WORKPLACE SAFETY AND INSURANCE BOARD

2008
Fourth Quarter Report to Stakeholders

Workplace Safety & Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

ROAD TO ZERO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis (MD&A) commentary is as of the end of the fourth quarter 2008. This unaudited quarterly report is prepared in accordance with Canadian generally accepted accounting principles (GAAP). The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007.

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

Financial Results

Fourth quarter 2008 revenues fell short of total benefit costs and other expenses by $1,104 million, an increase of $591 million from the $513 million incurred for the forth quarter, 2007. The increase primarily relates to a decrease in investment revenue partially offset by lower expenses.

For the year 2008, total benefit costs and other expenses exeeded revenues by $2,416 million, compared to $1,130 million for 2007. This increase of $1,286 million is primarily due to dramatic financial market declines in equities mainly in the later part of the year. The WSIB's Insurance Fund, like most other investment market funds, was severely impacted by this global market decline. This impact was, however, slightly offset by a decrease in benefit costs and administrative and other expenses.

This change in the WSIB's financial position does not threaten its ability to provide benefits to injured workers and services to employers; nor does it weaken the WSIB's ability to bring about a positive cultural shift in attitudes to workplace health and safety in Ontario.

Unfunded liability

Due mainly to the investment loss, the unfunded liability has increased to $11,469 million at the end of 2008. This is $3,375 million higher than at the end of 2007, when it was $8,094 million.

As a result, the WSIB's funding ratio has decreased by 12.9 percentage points to 53.5 per cent on December 31, 2008, from 66.4 per cent at December 31, 2007.

The WSIB remains committed to reducing the unfunded liability through a range of measures that are improving workplace health and safety, return to work programs, and the management of health care for injured workers.

Investment Revenue

The fallout from the credit crunch and equity market declines resulted in a fourth quarter investment loss of $639 million compared to an investment loss of $12 million for the same period in 2007.

Negative investment performance was reflected in investment revenue for the Insurance Fund. An investment loss of $1,211 million was recorded in 2008, compared to investment revenue of $812 million in 2007 – a year-over-year decrease of $2,023 million.

While the investment loss for 2008 was disappointing, the WSIB's investment performance at negative 15.5 per cent was better than the WSIB's investment benchmark and the median return for large Canadian pension funds which were in the range of negative 16.0 per cent to negative 18.0 per cent.

To address the rapidly changing financial market uncertainty, the WSIB has taken steps to diversify drivers of investment performance, as well as strengthen governance and oversight activities.

Premium Revenue

Fourth quarter 2008 premium revenue was $824 million compared to $843 million for the same period in 2007. While premium revenues increased in industries such as construction and services, these were partially offset by premium revenue decreases in sectors such as automotive and forestry. In these and other sectors of the provincial economy, premium revenue decreased from the continued pressures of depressed markets and decreased consumer demand.

For the year 2008, total premium revenue was $3,566 million, compared to $3,523 million in 2007.

Benefit Costs

Fourth quarter 2008 benefit costs were $1,147 million, compared to $1,198 million for the same period in 2007.

Total benefit costs were $4,258 million in 2008, compared to $4,186 million in 2007, excluding the one-time cost of legislated changes introduced in 2007. This $72 million increase was due to higher benefit costs paid of $202 million, offset by lower increase in benefit liabilities of $130 million.

Administrative and other expenses

Fourth quarter 2008 total administrative and other expenses, after reclassification of claim administration expenses, were $62 million, compared to $72 million for the same period in 2007 – a decrease of $10 million. The WSIB has committed, since 2004, to hold the line on these expenses without compromising service quality. These results were achieved through productivity improvements offsetting investments in strategic initiatives.

Outlook

In 2009, the WSIB will strive to improve its financial performance by focusing on investment strategies to reduce volatility, by prioritizing and minimizing expenses, and by maintaining our focus on costs throughout the year. The economic downturn is creating multiple implications for the WSIB including investment performance, industry mix and size, claims frequency and claims duration. During 2009, the WSIB will continue to monitor the situation closely for insight and an understanding of impacts.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED BALANCE SHEET (unaudited)
As of December 31

($ millions)	2008	2007
ASSETS		
Cash and cash equivalents	$128	$177
Receivables	877	888
Investments (note 3)	11,107	13,754
Loss of Retirement Income Fund	890	974
Property, equipment and other assets	205	179
	$13,207	**$15,972**
LIABILITIES		
Payables and accruals	$853	$744
Long-term debt	91	96
Loss of Retirement Income Fund	890	974
Employee benefit plans	502	492
Benefit liabilities	22,340	21,760
	24,676	**24,066**
UNFUNDED LIABILITY		
Accumulated excess of expenses over revenues	(11,917)	(9,501)
Accumulated other comprehensive income	448	1,407
	(11,469)	**(8,094)**
	$13,207	**$15,972**

CONSOLIDATED STATEMENT OF OPERATIONS (unaudited)
As of December 31

	For the three months ended December 31		For the twelve months ended December 31	
($ millions)	**2008**	**2007**	**2008**	**2007**
GROSS REVENUE	$186	$831	$2,357	$4,337
CURRENT OPERATIONS				
REVENUES				
Premiums for the period	$604	$601	$2,604	$2,499
Investments (note 3)	(639)	(12)	(1,211)	812
Other income	1	0	2	2
	(34)	**589**	**1,395**	**3,313**
EXPENSES				
Benefit costs	1,147	1,198	4,258	4,936
Loss of Retirement Income Fund	19	18	75	70
Administrative and other expenses	62	72	214	243
Legislated obligations and commitments	62	56	226	218
	1,290	**1,344**	**4,773**	**5,467**
Excess of expenses over revenues from current operations	**(1,324)**	**(755)**	**(3,378)**	**(2,154)**
Premiums for unfunded liability	**220**	**242**	**962**	**1,024**
EXCESS OF EXPENSES OVER REVENUES	**$(1,104)**	**$(513)**	**$(2,416)**	**$(1,130)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY (unaudited)

As of December 31

($ millions)	**2008**	**2007**
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of year	$(9,501)	$(8,371)
Excess of expenses over revenues	(2,416)	(1,130)
Balance at end of period	**(11,917)**	**(9,501)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of year	1,407	2,374
Unrealized losses on investments net of amounts realized	(959)	(967)
Balance at end of period	**448**	**1,407**
UNFUNDED LIABILITY AT END OF PERIOD	**$(11,469)**	**$(8,094)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended December 31		For the twelve months ended December 31	
($ millions)	**2008**	**2007**	**2008**	**2007**
EXCESS OF EXPENSES OVER REVENUES	**$(1,104)**	**$(513)**	**$(2,416)**	**$(1,130)**
Other comprehensive income (loss):				
Unrealized net losses on available-for-sale				
financial assets arising during the year	(718)	(176)	(2,558)	(540)
Realized (gains) losses included in income	726	80	1,599	(427)
Unrealized gain (losses) on investments, net of amounts realized	8	(96)	(959)	(967)
COMPREHENSIVE LOSS	**$(1,096)**	**$(609)**	**$(3,375)**	**$(2,097)**

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended December 31		For the twelve months ended December 31	
($ millions)	**2008**	**2007**	**2008**	**2007**
OPERATING CASH FLOWS				
Cash received from:				
Premiums for the period	$553	$563	$2,655	$2,531
Premiums for unfunded liability	199	227	980	1,041
Investment income	156	67	510	374
	908	857	4,145	3,946
Cash paid to:				
Claimants, survivors and care providers	(865)	(828)	(3,362)	(3,186)
Loss of Retirement Income Fund	(19)	(18)	(75)	(70)
Employees and suppliers for administrative goods and services	(105)	(119)	(511)	(508)
Legislated obligations and commitments	(71)	(45)	(245)	(201)
	(1,060)	(1,010)	(4,193)	(3,965)
Net cash required by operating activities	**(152)**	**(153)**	**(48)**	**(19)**
INVESTING CASH FLOWS				
Sale of investments	4,761	4,887	19,877	19,613
Purchase of investments	(4,565)	(4,666)	(19,878)	(19,578)
Net cash provided (required) by investing activities	**196**	**221**	**(1)**	**35**
Increase (decrease) in cash and cash equivalents	**44**	**68**	**(49)**	**16**
Cash and cash equivalents, beginning of period	84	109	177	161
Cash and cash equivalents, end of period	**$128**	**$177**	**$128**	**$177**

December 31, 2008

1. GENERAL

In accordance with the provisions of the *Workplace Safety and Insurance Act* the accounts of the Workplace Safety and Insurance Board (WSIB) are audited annually at its December 31 year-end and the annual report is filed with the Ministry of Labour. The unaudited financial statements presented here are in accordance with CICA accounting standard on "Interim Financial Statements" (CICA Handbook Section 1751). The statements follow the same accounting policies and methods as the most recent annual financial statements. These statements should be read in conjunction with the WSIB's Annual Report for the year ended December 31, 2007.

The results of operations for interim periods are not necessarily indicative of full year results.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its subsidiaries. These financial statements have been prepared in accordance with generally accepted accounting principles, except that these unaudited financial statements do not include all of the disclosures required for annual financial statements. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. The significant accounting policies followed in the preparation of these interim consolidated financial statements are consistent with those found in the 2007 Annual Report.

Significant accounting changes

Capital Disclosures and Financial Instrument Disclosure and Presentation

On January 1, 2008, the WSIB adopted new CICA Handbook Sections: Section 1535 requires the disclosure of the entity's objectives, policies and processes for managing capital.
Section 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Future changes in accounting policies - International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that a publicly accountable enterprise will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. IFRS will be effective for annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The WSIB is currently in the process of determining whether it is a publicly accountable enterprise as defined by the AcSB and evaluating the impacts and implications of conversion to IFRS.

3. INVESTMENTS AND INVESTMENT REVENUE

The fair value of investments by category as of December 31:

($ millions)	2008					2007
	Amortized cost	Carrying value adjustments	Unrealized: gains	Unrealized: losses	Carrying value	Carrying value
Held-for-trading:						
Foreign exchange contracts						
Domestic	$-	$(22)	$-	$-	$(22)	$(37)
Foreign – US	-	(104)	-	-	(104)	46
– Global	-	112	-	-	112	(19)
Total held-for-trading	-	(14)	-	-	(14)	(10)
Available-for-sale:						
Fixed income securities						
Bonds	3,814	-	196	(71)	3,939	4,116
Equities						
Domestic	1,472	23	183	(72)	1,606	2,261
Foreign – US	2,604	5	113	(135)	2,587	3,569
– Global	2,188	19	188	(55)	2,340	3,194
Real estate	135	32	105	(4)	268	396
	6,399	79	589	(266)	6,801	9,420
Total available-for-sale	10,213	79	785	(337)	10,740	13,536
Real estate entities subject to significant influence	381	-	-	-	381	228
Total investments	**$10,594**	**$65**	**$785**	**$(337)**	**$11,107**	**$13,754**

Revenue by category of investment:

	For the three months ended December 31		For the twelve months ended December 31	
($ millions)	2008	2007	2008	2007
Held-for-trading				
Foreign exchange contracts	$(7)	$(14)	$(18)	$(15)
Available-for-sale				
Bonds	53	55	225	205
Amortization	(3)	(4)	(14)	(16)
Equities	(684)	(67)	(1,413)	607
Real estate equities	6	30	24	47
	(628)	14	(1,178)	843
Real estate entities subject to significant influence	4	(4)	14	12
Short-term securities	1	1	5	6
	(630)	(3)	(1,177)	846
Investment expenses	(9)	(9)	(34)	(34)
Net investment revenue	**$(639)**	**$(12)**	**$(1,211)**	**$812**

For the three months ended December 31:

Revenue from bonds includes $3 million (2007: $3 million) of net realized gains. Revenue from equities includes $731 million (2007: $110 million) of realized losses and real estate includes $2 million (2007: $27 million) of net realized gains. Revenue from foreign exchange contracts includes $1 million of net realized gains (2007: $3 million realized losses).

During the period, $314 million (2007: $267 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income.

For the twelve months ended December 31:

Revenue from bonds includes $21 million (2007: $2 million) of net realized gains. Revenue from equities includes $1,633 million of realized losses (2007: $383 million realized gains) and real estate includes $13 million (2007: $42 million) of net realized gains. Revenue from foreign exchange contracts includes $15 million (2007: $3 million) of net realized losses.

During the year, $1,007 million (2007: $408 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income. These assets were comprised of equity securities which had significant prolonged market losses which the WSIB determined were other than temporary. The remaining unrealized losses on available-for-sale securities of $337 million (2007: $236 million) are not considered to be other-than-temporarily impaired as at December 31, 2008 and remain in accumulated other comprehensive income. These losses were considered not other than temporary as their amounts were either insignificant and/or short-term in nature and are securities in which the WSIB has the intent and ability to hold to recover the temporary loss.

4. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The WSIB is responsible for investing the funds of the Insurance Fund and Loss of Retirement Income Fund (LRI Fund). These responsibilities are carried out through strategic and other investment policies that govern how the Funds are to be invested and how the investment performance and compliance of the Funds is to be monitored and evaluated. A statement of investment policies and procedures (SIPP) is reviewed and presented to the Board of Directors for approval.

Risk is inherent in the generating of investment returns in excess of the risk-free rate (i.e., three-month Government of Canada treasury bills) and in each element of the investment decision-making process; hence risk measurement and risk management are integral to the asset management program.

The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and price). The following sections describe how the WSIB manages each of these financial instrument risks:

Credit Risk

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

i) Asset quality

Asset quality is an assessment of the financial liquidity of the investment and the ability of the issuer to meet current and future contractual obligations. WSIB fixed income investments consist primarily of high quality investment grade debt instruments. An investment grade bond is one that is rated BBB and above.

The following table highlights the bond ratings for fixed income securities as at December 31, 2008.

($ millions)		
Bond rating	**Market value**	**%**
AAA	$2,022	51.3
AA	944	24.0
A	768	19.5
BBB	205	5.2
Total	**$3,939**	**100.0**

All asset backed securities are rated investment grade.

The WSIB manages counterparty risk through due diligence process by selecting multiple highly rated counterparties and by setting counterparty exposure limits, requiring active currency managers to use a continuous linked settlement service and establishing a preapproved qualified borrower list. In addition, the WSIB mitigates security lending counterparty risk by requiring daily marking-to-market to maintain full collateralization with additional margin for safety. Loans are secured by high quality collateral which comprises primarily of government bonds (99 per cent) and major bank short-term notes (one per cent).

The WSIB monitors its exposure on an ongoing basis.

ii) Concentration Risk

Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region or a sector. The WSIB manages these risks through limits on exposure to regions and sectors and limits on underlying securities. As such, not more than five per cent of the market value of the Insurance Fund is invested in the securities of a single issuer. The WSIB's fixed income is derived from indexed portfolios and none of the index constituents is more than three per cent of the index.

The following table highlights the fair value of fixed income securities by sector as at December 31, 2008.

($ millions) **Fixed income sector**	**Market value**	**%**
Asset backed securities	$80	2.0
Financial services	628	15.9
Communications and publishing	20	0.5
Consumer products and merchandising	27	0.7
Federal government and agency	1,678	42.6
Industrial products	3	0.1
Natural resources	23	0.6
Other corporates	197	5.0
Utilities and telecommunications	227	5.8
Provincials and municipal	1,042	26.4
Real estate	14	0.4
Total	**$3,939**	**100.0**

Liquidity Risk

Liquidity risk or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The WSIB mitigates this risk by investing 95 per cent of its insurance assets in readily marketable, publicly traded equity and fixed income securities. The remaining insurance assets are invested in highly quality real estate investments in commercial properties in major markets which provide steady cash flows.

The following outlines the carrying values of financial assets by contractual maturity or expected cash flow.

($ millions)	1yr	2-5 yrs	6-10 yrs	> 10 yrs	No fixed maturity	Total
Assets:						
Cash and cash equivalents	$128	$-	$-	$-	$-	$128
Receivables	877	-	-	-	-	877
Foreign exchange contracts	2	-	-	-	-	2
Bonds	53	1,846	813	1,194	-	3,906
Securities	-	-	-	-	6,514	6,514
Accrued investment income	52	-	-	-	-	52
Total	**$1,112**	**$1,846**	**$813**	**$1,194**	**$6,514**	**$11,479**

Market risk

There are three types of market risk; currency risk, interest rate risk and price risk:

i) Foreign Currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity or to manage exposure to asset classes or strategies.

Below is a sensitivity analysis of the effect of a fluctuation in the Canadian dollar of +/- 1 per cent against the four major currencies that represents 90 per cent of the WSIB's equity portfolio foreign currency exposure (actual market fluctuations could differ significantly from the sensitivity analysis presented).

($ millions)		
Currency	**Total market value exposure**	**+/- 1%**
US dollar	$2,587	$26
Euro	688	7
Japanese yen	594	6
British pound sterling	548	5
Total	**$4,417**	**$44**

ii) Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic asset liability analyses which assess the impact of different interest rate scenarios on asset and liabilities of the Insurance Fund over a period of time. Interest rate risk is mitigated primarily through asset allocation which aims to cover interest rate risk over the long term.

The WSIB uses Option Adjusted Modified Duration to measure the sensitivity of the price of a fixed income instrument to a change in interest rates. A parallel shift in the yield curve of +/- 1% would result in an impact on the fair value of the bond portfolio of approximately $247 million, with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis.

iii) Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The WSIB mitigates price risk by diversification of its investment portfolios. The assets of the Fund are diversified by combining different sources of return across and within asset classes and investment strategies.

The estimated effect on net assets due to a reasonable change in market indices holding all other factors constant would be as follows (actual market fluctuations could differ significantly from the sensitivity analysis presented):

($ millions)			
Market Indices	**Fair Value**	**Change in price**	**Effect on net assets**
S&P/TSX	$1,620	+/- 10%	$162
S&P 500/NYSE	2,347	+/- 10%	235
MSCI world	2,566	+/- 10%	256
Total	**$6,533**		**$653**

5. EMPLOYEE BENEFIT PLANS

The WSIB has several benefit plans for eligible current and retired employees. The cost of employee benefit plans is recognized in the reporting period in which employees have provided service.

Pension and other benefit plans

The WSIB has two pension plans for its employees and employees of Safe Workplace Associations – the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

Other benefits include medical, dental and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as, the costs of insurance benefits provided to employees who sustain injuries in the course of employment.

The most recent actuarial valuation for funding purposes was performed as of December 31, 2007.

The total net benefit plan expenses are as follows:

($ millions)	For the three months ended December 31		For the twelve months ended December 31	
	2008	2007	2008	2007
Employees' pension plan	$3.3	$14.0	$16.6	$40.5
Employees' supplementary pension plan	0.3	0.3	1.1	1.2
Other benefit plans	11.2	12.0	44.8	49.1
Total plan expenses	**$14.8**	**$26.3**	**$62.5**	**$90.8**

6. CAPITAL MANAGEMENT

The WSIB is required by legislation to maintain its investments at a level sufficient to make the required payments under the insurance plan as they become due. In keeping with this requirement, the WSIB's strategic objectives include the overarching goal of ensuring that the workplace safety and insurance system remains financially sustainable for future generations.

The table below shows the WSIB's current funded status:

($ millions)	2008	2007
Total assets	$13,207	$15,972
Total liabilities	$24,676	$24,066
Funding ratio	53.5%	66.4%

The decrease in the funding ratio in 2008 was due to adverse economic conditions and investment returns, and underachievement in the reduction of lost-time injury rates and claims durations.

WSIB ONTARIO CSPAAT

Workplace Safety & Insurance Board

Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

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