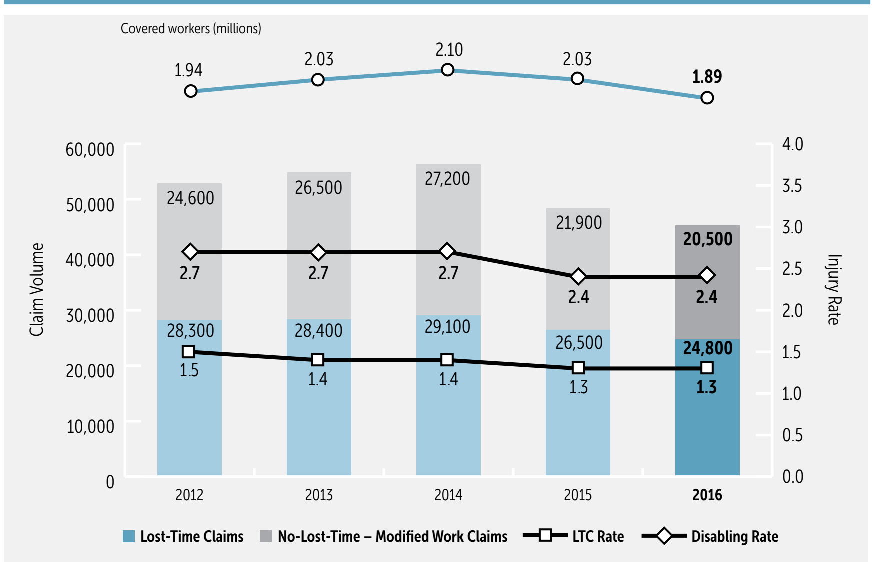
Claims and Claims Management Expenses



Claim volume and claim rates

Both components of disabling claim volume (claims resulting in lost time from work, and those resulting in no time lost due to a return to modified duties) declined in 2016, although the rate of decline softened from 2015. This decrease resulted from the continued weakness in the Alberta labour market, manifesting in lower levels of employment, and an elevated unemployment rate. While claim volume fell in 2016, the number of covered workers in the province also declined, resulting in no change in the disabling and lost-time claim rates per 100 covered workers.

Claim Volume and Injury Rates

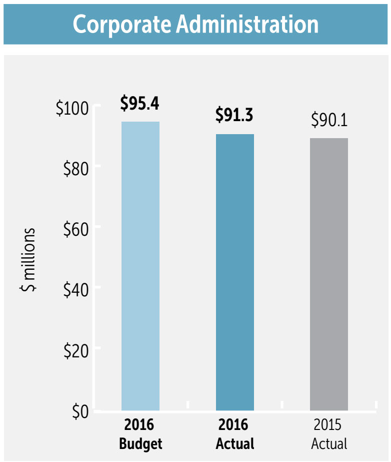


CORPORATE ADMINISTRATION

$4.1 million (4.3 per cent) under budget

$1.2 million (1.3 per cent) higher than prior year

Corporate administration expenses exclude costs for administering claims (2016 – $105.6 million, 2015 – $101.5 million) that are included in claims management expenses. Corporate administration came in under budget due to operational efficiencies, while year-over-year cost increases are attributable to inflationary impacts.



Financial Management

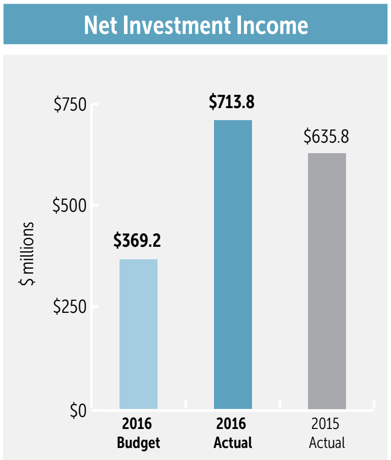
INVESTMENTS

Net Investment income

$344.6 million (93.3 per cent) over budget

$78.0 million (12.3 per cent) higher than prior year

Net investment income was higher than budget, primarily driven by better than expected returns in Canadian equities, infrastructure and bonds. Overall, the portfolio earned a total rate of return of 7.3 per cent for 2016 (budget was 4.1 per cent) on par with the 7.0 per cent return in 2015. This was also above the long-term actuarial required nominal rate of return.



The portfolio is prudently managed within a robust ALM framework, which involves an integrated risk-based approach to managing the fund's assets within the context of the claim benefit obligations they are expected to safeguard. ALM helps determine an appropriate investment strategy to reduce funding risk. The Act requires that the Accident Fund remain fully funded such that sufficient assets are maintained to pay for the obligations of the fund (liabilities). It follows that the financial risks inherent in those assets and liabilities need to be fully understood and carefully managed in order to ensure that fluctuations on either side do not cause the Accident Fund to become unfunded.

Financial risks are modeled and studied on a regular basis to confirm that the portfolio can deliver on its requirement to pay for the obligations of the fund well into the future. Volatility in investment markets and the economic environment makes this a complex and challenging exercise. However, strong risk management practices supported by modeling software provide a systematic and consistent platform for monitoring the emerging risk profile of the assets and liabilities. Throughout the year, risk metrics confirmed that the Accident Fund was operating within an acceptable level of risk.

Investment returns played a key role in WCB's 2016 financial results. The following provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

2016 was a year of surprises: oil prices reached a low of $26 per barrel, then rebounded at the end of the year to just over double that level, the U.K. voted to leave the European Union in the historic Brexit referendum and Donald Trump was unexpectedly elected as President of the United States. While these events resulted in significant volatility in financial markets, anxiety quickly eased and most equity and commodity markets ended the year with solid gains. With a return of over 21 per cent, Canadian equities were the leading performer. Fixed income markets performed strongly in the first three quarters of 2016, but experienced a challenging fourth quarter as yields rose sharply on the prospect of faster U.S. economic growth and a potential rise in inflation.

The commercial real estate market performed in line with expectations, but with significant regional variations. British Columbia and Ontario continued to do well, while energy dependent markets experienced negative capital returns. Infrastructure demand from global investors remained robust and the asset class continued to produce strong returns.

Portfolio performance

The portfolio earned a total rate of return of 7.3 per cent for 2016 (1.5 per cent above the policy benchmark) and 8.9 per cent for the four-year period ending December 31, 2016 (2.1 per cent above the policy benchmark). These returns are consistent with the expected level of risk set in the Investment Policy and by the ALM framework. The primary goal of the investment portfolio is to earn a rate of return that meets or exceeds the long-term actuarial nominal rate of return (referred to as the actuarial discount rate). On this basis, the portfolio's rate of return for 2016 of 7.3 per cent was significantly above the long-term actuarial required rate of 4.55 per cent.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries and illnesses that have occurred on or prior to that date, as well as for past exposures that may result in future occupational disease claims. These liabilities represent the actuarial present value of all future benefits and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2016, those future payments totaled $15,623.9 million and, when discounted using a nominal rate of return assumption of 4.55 per cent per annum, resulted in claim benefit liabilities of $7,553.0 million—an increase of $685.7 million over 2015.

Effect of discounting

The difference between the future payments and the present value highlights the significant effect of discounting, as shown in the table below.

($ millions)	Years 1 to 5	Years 6 to 15	Years 16 & beyond	**Total**
Timing of future payments	$ 2,568.2	$ 3,979.3	$ 9,076.4	$ 15,623.9
Effect of discounting	(244.3)	(1,392.1)	(6,434.5)	(8,070.9)
Claim benefit liabilities				$ 7,553.0

Benefit obligations extend well out into the future. Almost 84 per cent of future payments are expected to occur in year 6 and beyond.

Significant changes in liabilities

The overall $685.7 million increase in claim benefit liabilities was attributable to the following:

($ millions)	2016 changes
Customer Operations related	
Provision for future costs of current-year injuries and exposures	$ 653.7
Benefit payments for prior years' injuries	(638.5)
	15.2
Financial Management related	
Interest expense on the liability	348.9
Changes in actuarial methods and assumptions	168.5
Changes in policies and procedures	152.7
Claims experience loss	0.4
	670.5
	$ 685.7

Actuarial methods and assumptions

The following actuarial methods and assumptions changes increased claim benefit liabilities by $168.5 million:

- Updates to economic assumptions, including the decrease in the real rate of return assumption (nominal less inflation) from 2.75 per cent to 2.5 per cent per annum ($219.4 million increase).
- Revised assumptions relating to the valuation of latent occupational disease claims ($88.4 million decrease).
- Changes in the methods and assumptions used for valuing long term health care benefits ($37.5 million increase).

Policies and procedures

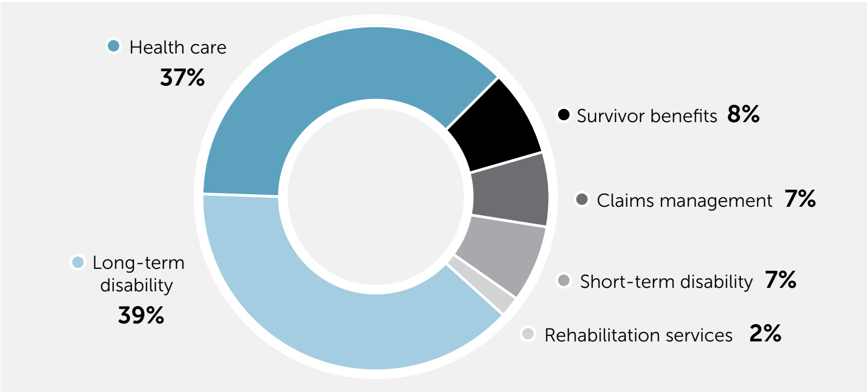
The $152.7 million increase in the claim benefit liabilities is for benefit amount increases to personal care allowances and housekeeping allowances effective January 1, 2017.

Claims experience

Differences between actual experience and what was expected in the prior valuation result in experience gains (which decrease the liability) or losses (which increase the liability). The impact of actual 2016 experience resulted in an overall experience loss of $0.4 million. The primary reasons for the loss were that economic loss payments were higher than expected (increased the liability by $118.7 million), as were other benefit categories (increased the liability by $14.1 million) while actual wage growth and inflation were lower than expected (decreased the liability by $132.4 million).

The following chart shows the breakdown of the claim benefit liabilities as at December 31, 2016, by benefit type:

Claim Benefit Liabilities, December 31, 2016



Funding

FUNDING POLICY

The Funding Policy is the primary instrument through which WCB manages its capital or fund structure and provides direction for setting premium rates and optimum funding level. Details of the Funding Policy may be found in the Policy and Legislation section of WCB's website. Discussion is also included in Note 4 *Funding*, in the accompanying consolidated financial statements and notes.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year injuries.

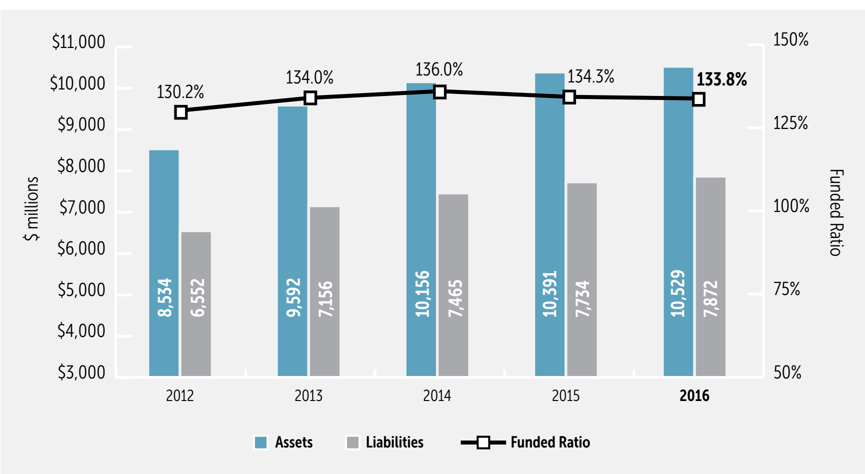
The funding mechanisms that evolve from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure they continue to respond effectively to changing economic conditions.

FUNDED POSITION

The Funded Ratio (total assets to total liabilities), as at December 31, 2016, is 133.8 per cent, (2015 - 134.3 per cent) which is slightly above the upper end of the funding policy target range. Viewed from another perspective, WCB has total assets of $10.5 billion to cover the present value of its total estimated liabilities of $7.9 billion. Despite the positive funded position, the potential changes in legislation or WCB operations as a result of the legislative review of the workers' compensation system may impact the Accident Fund. As such, WCB has deferred a decision on payment of a surplus distribution in 2017 until the full impact of the review panel recommendations is quantified.

The chart below presents the Funded Position from 2012 through 2016.

Funded Position, 2012–2016



Enterprise Risk Management

OVERSIGHT

Under WCB's corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise-level risk, is assisted by the Planning & Priorities Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk. First, risk management is integral to the day-to-day business. Major projects and changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to complete a systematic and comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to WCB and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's claim-related benefits are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions such as health care inflation and utilization, and wage growth. Other factors may also arise through administrative precedents established through the appeals process, legislative changes or from new medical findings for occupational disease. All of these factors add significant uncertainty to WCB's cost structure and may impose, over time, pressures on the funding model.

Fraud-related risk

Every year, WCB collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—over 162,000 employers, 164,000 injured workers and thousands of service providers—creates inherent risk for fraud. WCB employs an extensive audit program to monitor the organization's ability to protect against fraud and implements additional controls, as required, to strengthen WCB's management of fraud risk.

Funding risk

Managing the components of WCB's overall Funded Position is a complex process that involves forecasting, liability projection, investment management and operational performance. Although processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management continues to be enhanced to provide better systems, tools, processes and information to enhance forecasting, financial planning and decision-making processes within WCB.

Investment risk

In its investment portfolio, WCB is exposed to financial risk, which includes market and portfolio risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or events that broadly affect capital markets. Portfolio risk relates to specific composition and management of WCB's portfolio. Details of financial risks related to investments are discussed in Note 6 *Investment Risk Management*, in the accompanying consolidated financial statements and notes.

Premium risk
WCB has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. This risk is largely driven by provincial economic conditions such as employment growth and wage escalation. To manage premium risk, WCB has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources such as the Conference Board of Canada.

Technology risk
To support its core business processes, WCB uses a number of information systems for processing transactions and maintaining injured worker and employer information. If these systems were to fail or were compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB maintains a business continuity plan, system controls and backup systems to address processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

Preparation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) requires management to make judgements, assumptions, and estimates that could materially affect the results of operations and financial condition of WCB. The following discusses those significant accounting policies that entail significant use of judgement and estimates. For further discussion of accounting impacts, please refer to the accompanying consolidated financial statements and notes.

Investments
WCB must apply judgement to determine whether it has control or significant influence with respect to the activities of its investees, which will affect whether the consolidation of an investee is required. Additional details are found in Note 5 *Investments*, in the section *Interests in unconsolidated structured entities*.

WCB's investment assets are financial instruments measured at fair value at each reporting date. Fair value measurement, which reflects realizable market value, could lead to significant volatility in the statement of financial position during periods of economic and market instability. For those investments whose fair value is not based on observable market inputs, judgement must be applied in selecting and/or developing appropriate valuation techniques, assumptions, and data.

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. In addition, the fair value of derivative contracts must reflect potential counterparty default risk, which is mitigated by transacting only with those counterparties whose credit risk is insignificant. Because such fair value changes are recognized in income in the periods in which they arise, investment income for those periods may be volatile. When the closing positions of derivative contracts represent material gains and losses, their settlement may result in large unanticipated cash inflows and/or outflows.

Details of the investment assets and their inherent risks are in Note 5 *Investments* and Note 6 *Investment Risk Management* in the accompanying consolidated financial statements and notes.

Valuation of employee benefit liabilities
WCB has applied defined benefit accounting for employee post-employment plans, which requires an actuarial determination of benefit obligations extending well into the future for post-employment benefits to employees. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to market yields on high quality corporate bonds with similar characteristics as the liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing, and duration of future benefit commitments are inherently difficult to predict reliably, and are factors outside management's control.

Details of WCB's multi-employer and sponsored defined benefit plans are in Note 10 *Employee Benefits* in the accompanying consolidated financial statements and notes.

Valuation of claim benefit liabilities

WCB has significant obligations for benefits to injured workers extending well into the future. In order to estimate these future obligations, WCB applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit payment streams into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because the assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to forecast, and are influenced by external factors that are inherently unpredictable. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Details of the valuation, along with sensitivity of the associated risks are in Note 11 *Claim Benefit Liabilities* and Note 12 *Claim Benefit Risks* in the accompanying consolidated financial statements and notes.

Premiums

The reported premium revenue at year-end includes an estimate of premium adjustments, as well as an estimate for safety rebates earned by participating employers that have met performance criteria for workplace safety. Generation of these estimates requires significant use of judgement in developing the methodology as well as the relevant economic assumptions. As such, actual premiums and safety rebates may differ significantly in periods of economic uncertainty.

Details of these estimates are in Note 13 *Premium Revenue* in the accompanying consolidated financial statements and notes.

Governance and Compliance

Legislative authority

Under the authority of the Act, WCB is a provincial board-governed organization that operates independently while reporting to the Minister of Labour.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its consolidated financial statements in accordance with IFRS. WCB has developed a framework and plan for the overall ICOFR program. The framework is based on best practices under the COSO[i] and COBIT[ii] frameworks. The ICOFR program is assisted by WCB's Management Audit Services group and program results are shared with the Office of the Auditor General.

Business planning

An important aspect of financial planning and budgeting is linkage to WCB's strategic plan and the resulting corporate objectives developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The annual budget establishes the foundation for appropriate resource allocation for achieving the corporate objectives.

[i] *Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework), which developed a governance framework for internal control.*

[ii] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance.*

Emerging Standards

WCB conducts continuous environmental scanning of the financial reporting and actuarial standard-setting landscape for important developments in recognition and measurement of critical financial statement items that may have significant implications for funded position and financial performance in the current and future reporting periods. Once the revised standards are officially issued, WCB analyzes their key requirements to ensure that major impacts are well understood, such that timely planning and effective implementation of accounting processes and systems will result in high-quality financial reporting.

The following are the major developments in professional standards that WCB is closely monitoring:

Financial instruments

The IASB released the final version of IFRS 9 in July 2014 with a mandatory effective date of January 1, 2018. As WCB had already adopted phase one (classification and measurement) in 2011, its assessment of the standard focused on phase two (impairment) and phase three (hedge accounting). WCB has concluded that phase two is not expected to have a material effect on financial position or results of operations, and phase three will not be applicable to WCB's hedging activities. For further discussion of how IFRS 9 will be applied, see the section in Note 3 *Accounting Policy Changes* for standards issued but not yet effective, in the accompanying consolidated financial statements and notes.

Revenue from contracts with customers

IFRS 15, issued May 2014, introduces a new revenue recognition framework. The core principle of IFRS 15 is that revenue is recognized when promised goods or services to customers are transferred to customers in an amount that reflects the consideration expected to be exchanged for those goods or services. For WCB, IFRS 15 will entail only presentation and disclosure changes, and is not expected to have a material impact as WCB's major revenue streams fall outside its scope – that is, within the scope of IFRS 4 *Insurance Contracts* (premium revenue) and IFRS 9 *Financial Instruments* (investment income).

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

Leases

IFRS 16, issued January 2016, will require the lessee to recognize all leases (both finance and operating) in the statement of financial position as assets and corresponding liabilities, with limited exceptions. The guidance remains largely unchanged for finance leases, but recognition of operating leases could materially increase both assets and liabilities. For such leases, adoption of IFRS 16 will require recognition of a right-of-use asset measured at the present value of future lease obligations, which will be amortized over the expected lease term in accordance with the depreciation requirements of IAS 16 *Property, Plant and Equipment*.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. An implementation plan is expected to be developed in 2017.

Insurance contracts

Now in the final stage of drafting, IFRS 17 is targeted for release in May 2017. It will replace IFRS 4 in its entirety. Expected impacts will be significant for WCB and are expected to affect actuarial processes, data requirements, systems retooling, and valuation methodologies. Additionally, recommendations will introduce important new concepts, definitions, recognition, and measurement approaches for insurance liabilities and revenue, which will drive related major revisions in financial statement presentation.

Most significant for WCB is how the rate used to discount future cash flows arising from its claim liabilities will be established. The prescribed approach will likely require development of a yield curve using observable market data for the actual or a reference portfolio of assets with similar characteristics as the liabilities. The change in discount rate methodology could introduce potentially material increases or decreases in claim benefit liabilities, as well as their volatility in subsequent periods experiencing interest rate instability. The funding policy will need to be reviewed as part of the implementation.

The IFRS 17 effective date is expected to be no later than January 1, 2021, with early adoption likely to be permitted. A multi-year implementation plan is expected to be developed in 2017, and will be based on the final standard as released.

Looking Ahead

Looking forward to 2017, WCB will continue to manage its business in light of global and provincial economic uncertainty. WCB's business priorities are to build on operational and financial strategies that have contributed to its organizational success. Management will closely monitor economic and operating trends to develop proactive and measured responses to emerging business issues.

Economic and capital market outlook

The economic and capital market outlook continues to be laden with uncertainty heading into 2017. For the global economy, U.S. growth could get a boost if the new government, as promised, implements stimulative fiscal policies. However, many other regions, including Canada, are still mired in sluggish growth, albeit improving.

The newly elected U.S. President is also stoking fears of trade protectionism that could spark a global trade war. The outlook for global growth thus depends in part on the extent to which the U.S. administration will embrace protectionism. Further movement in that direction would heighten risks to the sustainability of global growth. For Canada, the spectre of rising U.S. protectionism may temporarily weigh on business investment, though stronger U.S. growth could spur exports, but only if the U.S. administration does not implement a proposed 10 per cent border adjustment tax.

Turning again to Alberta, expectations for incremental improvements in oil prices lead to a baseline expectation of a modest recovery for the Alberta economy. Reconstruction efforts in the wake of the Fort McMurray forest fire should provide a further stimulative boost. A significant departure from business as usual, recently seen in energy markets, warrants more caution than usual in terms of adopting baseline forecasts. This uncertainty also weighs on the decision-making process of oil producers, making them less likely to commit to the massive up front capital expenditures and long production horizons of the Alberta oil sands projects that fueled the most recent boom.

Markets have so far responded with optimism and momentum and associated improvements in the earnings outlook is expected to support equities into early 2017. However, it appears that expectations are not discounting the uncertainty surrounding the implementation of the President's vision. They are also ignoring for now the consequences for the U.S. dollar, government deficits, interest rates, trade and inflation. Interest rates and the U.S. dollar have already moved higher and continuation of that trend could offset any potential positives from expected fiscal stimulus.

While economic conditions seem generally better than a year ago, the world is still suffering from a low economic speed limit and downside risks remain. In an environment where the economic cycle is mature, equity valuations are elevated and the risk of political missteps are high, equity market returns are expected to be modest.

The outlook for interest rates depends on the extent to which reflation efforts take hold. Currently, only the U.S. Federal Reserve is expected to raise interest rates in 2017 with the Bank of Canada and the European Central Bank keeping official policy rates unchanged. The return from fixed income is therefore expected to be low or even negative if reflationary trends accelerate and yield curves continue to steepen.

Given the economic backdrop, WCB's total portfolio return for 2017 is budgeted at 4.1 per cent. However, continued market volatility suggests that the actual returns for 2017 may be significantly different from this planning assumption.

Forecasting short-term market performance is extremely difficult. Studies show that investors can detract from returns when trying to time short-term capital market movements. WCB is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

Business outlook

Customer operations

WCB cares about helping injured workers and employers achieve positive results following a workplace incident causing injury or illness. By making fair decisions, WCB employees ensure clients receive the right benefits and services to help them recover their health and independence.

A safe return to work is a partnership; it is the strength of our relationships with employers, injured workers and health care providers that creates an environment where workers are well supported in their recovery and return to work.

In 2017, WCB is expected to receive recommendations from the government-appointed Workers' Compensation Board Review Panel. While the impact of any recommendations related to legislation, policies or processes are indeterminable at this time, WCB is committed to maintaining high-quality standards to ensure clients receive the best care from all participants in the workers' compensation system. Together, we will minimize the impact of work-related injury and illness.

Financial management

Financial management is based on an investment policy derived from asset-liability studies that consider the year-by-year liabilities of the fund together with the probabilities of associated investment returns. This results in an allocation to stocks, bonds and other assets that changes moderately from year to year and generally performs well, notwithstanding some volatility from year to year.

The Investment Policy includes inflation-sensitive assets, which help to lower volatility while providing a level of return that contributes to the continued financial strength of the fund.

2017 premium rate

For 2017, the average premium rate is budgeted at $1.02 per $100.00 of insurable earnings. Insurable earnings are budgeted to grow by 4.6 per cent to $104.4 billion, representing a tempered outlook in light of weak economic growth and depressed commodity prices. Lost-time claim volume in 2017 is expected to remain stable to 2016, while fully-funded costs (i.e., the full cost of injuries that take place in the rate setting year, which includes a provision for the future costs that are expected to be incurred for those injuries) are expected to grow in proportion to insurable earnings due to pressures on health care and rehabilitation benefits as additional efforts are focused on return-to-work outcomes. Any change in the mix of actual growth between insurable earnings and fully funded costs will have an impact on the average premium rate that is ultimately required.

Outlook for financial condition

At the end of 2016, WCB's funded ratio was 133.8 per cent (assets over liabilities). Given economic uncertainty and the volatility of investment returns, it is difficult to determine, with any certainty, WCB's funding position into the future. Despite these uncertainties, WCB's broad based risk management framework is designed to mitigate, where possible, this economic and capital market volatility. The outlook for 2017 is based on an expectation that the commodity downturn of the past two years is over and that a recovery is under way. With that said, the pace of the recovery is expected to be quite gradual. A return to modest economic growth should boost wages and employment, lifting insurable earnings and therefore premium revenues. On the cost side, the same uptick in activity will place upward pressure on claim volume and associated costs. The relative magnitude of these changes is uncertain and will affect the size of the resulting operating surplus or deficit.

Facing the future

2017 will continue to present challenges and our partnerships will be more important than ever.

Collaboration and communication are the keys to ensuring continued success for system stakeholders. Our collective focus will be to ensure:

- Employers continue to enhance performance and accountability;
- Workers feel engaged and achieve a sense of ownership in the return-to-work process; and
- WCB employees maintain their strong commitment to efficient and proactive case planning.

Working together we will continue to deliver a compensation system that fairly balances the interests of workers and employers and achieves positive return-to-work results.

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
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

AUDITOR GENERAL *Alberta*

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	Base Salary [1]	Other Cash Benefits [2]	Non-Cash Benefits [3]	SERP [4]	Total
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.

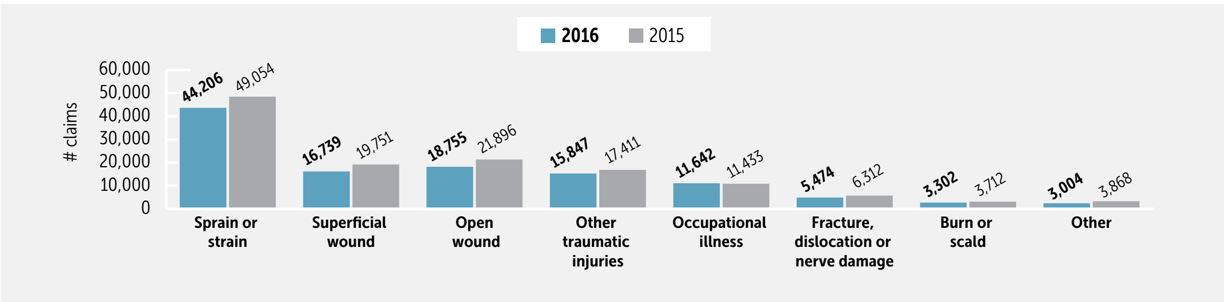
2016 summary of claims administered

	2016		2015	
Active claims as of January 1		28,733		28,586
New lost-time claims	24,007		26,029	
New medical-aid-only claims	94,962		107,408	
Total new claims reported	**118,969**		**133,437**	
Recurrent claims[1]	16,016		18,899	
	134,985	134,985	152,336	152,336
Total claims administered		**163,718**		**180,922**

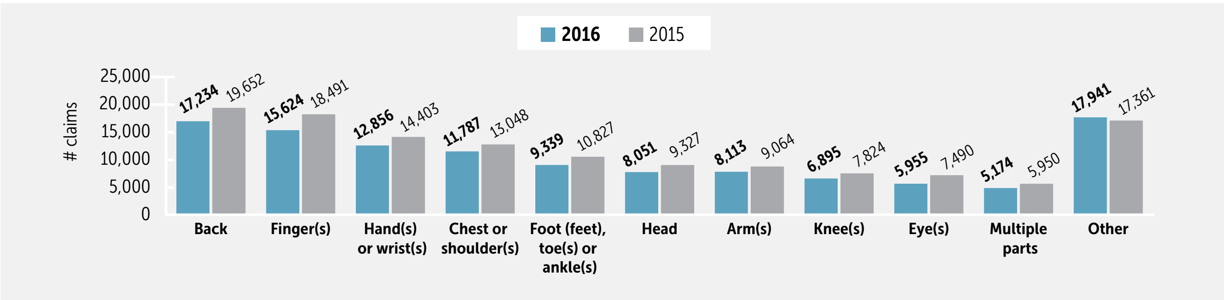
[1] *Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons, such as payments for medical aid or requests for further compensation benefits.*

Ineligible claims	**2016**	2015
LOST-TIME CLAIMS		
Insufficient information available to process claim	161	133
Not covered under *Workers' Compensation Act*	224	246
Injury or illness not arising out of/in course of employment	1,802	2,009
MEDICAL-AID-ONLY CLAIMS		
Insufficient information available to process claim	3,876	3,827
Not covered under *Workers' Compensation Act*	2,447	2,756
Injury or illness not arising out of/in course of employment	4,532	4,948

New claims by nature of injury



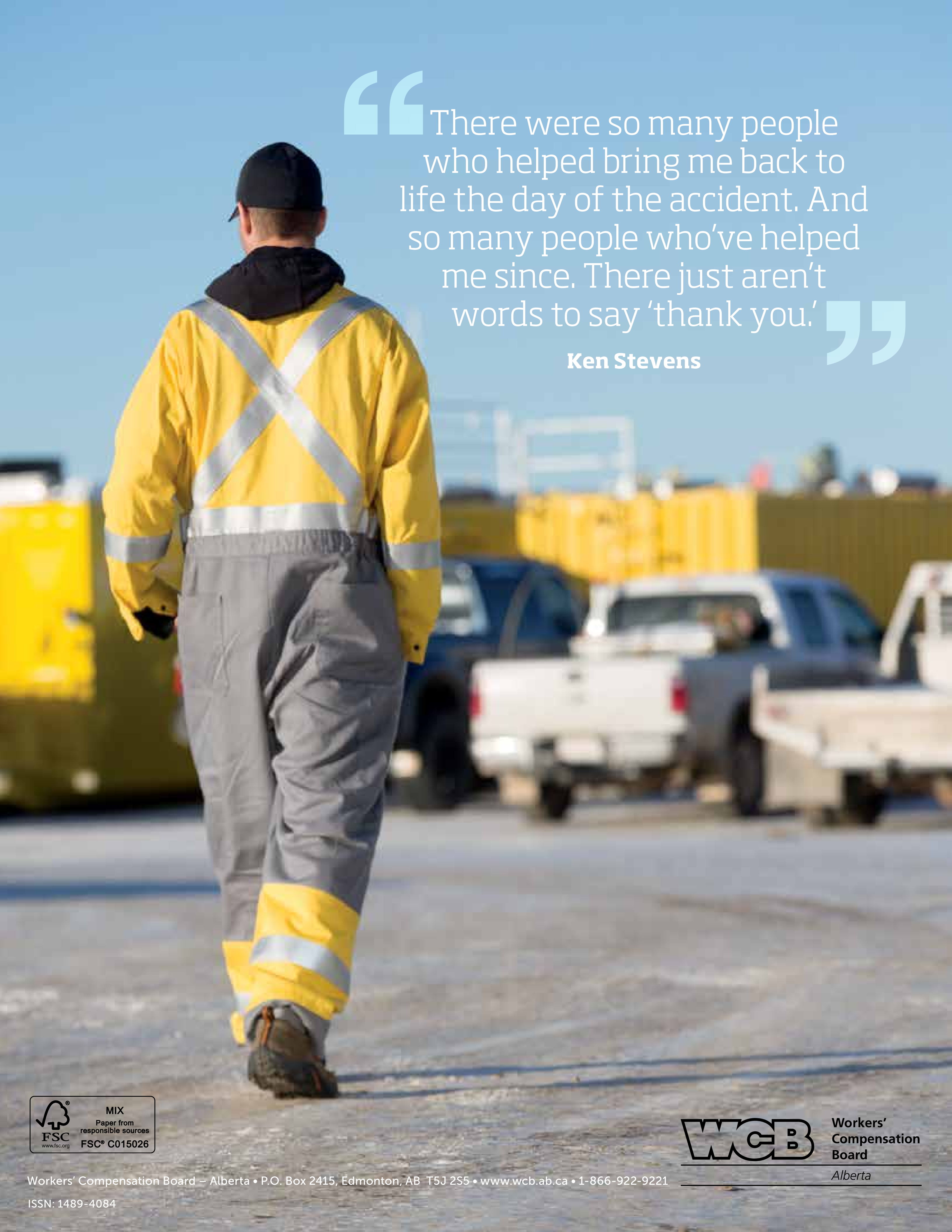
New claims by part of body



2016 year at a glance

	2016	2015
Number of workers covered	**1,885,552**	2,028,592
Registered employers	**162,334**	166,968
Lost-time claim rate (per 100 workers) [1]	**1.3**	1.3
Disabling-injury rate (per 100 workers) [1]	**2.4**	2.4
Number of new claims reported	**118,969**	133,437
Number of lost-time claims [1]	**24,800**	26,500
Fatality claims accepted	**144**	125
Ineligible lost-time claims (% of all lost-time claims)	**9.1%**	9.2%
Number of new requests for review to the DRDRB	**2,539**	2,702
Return to work with accident employer	**93.7%**	91.8%
Return to work with new employer	**1.2%**	1.6%
Return to work overall	**94.9%**	93.4%
Estimated average claim duration (TTD days)	**37.1**	34.0
Cost-of-living adjustment on long-term benefits	**0.81%**	1.90%
Claims and claims management expenses (thousands)	**$899,671**	$887,637
New non-economic loss and permanent disability awards	**3,235**	2,846
New economic loss awards	**944**	549
Maximum insurable earnings	**$98,700**	$95,300
Premium revenue (thousands)	**$994,527**	$1,024,635
Average collected premium rate (per $100 of insurable earnings)	**$1.01**	$0.97
Investment income (thousands)	**$750,760**	$675,045
Funded ratio (per cent funded)	**133.8%**	134.3%
Number of Freedom of Information requests	**60**	29
Compliance of FOIP requests within legislated time frames	**100%**	100%
Public Interest Disclosure (Whistleblower Protection) Act disclosures	**0**	0

[1] *Lost-time claims and the lost-time claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2016 but not reported by year-end are considered.*



> There were so many people who helped bring me back to life the day of the accident. And so many people who've helped me since. There just aren't words to say 'thank you.'

Ken Stevens

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