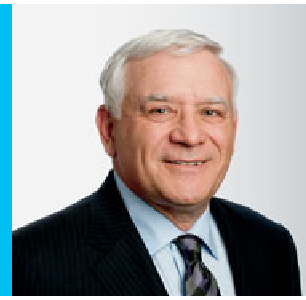
Workers' Compensation Board – Alberta 2013 Annual Report

Fairness is...

WCB-Alberta
2013 Annual Report

Financials

Message from the Chair and the President & CEO


Bob Normand


Guy R. Kerr

At WCB-Alberta, we understand that work is one of the things that defines each of us. It is the source of our confidence, a home for our strengths, a place where we contribute. When strangers meet, one of the first questions they ask one another is "What do you do?"

In Alberta, we're devoted to helping workers return to meaningful lives after the unexpected disruption of a workplace injury. These workers, and their employers, deserve to be treated with respect and courtesy, with promptness and efficiency.

Above all, at this difficult time, they deserve to be treated fairly. As stewards of the workers' compensation system, we feel this responsibility and commitment daily. We also know we are not alone and recognize the critical partnerships that make this a successful system for all Albertans.

Creating opportunities together

Each day, we partner with employers who share our commitment to their employees' recovery and to helping them create new opportunities for those who just aren't able to return to their previous jobs.

We partner with workers who are driven to recover and regain their confidence in the workplace, despite the life-changing and difficult situations they've found themselves in, and we collaborate with health care providers who are compelled by this same passion. These partnerships are why our system works.

As a result of our coordinated determination and efforts, in 2013 we were able to help almost 94 per cent of the clients we cared for receive the support they needed to achieve fitness for work. Our partnerships created opportunities for more than half of injured workers to return to modified work, enabling them to contribute to their workplaces while still recovering from their injuries.

Together we helped these Albertans once again answer the question "What do you do?" with pride.

We will continue our success

In this annual report, you'll read about our joint successes in 2013. These successes have positioned us well as we move forward, and we are committed to looking for ways to be even better.

We will continue to promote an environment that fosters innovation in order to improve the services we provide while maintaining the stability and long-term sustainability of our system.

We will also continue to collaborate with our partners to ensure that injured workers in Alberta experience the fairness they deserve and have every opportunity possible to return to work safely. Because working meaningfully, at WCB-Alberta, is recognizing that work is meaning. This is our commitment to you.

Bob Normand
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & CEO
Workers' Compensation Board – Alberta

2013 Board of Directors

Bob Normand
Chair, Board of Directors

Guy R. Kerr
President & CEO

Representative of the interests of employers

Erna Ference
Philip Hughes
Alex McPherson



Representative of the interests of workers

Tim Brower
Fred Nowicki
Grace Thostenson



Representative of the interests of the general public

Gail Harding
Denis Herard
Robert Nicolay



Coloured dots denote committee membership.

- **Finance and Audit**
- **Governance**
- **Human Resources and Compensation**
- **Policy**

The Chair of the Board of Directors and the President & CEO are ex-officio members of all committees.

WCB's Board of Directors

is working for Albertans. The Board is made up of 10 men and women with a wide range of stakeholder insights, all of whom are committed to the health of Alberta's workers' compensation system.

This means that the interests of workers, employers and the general public are all well represented.

The Board's commitment to good governance and accountability helps ensure WCB remains true to its mandate. It also ensures the long-term stability of the system.

The Board of Directors is accountable to the Minister of Jobs, Skills, Training and Labour as defined in the *Workers' Compensation Act* and corporate governance policy.[1] In turn, the Board holds WCB's Strategic Management Council responsible for conducting the day-to-day business of the organization.

Board committees review information from all areas of the business. They also identify and assess risks to help WCB's executive team make informed decisions. Good governance and accountability set the stage for this ongoing process.

[1] www.wcb.ab.ca/public/board.asp

Strategic Management Council

Our vision and mission are clear. It's up to WCB's Strategic Management Council (SMC) to provide the leadership and tools needed for our staff to achieve these goals.

SMC works together with our Board of Directors, partners and stakeholders to ensure the right corporate objectives are in place to deliver on our vision of Albertans working. This starts with a foundation of respect and it sets the stage for our commitment to decision fairness. Together, we are significantly and measurably reducing the impact of workplace injury on Albertans.

In 2013 SMC led over 1,600 employees to deliver superior service to nearly 161,000 employers and their two million workers.

Ron Helmhold
Chief Financial Officer

Wendy King
VP, Operations and Chief Information Officer

Guy R. Kerr
President & CEO

David Verbicky
VP, Operations and Disability Management

Douglas Mah
Secretary and General Counsel

Roxy Shulha-McKay
VP, Employee and Corporate Services

OUR VISION:

Albertans working—a safe, healthy and strong Alberta.

OUR MISSION:

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

Fairness is...

- Consistently ***making the right decisions*** according to the facts, legislation and policy.
- Clients feeling ***respected and cared for*** in the decision-making process. We were timely with information and decisions, we kept them well informed throughout the process, and we treated them with respect.
- Clearly demonstrating ***transparency*** in decision making, showing we are accessible and consistently following good process.

Focusing on fairness requires…

Respect. A workplace injury can be devastating—not only to injured workers but also to their families. At WCB we work hard to ensure we have a positive impact on the lives of Alberta's injured workers.

Balance. The workers' compensation system is designed to protect both workers and employers against the impact of work-related injuries. We're committed to balancing the interests of our stakeholders and ensuring a sustainable system.

Communication. Each person we work with is different; each situation is unique. Timely, two-way communication helps create great outcomes for all of our clients.

Partnerships. Injured workers, employers, health care providers, government, associations and WCB staff work together to ensure the success of the workers' compensation system.

WCB and its stakeholders continue to make a difference in the lives of Albertans. The following stories show you how.

We **respect** that every worker is unique with different needs.

Art's story

Support system helps Art Tolsma focus on the new job ahead

"I was an automotive technician when I got hurt. We had a car in the shop on the hoist. It was hooked up to a machine with a bunch of hoses attached to it. I stepped over the hoses with one foot, but I caught the other foot and tripped. I grabbed a chair with my right arm, but my body kept falling forward.

My arm got wrenched backward, and I ended up on the concrete.

I knew it was bad. I was in a lot of pain. I couldn't move my arm at all for about 30 minutes. I managed to finish the job I had on the hoist, but at lunchtime I went to the clinic. They sent me directly to the hospital—it turned out to be a major injury.

My case manager, Kathy Morgan, was always on top of things. She answered all my questions and made sure I knew what to expect and how the process worked. She sent me to a shoulder specialist, who took X-rays and initiated an MRI.

I had two massive tears in one of my main shoulder muscles. Two other muscles were also torn but couldn't be repaired. I was referred for surgery and I was in a sling for six weeks.

My boss, Joe Cherfan, made me shop foreman after I got hurt so I wouldn't have to use my arm but could still be at work. When the dispatcher in our service department quit, Joe asked me if I wanted to give the position a try. A week later, he said the job was mine if I wanted it.

I'd been an automotive technician for 33 years, so I had a lot of knowledge, but I had only been at the dealership for two years. I'm impressed with the support I got to help me move into a new career.

It's exciting to know that I still have the ability to do a different job. It's a new challenge, and a new lease on life."

Art Tolsma
Service dispatcher,
West End Nissan

We help employers **balance** their performance and costs.

Jennifer's story

Modified work was the answer to the Town of Barrhead's poor performance surcharge

"We knew we had issues with claim costs because we had a poor performance surcharge. But I don't think we realized how badly we were doing. We made sure our key people were at the meeting with (WCB account manager) Andrea (Dodd). When she told us our costs were 203 per cent higher than the industry average, it was a 'wow' moment. We knew we had to make changes and turn things around.

Andrea talked about the importance of getting people back to work when they're hurt on the job. The longer they're off, the greater the chance they won't come back at all.

We've always been committed to the safety of our employees and we promote injury prevention. What we didn't have, though, was a modified work program. We started researching a return-to-work policy.

Part of our research was to see how other municipalities were doing things. Between the information we received from the other municipalities, the resources Andrea shared, and the modified work form on the WCB website, we got everything organized and knew exactly what we wanted to do. It was a long process—about a year from start to finish—but it was worth it.

Once we had everything in place, we brought the policy before town council, and they approved it right away. After that, we met with every employee in every department.

We explained what the program meant for each of them, and answered every question. Everyone was on board.

Fortunately, this year we haven't had many injuries, but we did have one employee in our public works department who injured his hand. We were able to offer him modified duties because his doctor said he couldn't use that hand. With the modified work, he was able to stay active and continued to contribute at work while he recovered.

This program has already been beneficial for our employees and will also ultimately have an impact on us, premium-wise. It really is a win-win situation."

Jennifer Mantay
Financial assistant,
Town of Barrhead

We **communicate** efficiently and clearly to help achieve successful outcomes for injured workers.

Aureene's story

Aureene Costuros is helping injured workers rediscover success

"I've been a case manager for over 20 years and really enjoy my job. Work has meaning for all of us and I appreciate the importance of helping injured workers return to work.

One mother I worked with was on a modified return-to-work program and she was also attending physiotherapy treatment. Unfortunately, her son also became quite ill and needed her help.

She began missing her treatments and shifts at work so that she could be with her son. She was in a very difficult position, torn between being there for her son and participating in her return-to-work program.

She was distraught when I contacted her. We spent time talking about her personal fears and concerns as well as those for her son. She and I were able to develop a plan where she could be available to her son while other supports were investigated to help him.

The employer was very flexible and agreeable to the plan. Once these supports were in place she was able to resume her treatment as well as her modified work program knowing that her son was cared for.

I often think of this mother and her son and am grateful for the opportunity to work with her and support her in achieving her return-to-work goal. This experience has stuck with me because it is an example of partnership with a client and employer where all of us sharing and listening led toward a successful outcome."

Aureene Costuros
WCB case manager,
Calgary

Geoff's story

Removing barriers is an important part of returning to work

"After almost 12 years at Millard Health, I love how every day and every assessment is still different.

What is always the same, though, is the essence of what we are here to do—to help people return to work safely and successfully.

One assessment that really stood out for me involved a worker in La Crete. He had lost his hand in a milling accident 20-some years before and was still with the same employer. They wanted to move him into an administrative position in the mill.

He'd had a conventional arm with a hook for years by then. The employer wanted to see if he could be fitted with a new arm to help him function better within the workplace in the new job.

We were able to arrange that for him, despite the fact the accident had happened years before. The difference it made to his quality of life was nothing short of amazing.

In that instance, the worker was already on the job and being promoted to a new position. That is not usually the case, though, so it is important for me to do what I can to offer the worker encouragement and reassurance.

There can be a lot of fear and stress when you lose your connection to work, so having information is powerful.

When I am developing the return-to-work plan I say, 'Pretend you have complete control of this situation. What would you do? What are the barriers you face and what do you need to do to address them?'

We brainstorm together. We try to determine what they need to do to go back to work—if not performing all of their duties, then working in a modified capacity.

It is a collaborative process that involves many stakeholders: the worker, the employer, the case manager and the clinicians, whether they are here at Millard or in the community. Our roles are different, but we all work toward the same goal—a successful and safe return to work."

Geoff Kawchuk
Occupational therapist,
Millard Health

We believe **partnerships** are an important part of the return-to-work process.

Our strategic plan

COMMITMENT TO DECISION FAIRNESS

It is our responsibility to deliver fairness through decision correctness, positive relationships, and procedural transparency and consistency. We focus on making balanced and accurate decisions and treating our customers with courtesy and respect.

Fairness is the foundation of every action and every decision.

FOCUS ON A SAFE RETURN TO WORK

Work has meaning. Through caring benefit administration, efficient and effective rehabilitation delivery, and proactive return-to-work planning, we can help injured workers achieve fitness for meaningful work and independence.

Client success is our ultimate goal.

LEVERAGING PREVENTION

Prevention is at the heart of Albertans working safely. By developing pricing options that reflect employer performance, we contribute in concrete ways to our provincial commitment to safer workplaces.

We all have a role in prevention and creating safer workplaces.

FINANCIAL STABILITY

Responsible financial management strategies ensure the workers' compensation system is sustainable and reliable in the long term. Workers and employers deserve stable and affordable protection from the full impact of workplace injury and illness.

Financial stability is the cornerstone for meeting the needs of injured workers and their employers.

Corporate objectives—
our customer outcomes

Decision fairness: Relationships

We enhanced our positive relationships with our customers, achieving an average relationship fairness score of **82.9 per cent**.

Initiatives focusing on superior customer service and regular contact with key stakeholders were essential to our success. Positive relationships contribute to workers' and employers' sense of decision fairness.

We achieved an

82.9%

relationship fairness score.

Target: 82%

Decision fairness: Correctness

We had a positive impact on Alberta's injured workers by reaching a **92 per cent** decision fairness score.

This result is based on audits of key decisions made by our claim owners and members of the Dispute Resolution and Decision Review Body. This comprehensive review revealed high-quality decisions and an increased focus on providing the right, relevant information to help our customers understand decisions and case plan objectives.

We achieved a

92%

decision fairness score.

Target: 85%

Focus on a safe return to work

We had a positive impact on the lives of Alberta's injured workers and helped **93.5 per cent** of those we cared for in 2013 achieve the fitness they needed to make a safe return to meaningful work.

This achievement reflects strong partnerships that ensured excellence in medical and vocational rehabilitation and a co-ordinated commitment to returning Alberta's injured workers to the job.

93.5%

of injured workers achieved the fitness needed to return to work.

Target: 90%

Partnerships in Injury Reduction and Industry Custom Pricing

We had a positive impact on Alberta's workplaces by increasing the number of workers covered by employers participating in voluntary pricing programs—Partnerships in Injury Reduction and Industry Custom Pricing.

Overall participation in the programs increased by **$1.64 billion** in insurable earnings. Participants in our voluntary pricing programs now represent **72.2 per cent** of the province's insurable earnings.

Participation in voluntary pricing programs grew by

$1.64 billion

in insurable earnings.

Target: $1 billion

Corporate objectives—*our key deliverables*

We increased cases where we contacted employers to discuss modified work to
53.8%.
Target: 51.1%

Modified work

We had a positive impact on return-to-work success by proactively negotiating modified work on behalf of injured workers. For claims with time loss greater than 21 days, we increased the cases where we contacted employers to discuss modified work opportunities from 49.6 per cent to **53.8 per cent**.

At year's end, only
707 cases
exceeded three months of total disability.
Target: 752 cases

Disability management

We worked collaboratively with our clients to prevent lifelong disability and help injured workers move successfully through the disability management process.

Extraordinary collaboration between case management teams, workers, employers and health care providers helped more workers progress from short-term disability to fitness for work or appropriate long-term benefits. As a result, only **707 cases** exceeded three months of total disability.

80.2%
of clients who used vocational services achieved the potential to earn 75% or more of their pre-injury income.
Target: 76.5%

Vocational rehabilitation wage quality

We positively impacted return-to-work success by providing timely vocational assistance for clients who required a job change as a result of their compensable disability. Of the workers who used our career planning services, **80.2 per cent** achieved employability in a position that paid at least 75 per cent of their pre-injury wages.

By assisting our clients in achieving this wage quality, we helped to minimize the financial impact of their work injuries and increase their independence.

ELP costs were
10.7%
over budget.
Target: 10.0%

Economic loss payments (ELPs)

We had a positive impact on post-injury wage quality by helping workers maximize their post-injury earnings through effective return-to-work planning.

Despite ongoing improvements to vocational services and an improved economic environment, ELP costs were **10.7 per cent** over budget, due primarily to an increase in the number of totally disabled individuals who will likely never work again and require higher wage replacement. ELP benefits ensure long-term support for these workers.

Corporate objectives—
our innovations

Technology is a strategic advantage we use to improve customer service and maintain internal efficiency. To ensure ongoing success, we invest in systems to help WCB employees and external stakeholders provide quality service to injured workers.

In 2013, we optimized processes and systems to reduce technical complexity and enhance service delivery by:

1. Completing the requirements and conceptual design phase for our employer account management system.

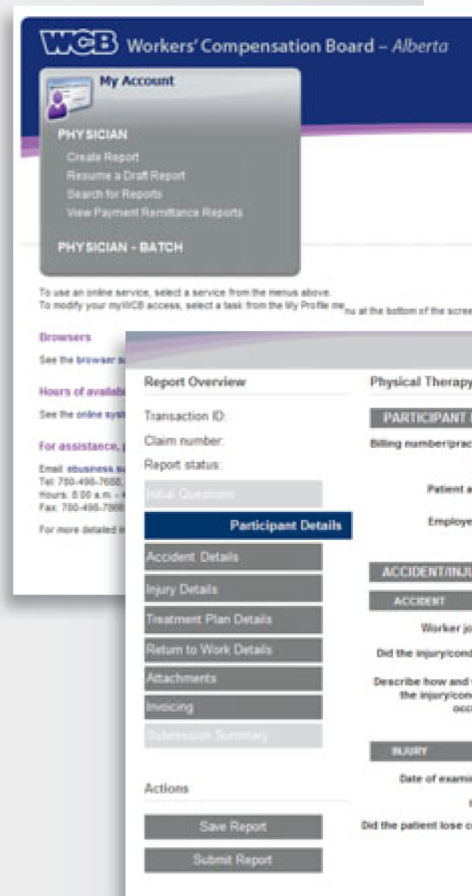
In 2014, we will move into the detailed design and construction phases for the new Policy Administration Management application. This system will eventually amalgamate 16 distinct applications into one—minimizing system risk and complexity and maximizing system efficiency and effectiveness. The new system will allow us to maintain administration costs while providing better information to both stakeholders and internal decision makers.

2. Commencing the upgrade of the Electronic Injury Reporting system.

The modernized online reporting system is scheduled for implementation in the fall of 2014 and will provide enhanced reporting service to workers, employers and health care providers.

3. Completing the organizational upgrade to Microsoft Office 2010 software.

The internal rollout was completed successfully under budget and ahead of schedule.



Corporate objectives—
our financial stability

We met our commitment to maintain a stable financial system that is here to help our clients now and into the future. Our initiatives and results had a positive impact on the workers' compensation system by:

1. Achieving non-capitalized transaction-year claim costs that were 4.8 per cent below budget.

This result is better than our target of not exceeding the budget by more than 5 per cent.

The major sources of the overall positive budget variance were favourable cost results in temporary total disability payments and health care costs.

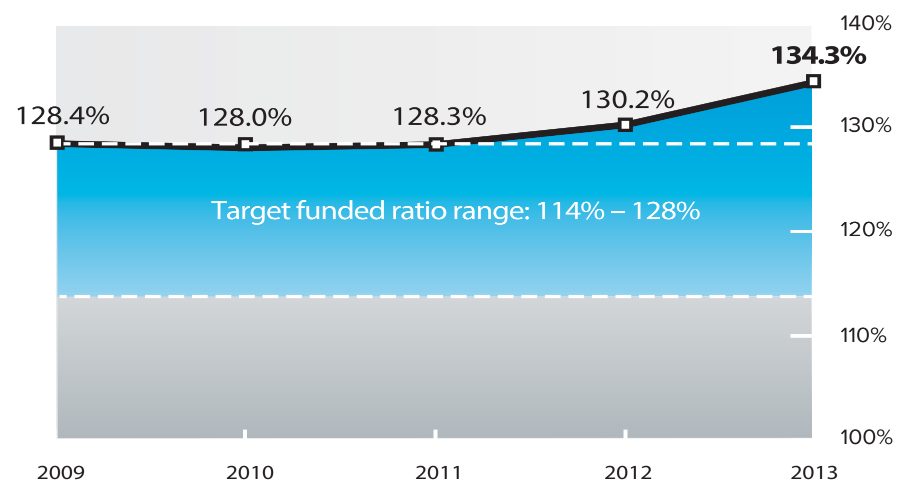
2. Collecting 105.2 per cent of the 2013 premium revenue budget.

Most of the increase is due to increased insurable earnings, which were 6.3 per cent ahead of budget expectations. The sectors that contributed most to the 5.2 per cent surplus in premium revenue were transportation; mining, oil & gas; and municipal government, education & health.

3. Ensuring funds are available to pay for future costs of current and prior-year claims by achieving a year-end funded ratio of 134.3 per cent.

This is above the minimum policy target of 114 per cent.

Funded Position, 2009–2013



2013 financial highlights

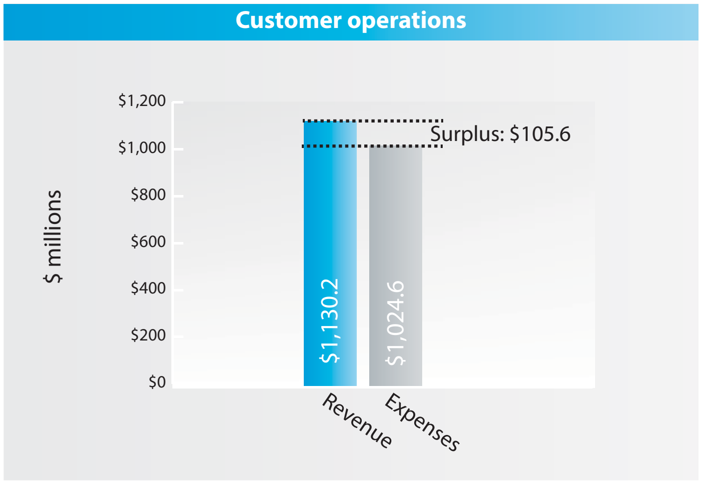
Average premium rate of $1.13 per $100.00 of insurable earnings was $0.01 higher than budget, and is 8.9% lower than the average rate collected in 2012.

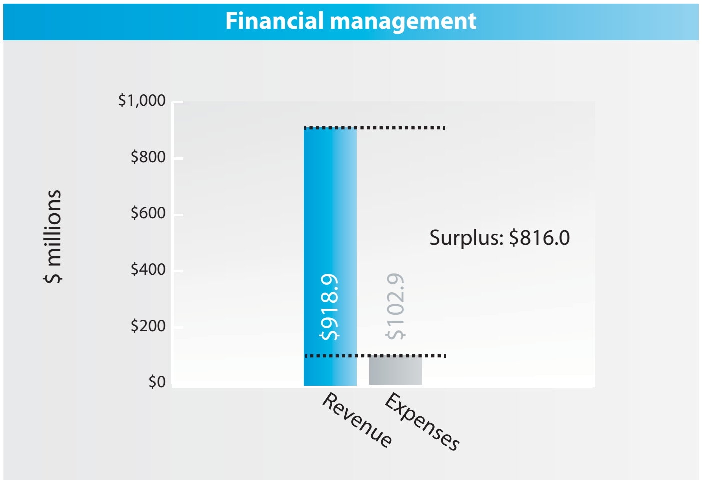
Surplus from customer operations of $105.6 million was $85.2 million higher than budget and $80.0 million lower than prior year. Premium revenue was higher than budget due to higher than expected employment and wage growth while claims and claims management expenses were lower than budget due to lower than expected health care costs.

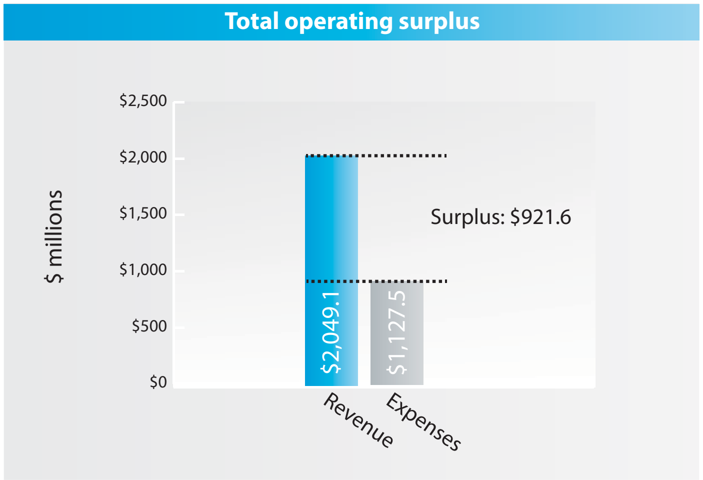
Surplus from financial management of $816.0 million was $669.7 million higher than budget and $547.7 million higher than prior year due to strong equity returns and positive changes in actuarial remeasurement adjustments.

Operating surplus of $921.6 million was $754.9 million above budget and $467.7 million higher than in 2012.

Funded position of $2,435.9 million increased by $454.5 million over 2012.







Taking the safety message on the road

Back Pain: Don't take it lying down

We're asking Albertans to break their back habits. Eighty per cent of adult Albertans will experience back pain at some point in their lives. According to health care professionals, staying active is the best solution.

How we reach over three million Albertans

We're spreading the message where they work, live and play. We want the message to be everywhere Albertans are.

When the Back Pain campaign first launched in 2005, 56 per cent of survey respondents agreed that, "If you have back pain you should try and stay active." **Today, 70 per cent of respondents agree with that statement.**

In 2013, back claims made up more than 14.7 per cent of all lost-time claims reported to WCB. That equals almost 21,962 claims, at a cost of almost $44.9 million. Each year, as we learn more about back health and recovery options, the duration of those claims gets shorter (an average of 18.5 days in 2013).

We encourage you to keep a lookout for the Back Pain: Don't take it lying down message in 2014.

Bringing the #safety conversation to young workers.

What you don't see can hurt you. This year's Heads Up campaign focused on unseen (and unheard) dangers and distractions in the workplace.

The Heads Up young worker safety awareness team continues to use a variety of social media channels to connect with their 2,000 friends, followers and readers every month. Over 29,000 promotional Heads Up materials made it into the hands of young workers.

Developing a one-stop hub and a new take on an old classic

In 2013, we launched our new website—headsupab.com—which serves as a one-stop information resource for young workers and employers.

We also created *A Safety Carol*, putting a safety spin on the Charles Dickens classic *A Christmas Carol*. Released on social media as a four-part video series throughout the month of December, it has collected over 1,600 views since its release—the teaser trailer had 8,110 views on YouTube.

Young workers are getting the safety message

We polled our target audience—18- to 24-year-olds—asking them if they recalled seeing any safety awareness materials about young worker safety. **We achieved our highest level of awareness to date at 53 per cent.**

We'll continue to bring the safety conversation to young workers, and encourage them to make safety a top priority in their workplaces.

Giving back:

our community

WCB employees connect with their communities through various charity and volunteer efforts.

In 2013:

We raised
$63,000
for the Canadian Paraplegic Association during WCB's annual Charity Golf Tournament.

We collected
373
pairs of shoes for Soul to Sole.

We gathered
234 winter clothing items for Coats for Kids (United Way)...

and **124** pairs of eyeglasses for Lions Club.

We donated over
$31,000
to 14 charities through our WCB Employee Giving Program.

our environment

As an organization, we also work hard to build a safer and healthier environment.

We recycled
216,360 lbs
of paper through our shredding program.

That equates to
2,596
trees saved.

We recycled
1,076 toner cartridges and
1,088 lbs
of batteries.

We cleaned up **282 lbs** of litter around our buildings as part of Capital City Cleanup.

We recycled
36,410
beverage containers.

Recognizing excellence in community spirit

To recognize employees who demonstrate and promote community spirit, WCB presents the "Ambassador Award" every other year. Employees have the opportunity to nominate individuals, and a volunteer committee composed of employees from across the organization judges the nominations.

The 2013 winner volunteers for programs and activities that build self esteem and confidence in young girls. We made a donation to Make-A-Wish® Canada on her behalf.

Collaborative issue resolution

The Office of the Appeals Advisor (OAA) advances the interests of injured workers and their dependants with respect to their entitlements under the Workers' Compensation Act. *Appeals advisors are all certified in Tribunal Administrative Justice and offer clients almost 400 years of combined workers' compensation experience.*

In 2013, the OAA assisted injured workers and their dependants by:

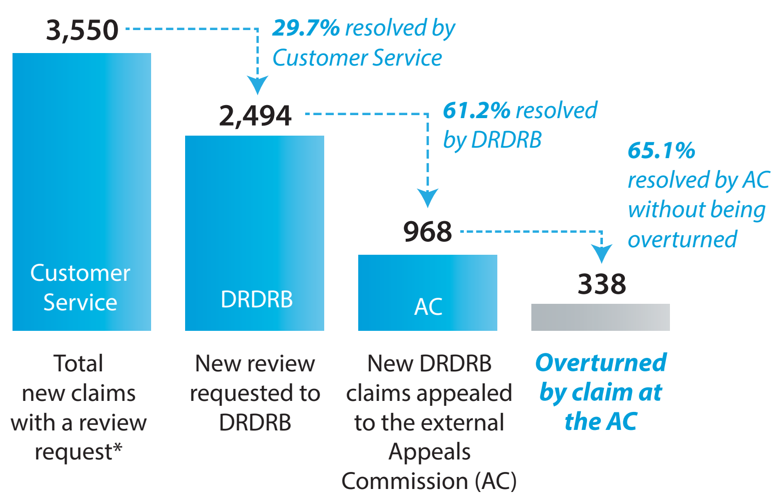
- ***Resolving 1,488 issues on 1,126 claims***
- ***Representing them in person at 467 hearings***

Fairness matters. And as an organization, we strive to make a positive impact on the lives of injured workers by delivering clear, concise and fair decisions on their claims.

The internal Dispute Resolution and Decision Review Body (DRDRB) provides clients with the opportunity to bring forward any issues or concerns regarding decisions about compensation on their claims. A resolution specialist assesses each case with the goal of resolving issues.

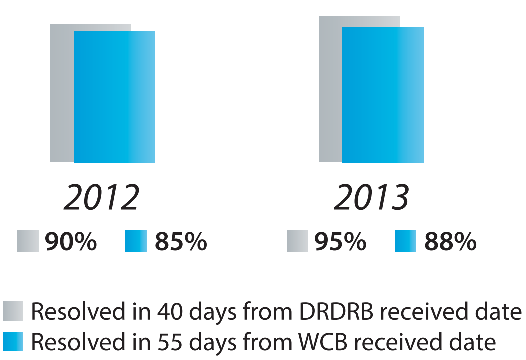
Our commitment to fairness is further enhanced through the free, expert advocacy services offered by the Office of the Appeals Advisor (OAA). WCB's OAA provides independent advice, assistance and advocacy services while working towards resolution.

2013 claim review request life cycle



** A claim may have more than one request for review.*

DRDRB: Timeliness of dispute resolution process



WCB-Alberta

Management Discussion and Analysis of Consolidated Financial Statements and Operating Results

For the year ended December 31, 2013

Management Discussion and Analysis of 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 29, 2014, should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013.

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 not-for-profit organization 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 Jobs, Skills, Training and Labour, WCB is independently funded and operated as an insurance enterprise. Through the payment of premiums, almost 161,000 employers fund the system, which covers more than 2.0 million workers.

WCB's mandate

In Canada, workers' compensation is a no-fault disability insurance 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 because of 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 insurance 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 uses an integrated risk-based approach to managing assets and liabilities, generating an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, investment management, claim benefit liability 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.

2013 Financial Performance

OPERATING HIGHLIGHTS

Customer care was one of the drivers behind WCB's positive operating results.
Customer operations teams continued to demonstrate their commitment to service excellence, decision fairness and a safe return to work for the clients they cared for in 2013.

Supported by Alberta's steady economic growth and overall stability in the employment market, customer service teams continued to focus on providing the right benefits and services at the right time to help our injured workers stay at work on modified duties or return to work as soon as it was safe to do so.

WCB maintained its sound financial position
WCB maintained a sound financial position, despite continued uncertainty and large swings in investor sentiment and capital market performance. Important themes that underscore 2013 performance include the following:

- Surplus from customer operations was $105.6 million, down from $185.6 million in 2012, due to a decrease in the actual average premium rate in 2013 to $1.13 from $1.24 in 2012.
- Financial management activities generated a surplus of $816.0 million, up significantly from $268.3 million in 2012. Higher equity returns were major contributors to the overall portfolio return of 10.6 per cent, which exceeded the claim benefit liability requirement of 4.6 per cent. This generated a $611.4 million surplus. Actuarial remeasurement adjustments contributed a gain of $204.6 million.
- Combined, the operating surplus for 2013 was $921.6 million, up $467.7 million from 2012. The strong results in 2013 contributed to the Funded Position of $2,435.9 million, or 134.3 per cent, which is net of surplus distributions of $524.5 million payable in 2014.
- Employer insurable earnings grew 9.2 per cent, while the actual average premium rate collected decreased, resulting in a decrease of premium revenue by 2.3 per cent to $1,130.2 million in 2013.
- Total claims and claims management expenses of $882.9 million increased $40.3 million from the previous year due to inflationary impacts. Average claim duration remained unchanged from 2012, ending the year at 34.2 days due to relative stability in the lost-time claim volume, which increased slightly by 0.4 per cent to 28,400 from 28,300 in 2012.

In its simplest terms, the funding model for WCB operates on the premise that in a given year, rates are set to generate premiums to cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Surpluses or deficits 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. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

The factors contributing to surpluses or deficits are better understood when our Consolidated Statement of Comprehensive Income is reorganized to represent our operations as two significant and complementary business activities—customer operations and financial management. The tables that follow represent this view, with the first presenting the major contributors to WCB's operating surplus. The second table presents the revenues and expenses that are associated with each business activity.

Sources of operating surplus

($ millions)	2013 Budget	2013 Actual	2012 Actual
Surplus from Customer Operations			
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.13 (2012 – $1.24) being higher than the required premium rate of $1.02 (2012 – $1.05), based on insurable earnings	$ 17.7	$ 111.6	$ 177.8
Other revenue (expense) items	2.7	(6.0)	7.8
	20.4	105.6	185.6
Surplus from Financial Management			
Investments			
Net excess of investment revenue over the claim benefit liability interest expense of $267.9 million (2012 – $242.5 million)	107.6	617.8	510.2
Other expense items	(6.3)	(6.4)	(5.4)
	101.3	611.4	504.8
Actuarial remeasurement			
Changes in actuarial methods and assumptions	-	81.1	305.3
Liability for latent occupational diseases	-	-	(686.4)
Gains due to claims experience and policy changes	45.0	123.5	144.6
	45.0	204.6	(236.5)
	146.3	816.0	268.3
OPERATING SURPLUS	$ 166.7	$ 921.6	$ 453.9

Operating surplus by business activity

($ millions)	2013 Budget	2013 Actual	2012 Actual
Customer Operations			
Premiums	$ 1,074.2	$ 1,130.2	$ 1,157.2
Claims and claims management	(909.9)	(882.9)	(842.6)
Corporate administration and injury reduction	(143.9)	(141.7)	(129.0)
Surplus from Customer Operations	20.4	105.6	185.6
Financial Management			
Investment income	411.9	918.9	782.1
Investment management expense	(31.3)	(33.2)	(29.4)
Investment income, net	380.6	885.7	752.7
Interest expense on claim benefit liabilities	(273.0)	(267.9)	(242.5)
Remeasurement gain (loss) of claim benefit liabilities	45.0	204.6	(236.5)
Other expense items	(6.3)	(6.4)	(5.4)
Financial management expenses	(234.3)	(69.7)	(484.4)
Surplus from Financial Management	146.3	816.0	268.3
OPERATING SURPLUS	$ 166.7	$ 921.6	$ 453.9

Customer Operations

PREMIUMS

Insurable earnings

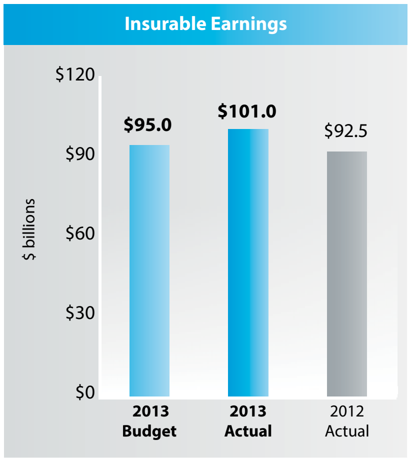
$6.0 billion (6.3 per cent) over budget

$8.5 billion (9.2 per cent) over prior year

Despite challenges in the energy sector, Alberta's economy demonstrated resiliency and continued to exhibit strong growth in 2013. This resulted in better-than-expected year over year increases in payrolls due to both wage escalation and employment growth. 2013 insurable earnings of $101.0 billion were 6.3 per cent higher than the budget of $95.0 billion, and 9.2 per cent higher than 2012.

Insurable earnings were higher in all sectors, with construction ($2.8B); trade ($1.0B); and business, personal and professional services ($1.0B) showing the highest increases compared to budget for the year.

Sectors that experienced the greatest increases over 2012 were construction ($3.5B); trade ($1.0B); mining, oil and gas ($1.0B); and municipal government, education and health ($1.0B).



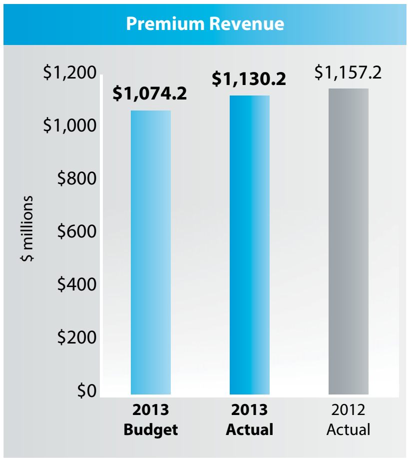
Premium revenue

$56.0 million (5.2 per cent) over budget

The 2013 positive budget variance in premium revenue of $56.0 million was consistent with the positive budget variance in insurable earnings. Contributing sectors were transportation; mining, oil and gas; and municipal government, education and health.

$27.0 million (2.3 per cent) lower than prior year

Despite year over year growth of 9.2 per cent in employer insurable earnings, premium revenue decreased by 2.3 per cent to $1,130.2 million in 2013, due to an 8.9 per cent drop in the actual average premium rate in 2013 to $1.13, from $1.24 in 2012.



PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected expenses for the year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations and transfer levies.

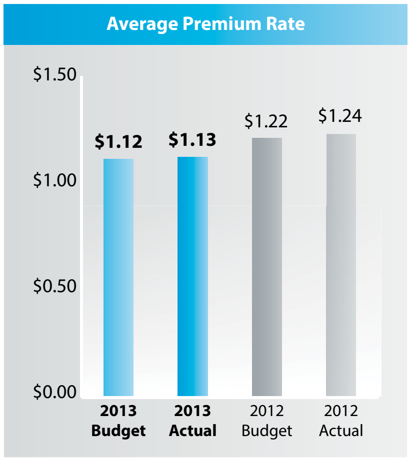
Average premium rate collected

$0.01 (0.9 per cent) over budget

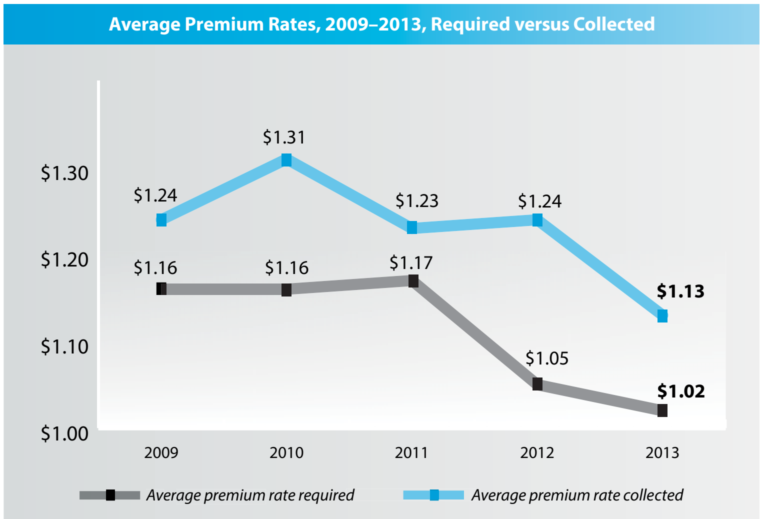
The actual average premium rate collected of $1.13 was slightly above the average budget premium rate of $1.12.

$0.10 (8.2 per cent) budget reduction from prior year

The reduction from $1.22 to $1.12 in the average budget rate is reflective of the projected increase in insurable earnings and flat costs for 2013.



The chart presents a five-year trend comparison of required versus collected premium rates. The Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs, administration expenses and transfer levies.



The 2013 premium requirement and rate were based on projected base revenue requirements and insurable earnings using the best information available in early Q4 2012. The surplus from premium revenue and the favourable variance in claim costs resulted in an increase in surplus from customer operations.

CLAIMS AND CLAIMS MANAGEMENT EXPENSES

Claim expenses are an estimate of current and future costs arising from compensable injuries and exposures occurring in 2013, and the future costs to administer these claims.

Claims and claims management expenses

$27.0 million (3.0 per cent) lower than budget

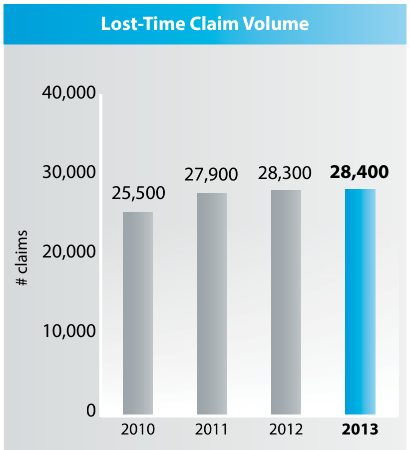
$40.3 million (4.8 per cent) higher than prior year

Claims and claims management expenses were below budget mainly due to lower health care costs. The increase over 2012 is due primarily to inflationary impacts.

Lost-time claim volume

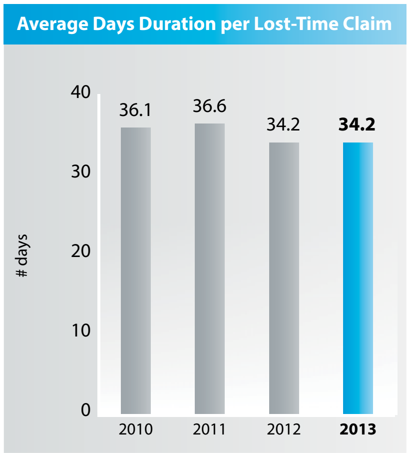
Lost-time claim (LTC) volume was virtually flat year over year, despite an increase in covered workers.

As a result, the 2013 LTC rate fell to a new low of 1.4 claims per 100 workers from 1.5 in 2012, while the disabling-injury rate (LTC + modified work-only cases = disabling injuries) remained stable with 2012 at 2.7 disabling injuries per 100 workers.



Claim duration

Claim duration (the average elapsed time from injury to return to work) was unchanged from 2012 at 34.2 days, aided by the relative stability in LTC volume.



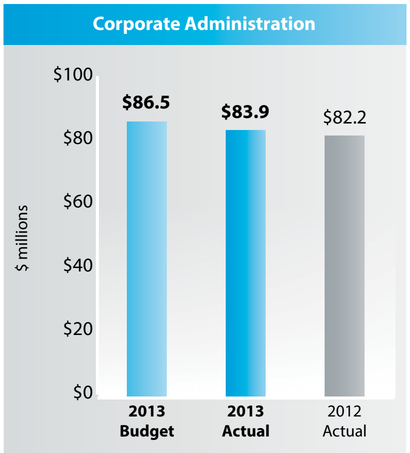
CORPORATE ADMINISTRATION

$2.6 million (3.0 per cent) under budget

Corporate administration came in under budget due to effective expenditure management.

$1.7 million (2.1 per cent) higher than prior year

The increase over 2012 reflects inflationary impacts. Corporate administration expenses exclude costs for administering claims (2013 – $94.9 million, 2012 – $93.3 million) that are included in claims management expenses.



Financial Management

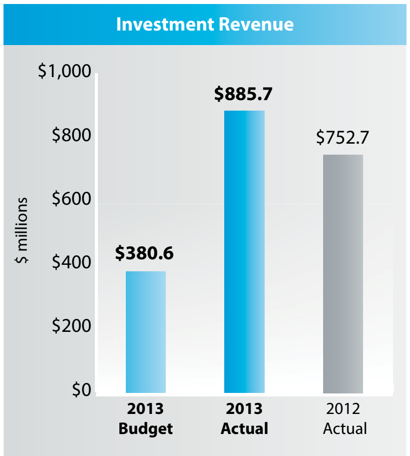
INVESTMENTS

Investment income, net

$505.1 million (132.7 per cent) over budget

$133.0 million (17.7 per cent) over prior year

Investment income was higher than budget due primarily to higher equity market returns. Foreign equities also contributed to the strong increase year over year, with total returns of 35.1 per cent that were offset partially by negative returns from real return bonds. The portfolio earned a total rate of return of 10.6 per cent for the year, as compared to 10.5 per cent in 2012.



Investment returns played a key role in WCB's 2013 financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

2013 was another year of uncertainty and large swings in sentiment and capital market performance. U.S. politics continued to have a large influence on capital markets as the fiscal cliff deadline, sequestration and the federal government shutdown in October drove sentiment up and down. Bond yields moved higher, resulting in capital losses for government bonds, particularly for longer-term bonds. The Canadian bond market had a negative total return (-1.2 per cent) for only the third time in the last 35 years and second-worst returns, outdone only by 1994, when the Canadian bond market return was -4.3 per cent. Economic data improved in the U.S., Europe and China, particularly in the second half of the year, and equity markets responded by moving significantly higher.

Portfolio performance

Market returns

The portfolio earned a total rate of return of 10.6 per cent for 2013 (2.9 per cent above the policy benchmark) and 8.9 per cent for the four-year period ended December 31, 2013 (1.6 per cent above the policy benchmark). The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the long-term actuarial real rate of return (referred to as the real discount rate). On this basis, the real rate of return for 2013 of 9.2 per cent (nominal rate of 10.6 per cent less inflation of 1.4 per cent) was significantly above the long-term actuarial required rate of 3.0 per cent.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries and illnesses occurring on or prior to that date as well as exposures that may result in future occupational disease claims. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2013, claim benefit liabilities totalled $6,320.7 million, an increase of $145.2 million over 2012.

Significant changes in liabilities

The overall $145.2 million increase in claim benefit liabilities was attributable to the following:

($ millions)	2013 changes
Customer Operations related	
Provision for future costs of current-year injuries and exposures	$ 614.2
Benefit payments for prior years' injuries	(532.3)
	81.9
Financial Management related	
Interest expense on the liability	267.9
Changes in actuarial methods and assumptions	(81.1)
Claims experience gain	(123.5)
	63.3
	$ 145.2

Actuarial methods and assumptions

The following actuarial methods and assumptions changes decreased claim benefit liabilities by $81.1 million:

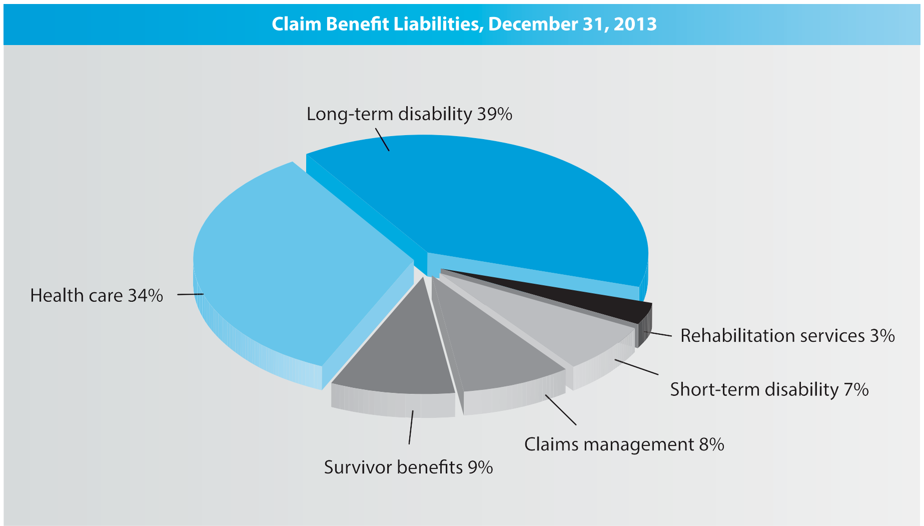
- Updates to economic loss payment methods and assumptions ($61.8 million decrease).
- Updates to other methods and assumptions ($19.3 million decrease).

Impact of 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 claims experience resulted in an overall gain of $123.5 million from the following areas:

($ millions)	2013 impact
Actual claim costs less than expected	$ (64.7)
Experience gains from other sources	(49.9)
Actual cost-of-living and inflation different than expected	(8.9)
	$ (123.5)

The following chart shows the breakdown of the claim benefit liabilities as at December 31, 2013, by benefit type:



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 under WCB Information in the Policy and Legislation section of WCB's website at www.wcb.ab.ca/public/policy/manual.

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.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following:

- Premium rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing).
- Ensure today's employers pay for the current and future costs of today's injuries and exposures.
- Multiple target ranges to guide funding decisions and accommodate volatility.
- Surplus distribution or fund replenishment levy used as funding adjustment mechanisms.

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

The Accident Fund represents all WCB assets available to discharge its legislative mandate. The funding status is expressed as a percentage of total liabilities as at the reporting date and is referred to as the Funded Ratio. The Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114-128 per cent. Surplus assets exceeding the 128 per cent funding level are available for distribution to employers as a surplus distribution, whereas replenishment levies would be required if assets fall below 114 per cent.

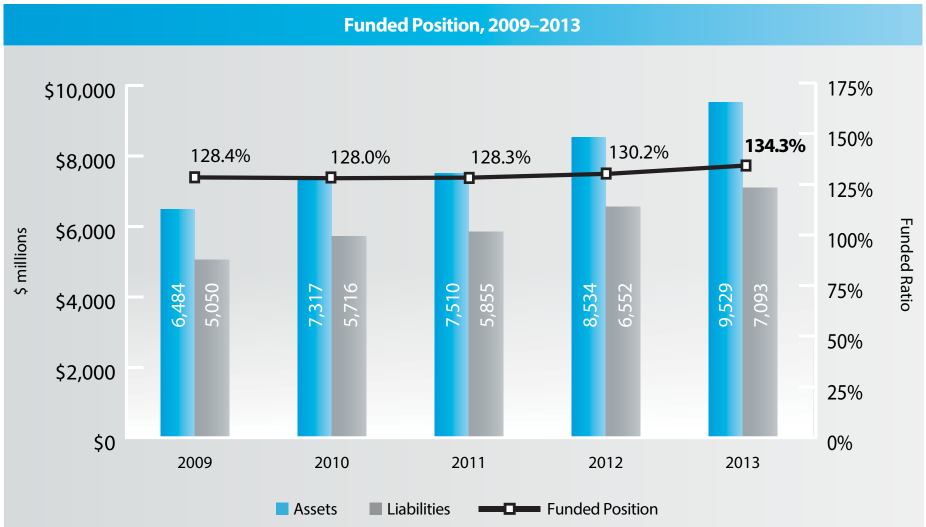
Funded Position

The major changes in Funded Position and the ending balance as at December 31, 2013 were:

($ millions)	Opening	2013 Change	Ending
Accumulated surplus for the year	$ 1,694.3	$ 397.5	$ 2,091.8
Occupational Disease Reserve maintenance funding	-	(8.7)	(8.7)
Accumulated surplus for the year	1,694.3	388.8	2,083.1
Accumulated other comprehensive gain (loss)	(83.4)	57.0	(26.4)
Fund Balance	1,610.9	445.8	2,056.7
Occupational Disease Reserve	370.5	8.7	379.2
Funded Position	$ 1,981.4	$ 454.5	$ 2,435.9

As at December 31, 2013, the Funded Ratio (total assets to total liabilities) was 134.3 per cent, up from 130.2 per cent at the end of 2012. Viewed from another perspective, WCB has total assets of $9.5 billion to cover its total estimated liabilities of $7.1 billion. The increase in Funded Ratio is the result of positive investment returns in 2013. As a result of the strong returns, WCB will be paying a surplus distribution in 2014 of $524.5 million to employers.

The chart below presents the Funded Position from 2009 through 2013*:



2009 calculated based on Canadian Generally Accepted Accounting Principles; 2010-2013 calculated based on International Financial Reporting Standards (IFRS), consistent with the accompanying consolidated financial statements and notes.

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 Risk Management 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 in the corporation. First, risk management is integral to our 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 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 over 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—approximately 161,000 employers, 194,000 claimants 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 (Fund Balance and Occupational Disease Reserve) is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these 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 impact 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. These risks and uncertainties are largely driven by provincial economic conditions such as employment growth and wage escalation. To manage premium pricing 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 claimant 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 prevent 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 judgments, 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 judgment and estimates. More detailed discussion may be found in the respective notes in the accompanying consolidated financial statements and notes.

Premiums
In advance of the fiscal year, and based on Funding Policy and projections in the Three-Year Plan, WCB estimates the total premium amount necessary to cover estimated claim costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect WCB's expectations of future macroeconomic and business conditions that will likely change before and during the fiscal period. Consequently, the premiums collected may be more or less than the estimated funding requirements. The difference could be significant in periods of economic volatility or uncertainty.

Investments
Investment assets are financial instruments and are measured at fair value at each reporting date. The primary investment objective is to maintain capital and generate investment income over the long term. Fair value measurement, which reflects realizable market value, could lead to significant volatility in the statement of financial position during periods of capital market turbulence. Details of the investment assets and inherent risks associated with holding such investments can be found in Note 5, *Investments*, and in Note 6, *Investment Risk Management*, in the accompanying consolidated financial statements and notes.

Derivatives

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. Gains and losses on derivative contracts are recognized in income in the periods in which they arise. Since the fair value of a derivative is subject to market changes, the underlying derivative positions could be volatile as well. Additional details may be found in Note 6, *Investment Risk Management*, in the accompanying consolidated financial statements and notes.

Valuation of claim benefit liabilities

WCB has significant obligations extending well into the future for benefits to injured workers. WCB applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit cost 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 assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Valuation of employee benefit liabilities

WCB has applied defined benefit accounting for employee pension plans, which requires an actuarial determination of benefit obligations extending well into the future for pension 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 difficult to predict accurately and are influenced by factors outside management's control. Details of WCB's multi-employer and sponsored defined benefit plans may be found in Note 10, *Employee Benefits*, in the accompanying consolidated financial statements and notes.

Governance and Compliance

Legislative authority
Under the authority of the *Workers' Compensation Act*, WCB is a provincial board-governed organization that operates independently while reporting to the Minister of Jobs, Skills, Training and 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 is reviewed by the Office of the Auditor General during the annual financial audit.

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 *2014 Budget and 2014–2016 Financial Plan* establishes the foundation for appropriate resource allocation for achieving the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

Emerging Issues

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

WCB prepares its consolidated financial statements under IFRS and monitors the standard-setting landscape for key accounting topics that may have significant implications for WCB's results. Once the official standards are issued, WCB will analyze the key changes to ensure that major impacts are understood and implemented as required in order to ensure high-quality financial reporting under IFRS.

Insurance contracts
Deliberations continue on IFRS 4, with a re-exposure draft issued in 2013, and continued assessment on a number of changes, related primarily to measurement of insurance liabilities. Most significant for WCB is the rate used to discount claim benefit cash flows. This rate might be based on the insurer's current yield curve for the actual portfolio of assets held or a reference portfolio of assets with similar characteristics as the liabilities. These requirements may result in volatility of claim benefit liabilities and the funded ratio, particularly during periods of interest rate instability, with further implications for funding decisions. Timing of release of the final standard and its effective date are both unknown at this time.

Leases
Under existing IAS 17, operating leases are treated as rental expense as incurred. The new leasing standard proposes to recognize all leases (both finance and operating) in the statement of financial position as assets and corresponding liabilities. Deliberations continue to focus on the pattern of expense recognition for operating leases. It is not known whether a re-exposure draft will be issued, and any dates for a final draft or a target effective date have not been announced.

[i] *Committee of Sponsoring Organizations of the Treadway Commission, 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.*

Looking Ahead

Looking forward to 2014, 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 outlook

The outlook for 2014 is broadly similar to that from years past, as uncertainty for Alberta's energy market continues to drag on provincial growth, and optimism for the global economy will be partially limited by the eventual transition towards tighter monetary and fiscal policies. Throughout 2013, there was considerable recovery in the global economy, as the United States, and to a lesser extent Europe, experienced better than expected growth. A stronger American economy is generally a positive for Canada and Alberta; however, there is considerable uncertainty around the strength of the U.S. recovery and the future impacts resulting from less supportive federal policies. Downside risk aside, the global economic outlook continues to call for positive, albeit modest growth in most mature economies.

A major driver of the growth in the United States has been the expansion of their energy industry. The emergence of a stronger American energy sector has created unique challenges for Alberta's provincial economy. In particular, the U.S. energy boom has reduced demand for provincial energy exports and also limited pipeline capacity for Alberta's energy producers hoping to bring their product to international markets. Both of these challenges have forced Alberta energy exports to trade at a significant discount. These issues were evident in 2013, as year over year insurable earnings growth in the energy sector moderated. A restrained energy sector can have significant impacts throughout the economy as energy and its trickledown effects are the dominant driver of Alberta's economic growth. Given the complex nature of new pipeline construction and the expectation of continued growth in the U.S. energy sector, it is unlikely that the economic environment will change dramatically for Alberta in 2014; thus, expectations remain tempered.

It is important to note that the aforementioned challenges were also present in 2013, a year where Alberta's overall economy showed resiliency in its ability to grow as it added over 100,000 new jobs. The bigger concern is if these challenges persist into the longer term, which will put pressure on the short-term resiliency. Baseline assumptions call for economic growth around 3 per cent and employment growth of 2 per cent in 2014. These assumptions continue to place Alberta above the forecasted national level.

Capital market outlook

The capital market outlook remains uncertain heading into 2014. Global equity markets provided exceptionally high returns in 2012 and 2013. While another year of strong equity market performance is possible, after five years of strong markets since the global financial crisis in 2008/2009, modest equity returns are a more likely scenario for 2014. Although bond yields climbed higher in 2013 they continue to be near historic low levels, and as such will likely provide very modest returns to investors for the foreseeable future.

Forecasting short-term market performance is difficult at best. Studies show that investors typically cause themselves more harm than good by 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.

The total portfolio return for 2014 is budgeted at 4.7 per cent for planning purposes; however, continued market volatility suggests the actual returns for 2014 may be significantly different from this planning assumption.

Business outlook

Customer operations

Our operations teams focus primarily on two key fundamentals: decision fairness and return to work.

Our commitment to decision fairness, particularly on decision accuracy, continued to underscore every decision we made in 2013, and positively impacted the lives of Alberta's injured workers. Decision accuracy ensures clients receive the right benefits and services at the right time, resulting in better outcomes, stronger client relations and more effective service delivery.

Our commitment to return to work allowed us to achieve record results in 2013 in relation to helping injured workers secure modified jobs that they were able to perform while they were rehabilitating from their workplace injuries. Working with the partnerships we have developed with employers, safety associations, physicians and other health care providers, workers and labour unions, we facilitated more modified work and return-to-work outcomes and achieved as well as surpassed all targets in relation to return to work.

At the same time, we continued to focus successfully on workers who experienced longer-term disability by helping them minimize the impact of their workplace injuries. By getting workers the best services we could offer, we were able to help them plan for highly successful lives despite dealing with the long-term effects of their injuries. As a result, we were able to achieve the best vocational outcomes we have ever achieved for these injured workers.

The 2014 outlook is for continued labour market and economic stability, upon which we will be able to continue our successful efforts regarding return-to-work, including the development of improved infrastructure around how workers negotiate their own return-to-work solutions.

We will continue to maintain strong engagement with our stakeholders, and promote a shared sense of responsibility and accountability. This will be achieved by working closely with our partners to create return-to-work opportunities customized to meet each worker's unique needs, while also ensuring a fair process, fair outcome and positive relationships. The main goal continues to be to ensure workers return to work as fairly, quickly, safely and successfully as possible.

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's long-term direction is toward more inflation-sensitive assets, which will lower volatility further, yet provide a level of return over the long run, which will contribute to the continued financial strength of the fund.

2014 premium rate

For 2014, the average premium rate decreased to $1.03 per $100.00 of insurable earnings. Insurable earnings are forecast to grow by 3.5 per cent to $104.5 billion, and are based on the overall assumption of stable growth in wages and employment.

With almost all workers' compensation boards in Canada having announced their premium rates for 2014, WCB continues to have the lowest average rate. Alberta's premium rates have been the lowest in Canada since 2006.

Outlook for financial condition

At the end of 2013, WCB's funded ratio was 134.3 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 has been designed to mitigate, where possible, these economic and capital market uncertainties.

Facing the future

2013 provided Albertans with another year of steady economic growth and overall stability in the employment market. This favourable environment resulted in continued improvement in the number of workers able to use modified work as part of their recovery. We expect the same moderate growth to continue in 2014.

The path to a successful and safe return to work remains reliant on proactive and collaborative planning discussions between injured workers, employers and claim owners. It is through a shared sense of responsibility and accountability for success that we continue to achieve strong results for all stakeholders.

In 2014, our focus will be to ensure:

- There is ongoing collaboration with employers to enhance performance and accountability;
- We provide support for worker engagement and a sense of ownership in the return-to-work process; and
- We maintain our commitment to efficient and proactive case planning.

Our focus on achieving a safe return to work, leveraging prevention success for employers, delivering fairness in all decisions, and managing a financially stable compensation organization means Alberta's workers and employers can count on a workers' compensation system that is sustainable and effective.

WCB-Alberta

Consolidated Financial Statements and Notes

For the year ended December 31, 2013

Financial Statements

Notes to the 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, 2013 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.

Bob Normand
Chair, Board of Directors
Workers’ Compensation Board – Alberta

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

Ron J. Helmhold
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, 2013, 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Merwan N. Saher, FCA

Auditor General
April 29, 2014
Edmonton, Alberta

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion

on the Valuation of the Benefits Liabilities of the Workers' Compensation Board – Alberta as at December 31, 2013

I have completed the actuarial valuation of the benefit liabilities of the Workers' Compensation Board – Alberta (WCB) for the consolidated financial statements of the WCB as at December 31, 2013 (the "valuation date").

In my opinion, the actuarial liabilities of $6,320.7 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 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, an annual real rate of return of 2.00% for 2014 to 2016 and 3% thereafter was used to discount expected payments subject to inflation. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.50%, increase for benefits subject to cost of living adjustments at CPI minus 0.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 5.00% and 3.50% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the 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 decrease by $81.1 million. Changes to assumptions for valuing economic loss payments represented a decrease of $18.7 million, cost factor curve changes for third party recoveries represented a decrease of $14.5 million and calculation refinements decreased liabilities by $47.9 million. Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

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

Richard Larouche

Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
April 28, 2014

Workers' Compensation Board – Alberta

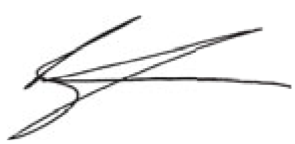
Consolidated Statements of Financial Position

As at December 31

($ thousands)	Notes	**2013**	2012
ASSETS			
Cash and cash equivalents	19(a)	$ 510,303	$ 215,908
Trade and other receivables	19(b)	93,281	91,491
Investments	5	8,871,456	8,174,948
Property, plant and equipment	7	48,466	47,961
Intangible assets	8	22,738	22,370
		$ 9,546,244	$ 8,552,678
LIABILITIES			
Trade and other liabilities	19(c)	$ 65,516	$ 65,695
Surplus distributions	19(d)	524,478	85,733
Safety rebates	19(e)	96,988	90,339
Employee benefits	10	102,674	154,002
Claim benefits	11	6,320,700	6,175,500
		7,110,356	6,571,269
FUNDED POSITION			
Fund Balance	4	2,056,688	1,610,909
Occupational Disease Reserve	4	379,200	370,500
		2,435,888	1,981,409
		$ 9,546,244	$ 8,552,678
LEASE AND OTHER COMMITMENTS	9		
CONTINGENCIES AND INDEMNIFICATION	18		

Approved by the Board of Directors on April 29, 2014:

Bob Normand
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 Statements of Comprehensive Income

Year Ended December 31

($ thousands)	Notes	2013 Budget	2013 Actual	2012 Actual
REVENUE				
Premium revenue	13	$ 1,074,227	$ 1,130,178	$ 1,157,220
Investment income	16	411,885	918,850	782,057
		1,486,112	2,049,028	1,939,277
EXPENSES				
Claims expense	14	801,130	776,717	738,961
Claims management	14, 15	108,796	106,146	103,713
Interest expense on claim benefit liabilities	11	273,000	267,900	242,500
Remeasurement of claim benefit liabilities	11	(45,000)	(204,603)	236,461
Corporate administration	15	86,467	83,915	82,190
Injury reduction	19(f)	57,453	57,784	46,768
Investment management expense	16	31,273	33,156	29,425
Interest on employee benefit liabilities	10	6,340	6,450	5,377
		1,319,459	1,127,465	1,485,395
OPERATING SURPLUS		166,653	921,563	453,882
Funding policy surplus distributions	4, 19(d)	-	(524,098)	(84,841)
NET FUNDING SURPLUS		166,653	397,465	369,041
OTHER COMPREHENSIVE GAIN (LOSS)				
Remeasurement of employee benefit liabilities	10	-	57,014	(42,719)
TOTAL COMPREHENSIVE INCOME		$ 166,653	$ 454,479	$ 326,322

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

Workers' Compensation Board – Alberta

Consolidated Statements of Changes in Funded Position

As at December 31

($ thousands)	Notes	**2013**	2012
FUND BALANCE			
Accumulated surplus			
Balance, beginning of year		$ 1,694,295	$ 1,358,054
Net funding surplus		397,465	369,041
Transfer to Occupational Disease Reserve		(8,700)	(32,800)
		2,083,060	1,694,295
Accumulated other comprehensive loss			
Balance, beginning of year		(83,386)	(40,667)
Other comprehensive gain (loss)		57,014	(42,719)
		(26,372)	(83,386)
Fund Balance, end of year		2,056,688	1,610,909
OCCUPATIONAL DISEASE RESERVE	4		
Balance, beginning of year		370,500	337,700
Transfer from Fund Balance		8,700	32,800
Occupational Disease Reserve, end of year		379,200	370,500
		$ 2,435,888	$ 1,981,409

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

Workers' Compensation Board – Alberta

Consolidated Statements of Cash Flows

Year Ended December 31

($ thousands)	**2013**	2012
OPERATING ACTIVITIES		
Cash inflows (outflows) from business operations		
Employer premiums	$ 1,150,022	$ 1,174,254
Benefits to claimants and/or third parties on their behalf	(684,051)	(655,870)
Administrative and other goods and services	(205,642)	(206,049)
Injury reduction program	(57,784)	(46,768)
Net cash from operating activities	202,545	265,567
INVESTING ACTIVITIES		
Cash inflows (outflows) related to investment assets		
Interest income	119,779	84,442
Dividend income	81,109	47,474
Other investment income	37,168	30,674
Gains on sale of investments	278,546	146,980
Proceeds (payments) on settlement of derivatives	(85,578)	38,097
Investment management expense	(28,239)	(23,539)
Sale (purchase) of investments at cost	200,036	(389,358)
Purchase of investments from reinvested income	(412,517)	(339,464)
Cash outflows related to operating assets		
Property, plant and equipment	(6,286)	(7,150)
Computer software	(6,815)	(6,363)
Net cash from investing activities	177,203	(418,207)
FUNDING ACTIVITIES		
Cash outflows from funding activities		
Surplus distributions	(85,353)	-
Net cash used for funding activities	(85,353)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	294,395	(152,640)
Cash and cash equivalents, beginning of year	215,908	368,548
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 510,303	$ 215,908

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013 with comparatives for the year ended December 31, 2012
(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) in effect as at December 31, 2013.

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 all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as entities controlled by WCB in which WCB is the beneficial owner.

WCB holds 100 per cent of the voting interest in the following subsidiaries, both 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

In the context of structured entities, WCB has concluded that it does not control its structured entities, and the substance of WCB's interests is that they are only passive portfolio investments. For further details, see the table describing interests in unconsolidated structured entities at the end of Note 5 *Investments*.

Foreign currency translation
WCB's consolidated financial statements are presented in Canadian dollars, which is also the functional currency. All financial information presented has been 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.

Measurement uncertainty and use of accounting estimates

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented. Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action. Employee benefit liabilities (Note 10), claim benefit liabilities (Note 11), and the Partnerships in Injury Reduction rebates accrual (Note 13) are the most significant items that are based on accounting estimates. Actual results could differ from the estimates determined by management in these consolidated financial statements. These differences, which may be material, could require adjustment in subsequent reporting periods.

Financial statement presentation

WCB presents its consolidated statement of financial position in order of liquidity. 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 loss consists primarily of net changes in remeasurement of post-employment defined benefit plan liabilities.

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

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 accordingly are 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.

Comparative figures

Certain comparative figures have been restated and/or reclassified where required to conform to the current year's accounting treatment.

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	49
7	Property, plant and equipment	56
8	Intangible assets	58
9	Lease and other commitments	59
10	Employee benefits	60
11	Claim benefit liabilities	63
13	Premium revenue	67
16	Investment income and expense	70

3. ACCOUNTING POLICY CHANGES

STANDARDS EFFECTIVE IN THE CURRENT YEAR

IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*

Effective January 1, 2013, WCB adopted IFRS 10, IFRS 11 and IFRS 12 concurrently as prescribed.

IFRS 10 establishes a single definition of control as the basis of consolidation, based on a reporting entity having power, rights, or exposure to variable returns, and the ability to use such power to affect its returns from the investee. This new standard applies to WCB's wholly owned investment subsidiaries, and structured portfolio investments.

IFRS 11 applies to joint arrangements which include joint operations and joint ventures. WCB is not currently involved in joint arrangements.

IFRS 12 prescribes new and expanded disclosures, both quantitative and narrative, relating to WCB's involvement with other entities, in order to facilitate better understanding of the economic relationships with other entities.

IFRS 13 *Fair Value Measurement*

Effective January 1, 2013, WCB adopted IFRS 13 *Fair Value Measurement* that prescribes additional disclosures on the use of valuation techniques and unobservable inputs used in fair value measurements.

Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities*

Effective January 1, 2013, WCB adopted amended IFRS 7 that requires additional disclosure of recognized financial instruments that are offset. The amendments prescribe separate disclosure for financial assets and financial liabilities, that are (i) offset in the statement of financial position or (ii) subject to master netting or similar arrangements irrespective of whether they are offset. WCB discloses financial assets and financial liabilities that have been offset in Note 6 *Investment Risk Management* in the subsection "Derivatives risk." These disclosures do not affect WCB's financial position or results of operations.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities*

In December 2011, the IASB amended IAS 32 guidance to clarify when financial assets and financial liabilities may be offset. Since WCB does not hold material financial liabilities, the guidance will primarily affect WCB's derivative contracts and only when they result in material loss positions. These requirements, which are effective for reporting periods beginning on or after January 1, 2014, with earlier application permitted, are not expected to have a material impact on WCB's financial reporting.

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 Fund is fully funded when the total assets equal or exceed total liabilities. This Funded Position (or net assets) 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)	**2013**	2012
Accident Fund		
Total assets	$ 9,546,244	$ 8,552,678
Less:		
Total liabilities	7,110,356	6,571,269
Funded Position	$ 2,435,888	$ 1,981,409
Funded Ratio	134.3%	130.2%

5. INVESTMENTS

ACCOUNTING POLICY

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

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

Upon initial recognition, debt and equity securities are recognized at their settlement value (including transaction costs net of any premium or discount at date of purchase, if applicable). Subsequent fair value measurement changes are recognized in income in the period in which they arise.

Derivatives are initially recognized at fair value and subsequently remeasured at the financial statement date. All gains and losses resulting from remeasurement at fair value are recognized in investment income in the respective periods in which they arose.

Net cash, 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 securities are based on their closing bid prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly traded pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
    - The fair value of infrastructure and real estate funds are based on independent annual appraisals, net of any liabilities against the fund assets.
    - The fair value of commercial mortgage funds is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

Derivative contracts

- Written forward foreign-exchange contracts are valued based on the change in the underlying exchange rate relative to the Canadian dollar.
- Tradable equity index futures, whose prices change according to the underlying market index, are valued based on exchange-listed prices.
- Bond futures, whose prices change according to the underlying bond price, are valued based on exchange-listed prices.

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. 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 judgment 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 and infrastructure.

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]	2013	2012
Fixed income							
Nominal bonds	$ 6,181	$ 2,105,281	$ 151,974	$ 2,263,436	$ 36,399	$ 2,299,835	$ 2,154,236
Mortgages[1]	-	-	529,715	529,715	-	529,715	484,776
	6,181	2,105,281	681,689	2,793,151	36,399	2,829,550	2,639,012
Equities							
Domestic	636,081	288,638	-	924,719	4,083	928,802	805,093
Foreign[2]	1,416,881	988,069	-	2,404,950	29,827	2,434,777	2,322,226
	2,052,962	1,276,707	-	3,329,669	33,910	3,363,579	3,127,319
Inflation-sensitive							
Real estate[3]	209,659	4,382	1,098,465	1,312,506	811	1,313,317	1,153,257
Infrastructure[4]	297,107	-	417,699	714,806	4,198	719,004	699,467
Timberlands	-	-	75,295	75,295	-	75,295	-
Real-return bonds	-	596,256	-	596,256	2,272	598,528	571,011
	506,766	600,638	1,591,459	2,698,863	7,281	2,706,144	2,423,735
	2,565,909	3,982,626	2,273,148	8,821,683	77,590	8,899,273	8,190,066
Derivatives	-	(27,817)	-	(27,817)	-	(27,817)	(15,118)
	$ 2,565,909	$ 3,954,809	$ 2,273,148	$ 8,793,866	$ 77,590	$ 8,871,456	$ 8,174,948

[1] Mortgages include commercial mortgages and multi-unit mortgages, but do not include single-dwelling residential mortgages.

[2] Foreign equities comprise U.S., EAFE (Europe, Australasia and Far East), and Emerging Market mandates.

[3] Real estate investments include pooled funds invested in commercial properties.

[4] Infrastructure consists of a pooled fund invested in infrastructure projects.

[5] Includes portfolio cash, receivables and payables whose cost approximates fair value.

Transfers between Levels 1 and 2

There were no material transfers between Level 1 and Level 2 during 2013.

Reconciliation of Level 3 activity

($ thousands)	Fixed Income	Inflation-sensitive	2013	2012
Balance, beginning of year	$ 632,397	$ 1,331,184	$ 1,963,581	$ 1,488,130
Fair value gains recognized in income	17,551	144,106	161,657	166,421
Purchases of Level 3 investments	34,723	219,954	254,677	411,826
Sale/settlement of Level 3 investments	(2,982)	(103,785)	(106,767)	(102,796)
Balance, end of year	$ 681,689	$ 1,591,459	$ 2,273,148	$ 1,963,581

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

Through its investment program WCB is involved with structured entities, which comprise structured vehicles (e.g., 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, 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, which typically runs from five to ten years.

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)

Structured Entity Type by Mandate	Carrying Value	Undrawn Funding Commitments
Limited partnerships		
Real estate	$ 120,854	$ 115,185
Infrastructure	227,442	410,802
Timberlands	75,295	224,705
	423,591	750,692
Structured Equity		
Real estate	459,532	-
	$ 883,123	$ 750,692

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 portfolio weighted average (asset class) benchmark:

($ thousands)	**2013**		2012	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in Canadian market benchmark	(11.9%)	(23.7%)	(15.9%)	(31.9%)
Canadian mandate	$ (110,063)	$ (220,126)	$ (128,251)	$ (256,503)
% change in Global market benchmark	(10.5%)	(21.1%)	(13.1%)	(26.1%)
Global mandate	$ (206,918)	$ (413,836)	$ (252,866)	$ (505,732)
% change in Emerging market benchmark	(17.2%)	(34.4%)	(22.5%)	(45.0%)
Emerging markets mandate	$ (80,708)	$ (161,415)	$ (80,569)	$ (161,139)

[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 2013 data.

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.

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)	**2013**		2012	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Non-government bonds	$ (20,082)	$ (40,164)	$ (23,204)	$ (46,409)
Mortgages	$ (9,800)	$ (19,599)	$ (8,726)	$ (17,452)

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)	**2013**		2012	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Nominal bonds	$ (66,966)	$ (133,931)	$ (64,173)	$ (128,347)
Real return bonds	$ (47,703)	$ (95,405)	$ (46,766)	$ (93,532)
Mortgages	$ (9,800)	$ (19,599)	$ (8,726)	$ (17,452)

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, and infrastructure. The exposures are hedged to the Canadian dollar by utilizing 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 and infrastructure 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 $1,112,977 (2012 – $1,068,259); euro exposure is next, with unhedged holdings of $216,170 (2012 – $278,251). For the current reporting period, the net loss from the currency overlay was $43,745 (2012 – $29,147 gain).

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)	**2013**		2012	
	CAD/USD	**CAD/EURO**	CAD/USD	CAD/EURO
December 31 spot rate	0.9412	0.6830	1.0043	0.7618
10% appreciation in the Canadian dollar	1.0353	0.7513	1.1048	0.8379
Global mandate	$ (101,179)	$ (19,652)	$ (97,115)	$ (25,296)

[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.

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 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.

The notional value of a derivative contract used in a 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. Counterparty default risk with respect to derivative contracts is mitigated in accordance with investment guidelines on counterparty default risk.

The table below summarizes the fair value of WCB's derivative portfolio of open contract positions in segregated funds as at December 31. These derivative contracts fall within the scope of the new application guidance on offsetting. Derivative contracts in a gain position (financial assets) that have been offset against contracts in a loss position (financial liabilities) are presented with their remaining terms to maturity.

($ thousands)			**2013**			2012		
	Asset Mandates	Term to Maturity	**Notional Principal**	**Fair Value Asset**	**Fair Value Liability**	Notional Principal	Fair Value Asset	Fair Value Liability
Asset replication contracts								
Equity index futures contracts	Global equities	Within 1 year	$ -	$ -	$ -	$ 338,704	$ 1,219	$ (4,157)
Bond futures contracts	Global fixed income	Within 1 year	178,194	1,177	(53)	265,304	165	(236)
			178,194	1,177	(53)	604,008	1,384	(4,393)
Foreign-exchange contracts								
Currency overlay forward contracts	Global equities	Within 1 year	1,311,031	9,485	(37,058)	1,145,516	11,099	(19,953)
Forward foreign-exchange contracts	Global equities/ fixed income	Within 1 year	762,727	6,933	(8,301)	879,056	6,387	(9,642)
			2,073,758	16,418	(45,359)	2,024,572	17,486	(29,595)
			$ 2,251,952	$ 17,595	$ (45,412)	$ 2,628,580	$ 18,870	$ (33,988)

WCB also has indirect exposure to derivatives risk through its pooled investments, but they do not contain any derivatives intended for speculative or trading purposes.

Liquidity risk

Liquidity 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. To cover unanticipated cash requirements when market conditions are unfavourable, WCB has negotiated a standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2013.

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 B- credit rating (or equivalent) score from a recognized credit-rating agency, but such holdings may not exceed 3 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, 2013, the aggregate amount of fixed income securities in segregated funds with counterparty ratings below BBB- was $177,105 (2012 – $115,960). WCB also has indirect exposure to counterparty default risk through its pooled investments. Seven per cent of the fixed income portfolio is held in pooled funds.

Securities lending risk

WCB participates in a securities-lending program sponsored by its custodian. Under IFRS 9, securities lending arrangements are considered to be 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 cash or 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, 2013, securities on loan through the custodian totalled $908,340 (2012– $804,078), secured by $961,697 (2012 – $850,733) of posted collateral. During 2013, the securities-lending program generated income of $2,192 (2012 – $2,349).

7. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment are recognized as an asset if it is probable that WCB will realize future economic benefits. Items are measured at fair value upon initial recognition.

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 consolidated 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 expected value and the amount recognized as an impairment loss.

($ thousands)						2013	2012
Cost	Land/ Buildings	Leasehold Improvements	Computer Equipment	Office Furniture/ Equipment	Vehicles/ Other	**Total**	Total
Balance, beginning of period	$ 51,554	$ 1,687	$ 14,012	$ 17,358	$ 751	$ 85,362	$ 80,262
Current period activity:							
Capitalized expenditure	3,047	67	1,511	1,022	-	5,647	11,375
Transfer from PPE under construction	(2,330)	(51)	(235)	(330)	-	(2,946)	(7,474)
Disposals	-	-	(1,337)	(36)	-	(1,373)	(1,747)
PPE under construction	2,193	-	1,469	155	-	3,817	2,946
Balance, end of period	$ 54,464	$ 1,703	$ 15,420	$ 18,169	$ 751	$ 90,507	$ 85,362
Accumulated depreciation and impairment							
Balance, beginning of period	$ 19,161	$ 1,012	$ 7,224	$ 9,658	$ 346	$ 37,401	$ 33,192
Current period activity:							
Depreciation	1,268	73	3,345	1,181	147	6,014	5,956
Disposals	-	-	(1,338)	(36)	-	(1,374)	(1,747)
Balance, end of period	$ 20,429	$ 1,085	$ 9,231	$ 10,803	$ 493	$ 42,041	$ 37,401
Carrying value, beginning of period	$ 32,393	$ 675	$ 6,788	$ 7,700	$ 405	$ 47,961	$ 47,070
Carrying value, end of period	$ 34,035	$ 618	$ 6,189	$ 7,366	$ 258	$ 48,466	$ 47,961

Property, plant and equipment under finance leases

Included in property, plant and equipment is computer equipment acquired through finance leases at cost of $6,327 (2012 – $6,683), accumulated depreciation of $3,794 (2012 – $2,803), and carrying value of $2,533 (2012 – $3,881).

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.

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

($ thousands)			**2013**	2012
Cost	In Use	Under Development	**Total**	Total
Balance, beginning of year	$ 126,538	$ 3,694	$ 130,232	$ 125,710
Capitalized expenditure	-	7,494	7,494	5,788
Transfers from development	4,124	(4,124)	-	-
Disposals	(2,852)	-	(2,852)	(1,266)
Balance, end of year	$ 127,810	$ 7,064	$ 134,874	$ 130,232
Accumulated amortization and impairment				
Balance, beginning of year	$ 107,862	$ -	$ 107,862	$ 101,229
Amortization	7,126	-	7,126	7,899
Disposals	(2,852)	-	(2,852)	(1,266)
Balance, end of year	$ 112,136	$ -	$ 112,136	$ 107,862
Carrying value, beginning of period	$ 18,676	$ 3,694	$ 22,370	$ 24,481
Carrying value, end of period	$ 15,674	$ 7,064	$ 22,738	$ 22,370

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 material 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 eighteen years.

Undiscounted future minimum lease payments under finance leases are $2,758 (2012 - $4,198), with a carrying value of $2,633 (2012 - $3,982), the difference of $125 (2012 - $216) 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			2013	2012
	Finance	Operating	Other Commitments	Total	Total
2013	$ -	$ -	$ -	$ -	$ 18,216
2014	2,023	1,903	27,463	31,389	13,574
2015	573	1,920	9,824	12,317	5,451
2016	152	1,922	4,909	6,983	4,343
2017	10	1,880	1,519	3,409	3,174
Beyond	-	4,130	332	4,462	4,047
	$ 2,758	$ 11,755	$ 44,047	$ 58,560	$ 48,805

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 benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The 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. Interest expense represents the amount required in each year to build up the liability over the projected benefit period to its future value.

Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive gain (loss).

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, 2013, there were no material 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, and service cost prorated on total contributory payroll.

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 an annual actuarial valuation of WCB's share of the plans' assets, benefit obligations, remeasurement amounts, and service cost.

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. 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. 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 non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. The LTD liability represents the present value of all future obligations arising from claims incurred during the period.

EMPLOYEE BENEFIT PLAN ASSUMPTIONS

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

	2013					2012				
	PSPP	**MEPP**	**SERP**	**Post Retirement**	**LTD**	PSPP	MEPP	SERP	Post Retirement	LTD
Date of most recent actuarial valuation	**12/31/2013**	**12/31/2013**	**12/31/2013**	**12/31/2013**	**12/31/2013**	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012
Economic assumptions										
Discount rate (nominal)	4.90%	4.90%	5.00%	4.70%	4.20%	4.30%	4.30%	4.50%	4.10%	3.50%
Alberta inflation rate (long-term)	2.25%	2.25%	2.25%	n/a	n/a	2.25%	2.25%	2.25%	n/a	n/a
Salary escalation rate	varied	varied	4.00%	n/a	3.00%	varied	3.50%	4.00%	n/a	3.00%
Multi-employer plan funding assumptions										
WCB share of plan contributory payroll	4.45%	1.37%				4.57%	1.34%			
Current service cost rate on contributory payroll	16.00%	20.90%				14.17%	19.70%			
WCB's contributions for the current period *($ thousands)*	$ 13,667	$ 1,413				$ 11,500	$ 1,356			
WCB's expected contributions for the following period *($ thousands)*	$ 13,975	$ 1,616				$ 13,925	$ 1,392			

DEFINED BENEFIT PLAN LIABILITIES

($ thousands)	Pension Liabilities[1]	Other Retirement Liabilities[2]	LTD	2013	2012
Change in defined benefit obligation					
Defined benefit obligation, beginning of year	$ 324,276	$ 7,725	$ 13,405	$ 345,406	$ 270,887
Current service cost[3]	12,696	801	2,917	16,414	15,344
Interest expense[4]	14,027	354	438	14,819	14,250
Remeasurement (gains) losses[5]	(41,890)	(598)	(1,742)	(44,230)	55,305
Benefit payments	(9,848)	(51)	(2,047)	(11,946)	(10,380)
Defined benefit obligation, end of year	$ 299,261	$ 8,231	$ 12,971	$ 320,463	$ 345,406
Change in fair value of plan assets					
Fair value of plan assets, beginning of year	$ 191,404	$ -	$ -	$ 191,404	$ 165,829
Employer contributions	15,080	51	2,047	17,178	14,496
Interest income[4]	8,369	-	-	8,369	8,873
Remeasurement gains (losses)[5]	12,784	-	-	12,784	12,586
Benefit payments	(9,848)	(51)	(2,047)	(11,946)	(10,380)
Fair value of plan assets, end of year	$ 217,789	$ -	$ -	$ 217,789	$ 191,404
Net plan liability					
Defined benefit obligation	$ 299,261	$ 8,231	$ 12,971	$ 320,463	$ 345,406
Fair value of plan assets	217,789	-	-	217,789	191,404
	$ 81,472	$ 8,231	$ 12,971	$ 102,674	$ 154,002

[1] Pension liabilities include WCB's proportionate share of the PSPP and MEPP net unfunded liabilities.
[2] Other retirement liabilities include SERP and 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 is 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.

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)	**2013**		2012	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Discount rate based on market yields on high-quality corporate bonds	$ (10,611)	$ 10,611	$ (11,607)	$ 11,607
General inflation rate	$ 4,713	$ (4,713)	$ 5,100	$ (5,100)
Wage inflation rate	$ 2,201	$ (2,201)	$ 2,273	$ (2,273)

11. CLAIM BENEFIT LIABILITIES

ACCOUNTING POLICY

The claim benefit liability represents the actuarial present value of all expected future benefit payments for claims occurring before the valuation date and for workplace exposures that may result in recognized occupational disease claims. 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 have been independently valued at December 31, 2013, 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 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 earnings and the expected long-term general inflation rate). The expected long-term investment return assumption is targeted at a 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 by subtracting 0.5 per cent from the long-term general inflation assumption in accordance with policy. 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:

	2013	2012
Nominal rate of return, to 2016	4.55%	4.55%
Nominal rate of return, beyond 2016	5.58%	5.58%
General inflation rate	2.50%	2.50%
Real rate of return, to 2016	2.00%	2.00%
Real rate of return, beyond 2016	3.00%	3.00 %
Cost-of-living adjustment	2.00%	2.00%
Wage escalation	3.50%	3.50%
Health care escalation	5.00%	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	**2013**	2012
Claim benefit liabilities, beginning of year	$ 458,800	$2,465,900	$ 581,100	$2,048,200	$ 163,000	$ 458,500	$6,175,500	$5,628,500
Claim costs recognized during the year								
Provision for future costs of current year injuries and exposures	99,900	159,400	32,700	216,300	41,700	64,200	614,200	591,000
Claim benefits processed in the year	77,838	3,054	2,133	132,533	3,379	49,726	268,663	251,674
Total claim costs recognized during the year	177,738	162,454	34,833	348,833	45,079	113,926	882,863	842,674
Claim payments processed during the year								
Payments for current year injuries	(77,838)	(3,054)	(2,133)	(132,533)	(3,379)	(49,726)	(268,663)	(251,674)
Payments for prior years' injuries	(86,636)	(156,336)	(44,269)	(151,705)	(36,931)	(56,420)	(532,297)	(522,961)
	(164,474)	(159,390)	(46,402)	(284,238)	(40,310)	(106,146)	(800,960)	(774,635)
Interest expense on the liability	18,500	108,600	25,500	89,300	6,500	19,500	267,900	242,500
Remeasurement of the liability								
Changes relating to policy, legislation and administrative practices	-	-	-	-	-	-	-	17,400
Changes relating to latent occupational diseases	-	-	-	-	-	-	-	686,400
Changes in valuation methods and assumptions								
Economic Loss Payments	-	(61,800)	-	-	-	-	(61,800)	(96,500)
Other changes in methods and assumptions	(8,400)	(500)	(1,600)	(4,000)	-	(4,800)	(19,300)	(14,000)
Lower discount rate related to real rate of return	-	-	-	-	-	-	-	37,200
Change to health care escalation rate	-	-	-	-	-	-	-	(232,000)
Changes in claims experience								
Inflation and wage growth different than expected	(700)	10,500	1,800	(19,600)	100	(1,000)	(8,900)	(59,800)
Actual costs different than expected	(13,500)	(30,000)	(300)	(16,300)	(200)	(4,400)	(64,700)	(68,500)
Other experience (gains) losses	(8,364)	(16,664)	(6,031)	(10,295)	2,231	(10,780)	(49,903)	(33,739)
	(30,964)	(98,464)	(6,131)	(50,195)	2,131	(20,980)	(204,603)	236,461
Claim benefit liabilities, end of year	$ 459,600	$2,479,100	$ 588,900	$2,151,900	$ 176,400	$ 464,800	$6,320,700	$6,175,500

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 2005 - 2013. The top part of the table illustrates how the estimate of total claims 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 accident, one year after the year of accident, two years after the year of 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										
($ thousands)	Prior Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Total**
Estimate of cumulative claims benefits											
At end of accident year		1,041,803	1,150,098	1,313,629	1,407,779	1,301,798	1,333,450	1,444,292	1,320,790	*1,423,621*	
One year later		1,044,701	1,189,008	1,295,318	1,308,486	1,250,394	1,299,370	1,250,437	*1,305,653*		
Two years later		1,054,176	1,178,679	1,197,062	1,276,380	1,239,500	1,118,489	*1,220,851*			
Three years later		1,042,662	1,096,841	1,176,070	1,271,144	1,095,702	*1,080,833*				
Four years later		980,429	1,072,273	1,154,051	1,135,923	*1,074,680*					
Five years later		957,173	1,079,888	1,035,340	*1,113,055*						
Six years later		944,210	988,475	*1,016,234*							
Seven years later		863,301	*979,481*								
Eight years later		*857,063*									
Current estimate of cumulative claims benefits		857,063	979,481	1,016,234	1,113,055	1,074,680	1,080,833	1,220,851	1,305,653	1,423,621	
Cumulative payments		(394,808)	(423,689)	(423,932)	(438,188)	(385,038)	(364,197)	(380,001)	(331,100)	(218,937)	
Outstanding benefits											
Undiscounted	$ 5,054,591	$ 462,255	$ 555,792	$ 592,302	$ 674,867	$ 689,642	$ 716,636	$ 840,850	$ 974,553	$ 1,204,684	$11,766,172
Effect of discounting	(2,591,991)	(277,255)	(335,792)	(357,302)	(405,867)	(418,642)	(435,636)	(504,850)	(579,553)	(652,184)	(6,559,072)
	2,462,600	185,000	220,000	235,000	269,000	271,000	281,000	336,000	395,000	552,500	5,207,100
Claims management											464,800
Latent occupational diseases											648,800
Claim benefit liabilities											$ 6,320,700

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 claims 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 34 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)	**2013**		2012	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (188,400)	$ 199,700	$ (183,700)	$ 194,500
Wage inflation rate	$ 48,000	$ (45,900)	$ 46,200	$ (44,300)
Health care escalation rate	$ 82,400	$ (77,600)	$ 78,500	$ (73,900)

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)	**2013**	2012
Premiums		
Assessed premium revenue for current year	$ 1,218,480	$ 1,238,127
Other premium-related revenue	8,686	9,432
	1,227,166	1,247,559
Deduct: Partnerships in injury reduction rebates	96,988	90,339
	$ 1,130,178	$ 1,157,220

Assessed premium revenue includes an accrual of $19,582 (2012 – $16,825) 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 those 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.

For both premium and PIR accruals, the differences between actual and estimated amounts in past years have not been material.

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)	2013			2012
	Current Year Injuries	Prior Years' Injuries	Total	Total
Claims expense				
Provision for future costs of current year injuries and exposures[1]	$ 614,200	$ -	$ 614,200	$ 591,000
Claim payments processed in the year				
Short-term disability	77,838	86,636	164,474	157,580
Long-term disability	3,054	156,336	159,390	151,332
Survivor benefits	2,133	44,269	46,402	43,645
Health care	132,533	151,705	284,238	280,064
Rehabilitation	3,379	36,931	40,310	38,301
	218,937	475,877	694,814	670,922
Claim payments related to prior years[2]	-	(532,297)	(532,297)	(522,961)
	218,937	(56,420)	162,517	147,961
	$ 833,137	$ (56,420)	$ 776,717	$ 738,961
Claims management[3]				
Claims-related administration	49,715	45,160	94,875	93,267
Appeals Commission	11	10,969	10,980	10,164
Medical Panel Office	-	291	291	282
	$ 49,726	$ 56,420	$ 106,146	$ 103,713
	$ 882,863	$ -	$ 882,863	$ 842,674

[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.*

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 claimants.
- **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	**2013**	2012
Administration expenses				
Salaries and employee benefits	$ 56,882	$ 106,408	$ 163,290	$ 161,670
Technology	12,904	6,058	18,962	18,904
Office	4,008	1,128	5,136	4,975
Occupancy	3,007	5,601	8,608	7,883
Professional fees	1,569	2,503	4,072	3,979
Depreciation and amortization	7,013	6,127	13,140	13,855
Travel	647	462	1,109	1,135
Other	1,259	607	1,866	1,192
	87,289	128,894	216,183	213,593
Less:				
Cost recoveries - legal action	3	3,248	3,251	3,300
Cost recoveries - other	72	3,926	3,998	3,709
Reclassifications to:				
Claims expense - rehabilitation services	-	26,845	26,845	28,498
Investment Management expense	3,299	-	3,299	2,629
	3,374	34,019	37,393	38,136
	$ 83,915	$ 94,875	$ 178,790	$ 175,457

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) Property income (operating income such as rentals and other business revenue) when a right to distributable income has been established.

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.

INVESTMENT INCOME

($ thousands)						2013	2012
	Interest	Dividends	Gains (Losses)	Property	Derivatives	Total	Total
Fixed income							
Bonds[1]	$ 91,242	$ -	$ (119,888)	$ -	$ (26,320)	$ (54,966)	$ 156,448
Mortgages	24,244	-	(9,663)	-	-	14,581	15,253
Short-term investments	4,293	-	-	-	-	4,293	3,061
	119,779	-	(129,551)	-	(26,320)	(36,092)	174,762
Equities							
Domestic equities	-	34,762	88,947	-	-	123,709	76,310
Foreign equities	-	46,347	618,836	-	(67,504)	597,679	276,087
	-	81,109	707,783	-	(67,504)	721,388	352,397
Inflation-sensitive							
Real estate	-	-	86,358	26,359	-	112,717	154,499
Infrastructure	-	-	118,108	22,299	(19,570)	120,837	100,399
	-	-	204,466	48,658	(19,570)	233,554	254,898
	$ 119,779	$ 81,109	$ 782,698	$ 48,658	$ (113,394)	$ 918,850	$ 782,057

[1] *Includes both nominal and real return bonds.*

INVESTMENT MANAGEMENT EXPENSE

($ thousands)	2013	2012
Fund management fees	$ 29,348	$ 26,425
Custody fees	509	371
Investment administration	3,299	2,629
	$ 33,156	$ 29,425

17. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards, educational institutions and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business are settled at terms equivalent to those for arm's length entities.

Included in related-party transactions are 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. The amounts outstanding at December 31 and transactions throughout the year related to these funding obligations are disclosed in this note.

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 Related Party Disclosures. As at the reporting date, there were no business relationships, outstanding amounts or transactions other than compensation, between WCB and its key management personnel requiring disclosure in these consolidated financial statements.

The amounts outstanding at December 31 and transactions throughout the year with the related parties described above, excluding key management personnel, are as follows:

($ thousands)	2013	2012
Receivables	$ -	$ 3
Payables and accruals	$ 2,467	$ 2,297
Expenses	$ 47,992	$ 39,083

KEY MANAGEMENT COMPENSATION

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

($)	2013				
	Base Salary[1]	Other Cash Benefits[2]	Non-Cash Benefits[3]	SERP[4]	Total
Chair, Board of Directors [5]	$ -	$ 58,446	$ 3,611	$ -	$ 62,057
Board Members [5]	-	165,600	10,463	-	176,063
President and Chief Executive Officer	439,000	231,500	41,311	94,300	806,111
Vice-President, Operations & Chief Information Officer [6]	347,000	127,450	35,468	77,000	586,918
Chief Financial Officer	321,000	118,350	37,749	59,000	536,099
Vice-President, Customer Service & Risk Management [7]	298,000	109,937	37,494	56,500	501,931
Vice-President, Employee & Corporate Services	256,000	82,800	36,215	37,300	412,315
Secretary & General Counsel	251,000	81,800	38,803	40,400	412,003
Vice-President, Operations & Disability Management [8]	85,667	32,483	10,320	6,900	135,370

	2012				
Chair, Board of Directors [5]	$ -	$ 55,494	$ 4,478	$ -	$ 59,972
Board Members [5]	-	135,916	8,201	-	144,117
President & Chief Executive Officer	408,000	216,000	39,724	75,200	738,924
Vice-President, Disability & Information Management [6]	329,000	121,500	34,068	57,200	541,768
Chief Financial Officer	304,000	112,400	36,406	44,600	497,406
Vice-President, Customer Service & Risk Management [7]	289,000	107,150	36,166	48,600	480,916
Vice-President, Employee & Corporate Services	248,000	80,400	35,404	30,600	394,404
Secretary & General Counsel	243,000	78,900	36,936	34,600	393,436

[1] *Base salary is pensionable base pay.*

[2] *Other cash benefits include pay at risk, car allowances and honoraria.*

[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. There were a number of vacancies in 2012.*

[6] *The position of Vice-President, Operations & Chief Information Officer was established in 2013. The incumbent was previously Vice-President, Disability & Information Management.*

[7] *Incumbent retired on December 31, 2013.*

[8] *The position of Vice-President, Operations & Disability Management was established in 2013. The incumbent took office September 1, 2013.*

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

($)	2013				2012	
	Current Service Cost[1]	Other Costs[2]	**Net Cost**	**Accrued Obligation**	Net Cost	Accrued Obligation
President & Chief Executive Officer	$ 94,300	$ (1,300)	$ 93,000	$1,083,200	$ 276,000	$ 990,200
Vice-President, Operations & Chief Information Officer	77,000	(34,200)	42,800	736,000	235,500	693,200
Chief Financial Officer	59,000	(16,200)	42,800	452,400	144,700	409,600
Vice-President, Customer Service & Risk Management	56,500	10,600	67,100	575,600	119,500	508,500
Vice-President, Employee & Corporate Services	37,300	10,300	47,600	383,100	90,600	335,500
Secretary & General Counsel	40,400	9,600	50,000	413,900	87,300	363,900
Vice-President, Operations & Disability Management	6,900	2,400	9,300	9,300	-	-

[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.

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)	2013	2012
Cash in transit and in banks	$ 15,233	$ 14,310
Cash equivalents	495,070	201,598
Cash and cash equivalents	$ 510,303	$ 215,908

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 1.2 per cent (2012 – 1.2 per cent).

(b) Trade and other receivables

($ thousands)	2013	2012
Employer		
Accounts receivable	$ 62,813	$ 62,979
Accrued	19,582	16,825
	82,395	79,804
Other	10,886	11,687
	$ 93,281	$ 91,491

Accrued employer accounts receivable represent premiums related to employers that had not yet reported their insurable earnings by year-end. Substantially all receivables are collected within one year.

(c) Trade and other liabilities

($ thousands)	Trade	Other	2013	2012
Trade payables	$ 54,032	$ -	$ 54,032	$ 54,349
Lease obligations	-	2,633	2,633	3,982
Other liabilities	-	8,851	8,851	7,364
	$ 54,032	$ 11,484	$ 65,516	$ 65,695
Current portion	$ 54,032	$ 1,931	$ 55,963	$ 56,394
Non-current portion	-	9,553	9,553	9,301
	$ 54,032	$ 11,484	$ 65,516	$ 65,695

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

(d) Surplus distributions

($ thousands)	Change in Comprehensive Income 2013	Change in Comprehensive Income 2012	Surplus Distributions Payable 2013	Surplus Distributions Payable 2012
Surplus distributions, beginning of year			$ 85,733	$ 850
Payment of prior years' surplus distributions			(85,353)	-
			380	850
Adjustment of prior years' accruals	$ (380)	$ (649)	(380)	(607)
Outstanding balance from prior years			-	243
Surplus distributions authorized for the year	524,478	85,490	524,478	85,490
Surplus distributions, end of year	$ 524,098	$ 84,841	$ 524,478	$ 85,733

Substantially all surplus distributions are paid within one year.

(e) Safety rebates

($ thousands)	2013	2012
Safety rebates payable, beginning of year	$ 90,339	$ 73,327
Payment of prior years' rebates	(85,501)	(72,182)
	4,838	1,145
Adjustment of prior years' accruals	3,579	2,051
Outstanding balance from prior years	8,417	3,196
Rebates for the year	88,571	87,143
Safety rebates payable, end of year	$ 96,988	$ 90,339

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

(f) Injury reduction

($ thousands)	2013	2012
Occupational Health and Safety	$ 37,042	$ 28,968
Industry safety associations	20,742	17,800
	$ 57,784	$ 46,768

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

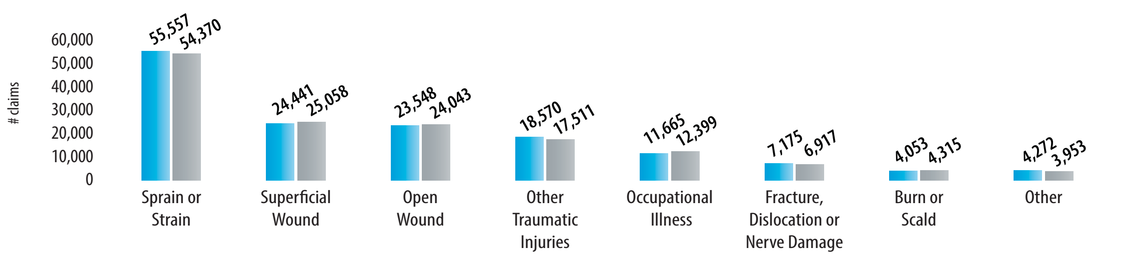
2013 summary of claims administered

	2013		2012	
Active claims as of January 1		28,910		27,879
New lost-time claims	27,707		27,339	
New medical-aid-only claims	121,574		121,227	
Total new claims reported	**149,281**		**148,566**	
Recurrent claims[1]	15,866		22,798	
	165,147	165,147	171,364	171,364
Total claims administered		**194,057**		**199,243**

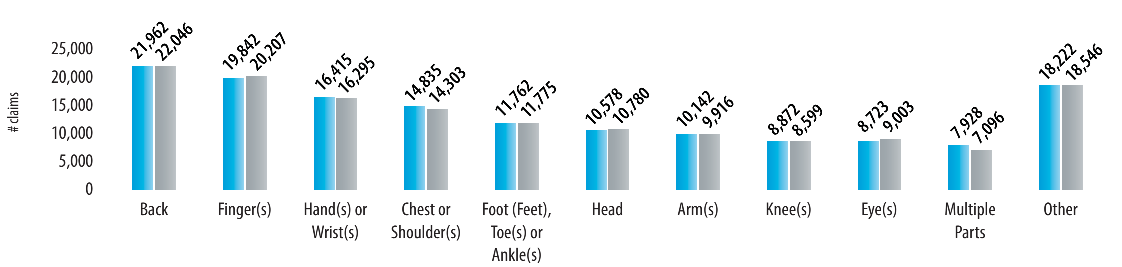
[1]*Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons, such as payments for medical aid or requests for further compensation benefits.*

Ineligible claims	**2013**	2012
LOST-TIME CLAIMS		
Insufficient information available to process claim	241	282
Not covered under *Workers' Compensation Act*	149	120
Injury or illness not arising out of/in course of employment	2,369	2,165
MEDICAL-AID-ONLY CLAIMS		
Insufficient information available to process claim	5,127	5,115
Not covered under *Workers' Compensation Act*	2,398	2,357
Injury or illness not arising out of/in course of employment	5,187	4,953

New claims by nature of injury **2013** **2012**



New claims by part of body **2013** **2012**



2013 year at a glance

	2013	2012
Number of workers covered	2,028,306	1,938,373
Registered employers	160,997	154,712
Lost-time claim rate (per 100 workers)[1]	1.4	1.5
Disabling-injury rate (per 100 workers)[1]	2.7	2.7
Number of new claims reported	149,281	148,566
Number of lost-time claims[1]	28,400	28,300
Number of recurrent claims[2]	15,866	22,798
Fatality claims accepted	188	145
Ineligible lost-time claims (% of all lost-time claims)	10.0%	9.4%
Number of new requests for review to the DRDRB	2,919	3,103
Return to work with accident employer	21,517	20,920
Return to work with new employer	467	423
Estimated average claim duration (TTD days)	34.2	34.2
Cost-of-living adjustment on long-term benefits	2.13%	0.53%
Claims and claims management expense (thousands)	$882,863	$842,674
New non-economic loss and permanent disability awards	2,884	2,662
New economic loss awards	480	498
Maximum insurable earnings	$90,200	$86,700
Premium revenue (thousands)	$1,130,178	$1,157,220
Average collected premium rate (per $100 of insurable earnings)	$1.13	$1.24
Investment revenue (thousands)	$918,850	$782,057
Funded position (thousands)	$2,435,888	$1,981,409
Funded ratio (per cent funded)	134.3%	130.2%

[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 2013 but not reported by year-end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*

communication

partnerships

respect

balance

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