WORKPLACE SAFETY AND INSURANCE BOARD

2009
Fourth Quarter Report to Stakeholders

For the Quarter Ended
December 31, 2009

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis (MD&A) commentary is as of the end of the fourth quarter 2009. 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.

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.

Investment Administration and Reporting

Effective January 1, 2009, the WSIB implemented asset pooling as part of its investment administration. Under asset pooling, the investment assets of the WSIB and the WSIB Employees' Pension Plan are pooled with each fund's ownership interest represented by units held in the pools.

Asset pooling improves the efficiency and flexibility of investment fund operations and asset allocation. Asset pooling allows for improved investment operations of the funds and provides a broader, more diversified choice of investment strategies. Pooled investment structures are often used in both the public and private sectors.

The full amount of the pooled assets are included on the balance sheet and the statement of operations categorized as Investments and offset by the "Employees' Pension Plan interest in pooled investments" in accordance with GAAP.

Financial Results

The costs of running Ontario's workplace safety and insurance system have been impacted by increases to benefits and the global financial crisis which impacts investment returns and premium revenue.

Fourth quarter 2009 revenues exceeded total benefit costs and other expenses by $203 million, a $1,250 million improvement when compared with the $1,047 million shortfall incurred in the fourth quarter 2008. At the end of December 2009, revenues fell short of total benefit costs and other expenses by $1,189 million compared with a shortfall of $2,416 million for the same period in 2008.

Overall financial results in 2009 were improved compared with those in 2008. Premium revenues fell in line with reduced employment in Ontario industries and claims cost increased in response to a reduction in re-employment opportunities. Offsetting these losses, investment returns were strong. Overall, the unfunded liability rose slightly in 2009 from 2008 levels.

Unfunded Liability

The unfunded liability stood at $11,751 million at the end December 2009 compared with $11,469 million at the end of 2008. The funding ratio changed to 54.2 per cent at the end of the fourth quarter 2009 improving modestly by 0.7 per cent from 53.5 per cent at the end of December 31, 2008.

The total comprehensive loss at December 31, 2009 is $282 million compared with a total comprehensive loss of $3,375 million for the same period in 2008.

Investment Revenue

In response to the global financial crisis, governments around the world provided unprecedented fiscal and monetary stimulus packages and Central Banks cut interest rates deeply. Central Banks also took steps to restore liquidity to the financial system. The crisis continued through to the second quarter of 2009, when the economy showed some early signs of recovery.

The WSIB's investment revenue is $399 million in the fourth quarter 2009 along with $215 in unrealized losses compared with an investment loss of $736 million plus $8 million in unrealized gains for the same period in 2008. At the end of 2009, the WSIB's investment revenue is $615 million plus $907 million in net unrealized gains, compared with an investment loss of $1,340 million in 2008 along with $959 million in net unrealized losses – a year-over-year increase of $1,955 million in investment revenue and an improvement of $1,866 million in unrealized gains (see Note 3 for investment details).

While fourth quarter results are encouraging as economic conditions have stabilized, the timing and strength of the recovery and the effect on capital markets remains uncertain. How governments pull back on fiscal stimulus and when Central Banks move to raise interest rates will have an important impact on future economic conditions.

Looking forward, the economic outlook is cautiously optimistic. Longer-term financial reforms will be important in ensuring that the causes of the financial crisis are not repeated. During this uncertainty, diversification is the key for risk management as the market continues to demonstrate volatility, which is expected to impact future results.

Premium Revenue

The economic downturn directly impacts premium revenue as contracting employment levels negatively impact assessable payroll. The employment situation is of concern to the WSIB as slower growth impacts the WSIB's funding position. Government stimulus in infrastructure projects helped shelter Ontario from the full impact of the economic downturn.

As a result, premium revenue was $895 million in the fourth quarter 2009 compared with $823 million for the same period in 2008. Overall, 2009 premium revenue was $3,540 million, compared with $3,566 million in 2008, a decrease of $26 million.

Net experience rating surcharges of $30 million in the fourth quarter 2009 compared with $35 million in net experience rating refunds in the fourth quarter 2008 partially offset premium revenue. For all of 2009, $37 million in net experience rating refunds (2008: $144 million) partially offset the decreases in premium revenue, due to worsening claim experience particularly from loss of earnings benefit durations. Review of experience rating programs continued in 2009 with recommendations to improve the program to be made in 2010.

Bad debts increased by $8.7 million in the fourth quarter 2009 from $10.5 million in the last quarter 2008 to $19.3 million in the last quarter 2009. The weakened economy in Ontario impacted bad debts by an increase of $17 million in 2009 compared with 2008. For the 2009 year, bad debts increased to $86 million from $69 million in 2008.

The WSIB is taking action to improve and maximize premium revenues which includes fostering compliance in a fair, consistent and transparent way. The WSIB has completed a voluntary registration program allowing employers to register without penalty. The WSIB continues to leverage the partnership with the Canada Revenue Agency (CRA) to identify and register non-compliant employers and to verify payroll reporting.

Benefit Costs and Benefit Liability

Benefit costs were $960 million for the fourth quarter 2009 compared with $1,093 million for the fourth quarter 2008, a decrease of $133 million. For 2009 benefits costs were $4,736 million compared with $4,258 million in 2008. The decrease in the fourth quarter 2009 is partially attributed to lower Loss of Earnings claim inventory resulting from a decrease in claims durations, lower health care benefit liabilities due to lower than forecasted payments and offset by increases for legislated changes to benefit indexation for partially disabled workers and inclusion of voluntary firefighters.

For 2009, liabilities increased $382 million from legislated changes to benefit indexations for partially disabled workers ($134 million), changes to personal income tax ($130 million) and the inclusion of volunteer firefighters ($118 million). Changes in actuarial assumptions resulted in a $343 million net increase in benefit liabilities along with a $185 million net increase due to the growth in new claims offset by the natural reductions of benefit liabilities and closures of older claims. The impacts for legislated changes and changes to actuarial assumptions have not been reflected in current premium rates.

Outlook

The downturn in global economic markets continues to adversely affect many organizations, including the WSIB. Though the economy is beginning to stabilize, the longer-term economic outlook remains cautious. Improvements to the factors that affect the WSIB, such as the expansion of employment opportunities and growth in the insurable payrolls of business segments covered by the WSIB, tend to lag the reported economic recovery. The need for WSIB's services will likely increase until the recovery is firmly entrenched and employment numbers for covered industry segments reach pre-2008 levels. The unfunded liability will continue to rise in the near term as a result of these factors. Reduction of the unfunded liability will be experienced once the employment improvements expected as a result of the predicted economic recovery are realized.

The changes recognized in 2009 for legislated changes and changes to actuarial assumptions, which caused the unfunded liability to increase by $725 million during the year, have not been reflected in current premium rates. The reduction in employment opportunities in 2009 has resulted in claims inventories not declining as quickly as previously anticipated. Without an increase to premium rates, this would result in upward pressure on the unfunded liability.

Reduction of the unfunded liability is one of the WSIB's main priorities and the WSIB is constantly identifying new opportunities for cost efficiencies and savings in the system. The Ontario Government and the WSIB under the leadership of the new CEO are developing a comprehensive action plan in response to the Auditor General's 2009 Report on the unfunded liability. At the beginning of 2010, the Ontario government announced a comprehensive review of the occupational health and safety prevention and enforcement system. The review will look at the entire system and ensure that all partners in the health and safety system are working collaboratively to achieve the best possible outcomes for the workers and employers of this province. Also, the WSIB has implemented a number of initiatives and strategies to address its unfunded liability, including a revised investment strategy, procurement and health-care cost initiatives, new approaches to case management, and measures to reduce administrative costs.

Managing the unfunded liability and ensuring a financially sound system is a complex task that requires a system-wide approach. What is clear is that the WSIB needs to work co-operatively and collaboratively with all system partners to ensure a balanced system for generations to come.

The WSIB Chair completed a comprehensive year-long consultation with stakeholders across Ontario. This critical examination of programs and policies has provided valuable feedback. The dialogue with stakeholders will be continuing so that, together, we can ensure a sustainable financial future for Ontario's workers' compensation system.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED BALANCE SHEET (unaudited)

($ millions)	Dec. 31, 2009	Dec. 31, 2008
ASSETS		
Cash and cash equivalents	$62	$141
Receivables	882	874
Investments (note 3)	14,388	11,987
Property, equipment and other assets	113	123
Intangible assets (note 6)	96	82
	$15,541	**$13,207**
LIABILITIES		
Payables and accruals	$754	$821
Long-term debt	109	91
Loss of Retirement Income Fund	1,054	890
Employee benefit plans (note 7)	495	502
Benefit liabilities	23,250	22,340
	25,662	**24,644**
Employees' Pension Plan interest in pooled investments (note 3)	1,630	32
UNFUNDED LIABILITY		
Accumulated excess of expenses over revenues	(13,106)	(11,917)
Accumulated other comprehensive income	1,355	448
	(11,751)	**(11,469)**
	$15,541	**$13,207**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF OPERATIONS (unaudited)

	For the three months ended Dec. 31		For the twelve months ended Dec. 31	
($millions)	**2009**	**2008**	**2009**	**2008**
GROSS REVENUE	$1,341	$88	$4,227	$2,228
CURRENT OPERATIONS				
REVENUES				
Premiums for the period	641	603	2,533	2,604
Investments (note 3)	446	(736)	686	(1,340)
Other income	-	1	1	2
	1,087	**(132)**	**3,220**	**1,266**
EXPENSES				
Benefit costs	960	1,093	4,736	4,258
Loss of Retirement Income Fund	36	(78)	194	(54)
Administrative and other expenses	30	58	188	214
Legislated obligations and commitments	65	62	227	226
	1,091	**1,135**	**5,345**	**4,644**
Excess of expenses over revenues from current operations	**(4)**	**(1,267)**	**(2,125)**	**(3,378)**
Premiums for unfunded liability	254	220	1,007	962
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE EMPLOYEES' PENSION PLAN INTEREST IN INCOME FROM POOLED INVESTMENTS	**250**	**(1,047)**	**(1,118)**	**(2,416)**
Employees' Pension Plan interest in income from pooled investments (note 3)	(47)	-	(71)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$203**	**$(1,047)**	**$(1,189)**	**$(2,416)**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY (unaudited)

($ millions)	Dec. 31, 2009	Dec. 31, 2008
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of period	$(11,917)	$(9,501)
Excess of expenses over revenues	(1,189)	(2,416)
Balance at end of period	**(13,106)**	**(11,917)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of period	448	1,407
Unrealized and realized gains (losses) on investments	907	(959)
Balance at end of period	**1,355**	**448**
UNFUNDED LIABILITY AT END OF PERIOD	**$(11,751)**	**$(11,469)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended Dec. 31		**For the twelve months ended Dec. 31**	
($ millions)	**2009**	**2008**	**2009**	**2008**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$203**	**$(1,047)**	**$(1,189)**	**$(2,416)**
Other comprehensive income (loss):				
Unrealized net gains (losses) on available-for-sale financial assets arising during the period	54	(718)	986	(2,558)
Realized (gains) losses included in income	(288)	726	45	1,599
Unrealized gains (losses) on investments	**(234)**	**8**	**1,031**	**(959)**
Employees' Pension Plan interest in income from pooled investments	19	-	(124)	-
Unrealized gains (losses) on investments after Employees' Pension Plan interest in income from pooled investments	**(215)**	**8**	**907**	**(959)**
COMPREHENSIVE LOSS	**$(12)**	**$(1,039)**	**$(282)**	**$(3,375)**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended Dec. 31		For the twelve months ended Dec. 31	
($millions)	**2009**	**2008**	**2009**	**2008**
OPERATING CASH FLOWS				
Cash received from:				
Premiums for the period	$529	$553	$2,500	$2,655
Premiums for unfunded liability	204	199	992	980
Investment income	122	126	474	484
	855	878	3,966	4,119
Cash paid to:				
Claimants, survivors and care providers	(882)	(865)	(3,482)	(3,362)
Loss of Retirement Income Fund	(20)	(20)	(75)	(75)
Employees and suppliers for administrative goods and services	(130)	(105)	(584)	(511)
Legislated obligations and commitments	(71)	(71)	(226)	(245)
	(1,103)	(1,061)	(4,367)	(4,193)
Net cash required by operating activities	**(248)**	**(183)**	**(401)**	**(74)**
INVESTING CASH FLOWS				
Sale of investments	6,194	4,756	24,130	19,875
Purchase of investments	(5,889)	(4,561)	(23,765)	(19,878)
Acquisition	(38)	-	(38)	-
Net cash provided (required) by investing activities	**267**	**195**	**327**	**(3)**
FINANCING CASH FLOWS				
Mortgages	1	32	(3)	31
Obligation under capital leases	-	(1)	(2)	(2)
Net cash provided (required) by financing activities	**1**	**31**	**(5)**	**29**
Increase (decrease) in cash and cash equivalents	**20**	**43**	**(79)**	**(48)**
Cash and cash equivalents, beginning of period	42	98	141	189
Cash and cash equivalents, end of period	**$62**	**$141**	**$62**	**$141**

Condensed Notes to Interim Consolidated Financial Statements (unaudited)

December 31, 2009

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.

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 Annual Report.

Basis of Consolidation

The WSIB's subsidiaries are consolidated. Investments in entities in which the WSIB exercises a significant influence are accounted for using the equity method.

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of all subsidiaries of the WSIB after the elimination of intercompany transactions and balances.

Investment Asset Pooling

On January 1, 2009 the WSIB and the WSIB's Employees' Pension Plan pooled all equity, bond and real estate investments held in the WSIB's insurance fund, the Loss of Retirement Income Fund and the WSIB's pension fund (the "funds") into four separate pooled funds. These pools were established to hold the public equity, fixed income, real estate and other investment assets respectively. The public equity, fixed income and other asset pools were established as Trusts. The real estate pool was established as a real estate holding company.

The fair value of pension plan assets initially transferred into the pool was $1,412 million.

On the date of transfer the WSIB owned 89 per cent of the public equity pool, 89 per cent of the fixed income pool, 93 per cent of the real estate pool and 100 per cent of the other asset pool. The trusts agreements provide the WSIB exclusive power and control over the trusts. Due to its substantial ownership and control the WSIB consolidates all four funds.

The Employees' Pension Plan's share of investment assets is in the range of 10 to 11 per cent of each pooled trust and seven per cent of real estate holding company, these amounts are reflected as the Employees' Pension Plan interest in pooled investments in the financial statements.

Significant Accounting Changes

Intangible assets

On January 1, 2009, the WSIB adopted new CICA Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 provides guidance for the recognition, measurement, presentation and disclosure of intangible assets, including internally developed intangible assets.

As a result of the adoption of the new requirement, certain software totaling a net book value of $82 million was reclassified from Property, Equipment and Other Assets to Intangible Assets.

Business combinations

On January 1, 2009 the WSIB adopted new CICA Handbook Section 1582. Section 1582 provides guidance for the accounting and disclosure requirements for a business combination.

Investment in businesses in which the WSIB's ownership is over 50% is accounted for as business combination. The purchase price is allocated to all identifiable tangible and intangible assets and liabilities in proportion to their fair values on the purchase date.

Any non-controlling interest in the subsidiary is recorded on the date of acquisition. Acquisition cost is expensed when incurred.

Financial instruments disclosures

The WSIB adopted the amendments to CICA 3862, Financial Instruments – Disclosures effective January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the fund's investments. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs used are observable inputs other than Level 1 quoted prices, such as prices in an active market for similar assets or liabilities or where observable inputs are used for valuation of an asset or liability (Level 2);
- Inputs used for the valuation of an asset or liability are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

Future Changes in Accounting Policies – International Financial Reporting Standards (IFRS)

In 2011 the accounting framework under which financial statements in Canada are prepared for all publicly accountable enterprises (PAE) will change to IFRS. Generally accepted accounting principles (GAAP) will cease to apply for PAEs and will be replaced by IFRS.

In September 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the introduction of the PSA Handbook. Under that amendment Government Business Enterprises (GBEs) will need to apply IFRS and the Government Business-type organizations (GBTOSs) category is eliminated. The WSIB meets the definition of a GBE, however, the WSIB will follow Government of Ontario direction on IFRS adoption. The WSIB is making the necessary preparations should the conversion to IFRS be required.

3. INVESTMENTS AND INVESTMENT REVENUE

Investments by category are as follows:

($ millions)	December 2009							Dec 2008
	Amortized cost	Carrying value adjustment	Unrealized** Gains	Unrealized** Losses	Carrying value	EPP*	WSIB	Carrying value
Held-for-trading:								
Foreign exchange contracts								
Domestic	$30	$2,964	$ -	$ -	$2,994	$346	$2,648	$(22)
Foreign - US	-	(1,947)	-	-	(1,947)	(226)	(1,721)	(104)
- Global	-	(969)	-	-	(969)	(111)	(858)	112
Total held-for-trading	**30**	**48**	**-**	**-**	**78**	**9**	**69**	**(14)**
Available-for-sale:								
Fixed income securities								
Bonds	4,809	-	171	(18)	4,962	560	4,402	4,312
Equities securities								
Domestic	1,727	3	516	-	2,246	258	1,988	1,956
Foreign - US	3,333	3	325	-	3,661	423	3,238	2,685
- Global	2,337	15	280	-	2,632	303	2,329	2,340
Real estate***	169	32	138	(27)	312	49	263	268
	7,566	53	1,259	(27)	8,851	1,033	7,818	7,249
Total available-for-sale	**12,375**	**53**	**1,430**	**(45)**	**13,813**	**1,593**	**12,220**	**11,561**
Real estate entities subject to significant influence	437	-	-	-	437	28	409	381
Loss of Retirement Income Fund annuities	60	-	-	-	60	-	60	59
Total investments	**$12,902**	**$101**	**$1,430**	**$(45)**	**$14,388**	**$1,630**	**$12,758**	**$11,987**

* Employees' Pension Plan interest in pooled investments

** Unrealized Gains (Losses) include a gain of $30 million from Employees' Pension Plan

*** Participating debentures in Real estate

Revenue by category of investment is as follows:

	For the three months ended Dec. 31		For the twelve months ended Dec. 31	
($ millions)	**2009**	**2008**	**2009**	**2008**
Held-for- trading				
Foreign exchange contracts	$76	$(7)	$321	$(18)
Available-for-sale				
Bonds	53	57	272	230
Amortization	(5)	(3)	(21)	(14)
Equities	334	(785)	122	(1,547)
Real estate*	9	6	27	24
	391	(725)	400	(1,307)
Real estate entities subject to significant influence	(11)	4	(4)	14
Short-term securities	-	1	1	5
	456	**(727)**	**718**	**(1,306)**
Investment expenses	(10)	(9)	(32)	(34)
Net investment revenue	**446**	**(736)**	**686**	**(1,340)**
Employees' Pension Plan interest in income from pooled investments	(47)	-	(71)	-
	$399	**$(736)**	**$615**	**$(1,340)**

* Participating debentures in Real estate

For the three months ended December 31:

Revenue from bonds includes $5 million of net realized losses (2008: $3 million of net realized gains). Revenue from equities includes $293 million net realized gains (2008: $731 million net realized losses) and real estate includes $- million of net realized losses (2008: $2 million of net realized gains). Revenue from foreign exchange contracts includes $23 million (2008: $1 million) of net realized gains.

During the period, $21 million (2008: $314 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 $44 million (2008: $21 million) of net realized gains. Revenue from equities includes $90 million (2008: $1,633 million) of realized losses and real estate includes $1 million (2008: $13 million) of net realized gains. Revenue from foreign exchange contracts includes $257 million of net realized gains (2008: $15 million of net realized losses).

During the year $655 million (2008: $1,007 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 $45 million (2008: $337 million) are not considered to be other-than-temporarily impaired as at December 31, 2009 and remain in accumulated other comprehensive income. These losses were not considered 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. FAIR VALUE MEASUREMENT DISCLOSURE

The following is a summary of the inputs used as of December 31, 2009 in valuing the WSIB's investments and derivatives carried at fair values:

($ millions)	Value using quoted prices (Level 1)	Value using observable inputs (Level 2)	Value using non-observable inputs (Level 3)	Total
Held-for-trading				
Foreign exchange contracts	$ -	$78	$ -	$78
Available-for-sale				
Bonds	-	4,958	4	4,962
Equities	7,598	836	105	8,539
Real estate*	-	14	298	312
Other				
Loss of Retirement Income Fund annuities	-	60	-	60
Total	**$7,598**	**$5,946**	**$407**	**$13,951**

* Participating debentures in Real estate

For the period ended December 31, 2009, there were no significant transfers between Level 1 and Level 2.

During the period ended December 31, 2009, the reconciliation of investments measured at fair value using non-observable inputs (Level 3) is presented as follows:

	Held-for-trading	Available-for-sale	Total
Balances at beginning of year	$ -	$264	$264
Net purchases, sales, issuances and settlements	-	146	146
Realized gains recorded in net income	-	11	11
Unrealized losses recorded in other comprehensive income	-	(14)	(14)
Balances at end of year	**$ -**	**$407**	**$407**

The total unrealized loss for the period ended December 31, 2009 included in comprehensive income which is still held as of year-end is $14 million.

5. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The WSIB is responsible for investing the funds of the Insurance Fund and Loss of Retirement Income Fund (LRI Fund) and Employees' Pension Plan. 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. Statements of investment policies and procedures (SIPP) are 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. The WSIB mitigates these portfolio credit risks through comprehensive due diligence and diversification.

i) Asset Quality

Asset quality includes assessment of the financial liquidity of the investment and the ability of the issuer to meet current and future contractual obligations. The WSIB fixed income investments consist primarily of 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 of December 31, 2009.

($ millions)	2009				2008	
Bond rating	**Fair value total**	**EPP***	**WSIB**	**%**	**WSIB**	**%**
AAA	$1,852	$209	$1,643	37.3	$2,122	49.2
AA	1,591	180	1,411	32.1	1,050	24.4
A	1,251	141	1,110	25.2	889	20.6
BBB	268	30	238	5.4	251	5.8
Total	**$4,962**	**$560**	**$4,402**	**100.0**	**$4,312**	**100.0**

* Employees' Pension Plan interest in pooled investments

The WSIB manages counterparty risk through a due diligence process requiring currency managers to use a continuous linked settlement service and establishing qualified borrower lists that are used by the WSIB investment agents to select multiple highly rated counterparties and use counterparty exposure limits. 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 investment assets is invested in the securities of a single non-government issuer. The WSIB's fixed income is derived from indexed portfolios and none of the non-government 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, 2009.

($ millions)	2009				2008	
Fixed income sector	**Fair value total**	**EPP***	**WSIB**	**%**	**WSIB**	**%**
Asset backed securities	$60	$7	$53	1.2	$91	2.1
Communications and publishing	51	6	45	1.0	29	0.7
Consumer products and merchandising	31	3	28	0.7	36	0.8
Federal government and agency	1,443	163	1,280	29.1	1,780	41.3
Financial services	770	87	683	15.5	733	17.0
Industrial products	3	-	3	0.1	3	0.1
Natural resources	21	2	19	0.4	36	0.8
Other corporate	184	21	163	3.7	223	5.2
Provincials and municipal	2,093	236	1,857	42.2	1,114	25.8
Real estate	26	3	23	0.5	14	0.3
Utilities and telecommunications	280	32	248	5.6	253	5.9
Total	**$4,962**	**$560**	**$4,402**	**100.0**	**$4,312**	**100.0**

* Employees' Pension Plan interest in pooled investments

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 91.4 per cent of its insurance assets in readily marketable, publicly traded equity and fixed income securities. The remaining investment assets are invested in quality real estate investments in commercial properties in major markets which provide steady cash flows.

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

($ millions)	2009								2008
	1yr	**2-5 yrs**	**6-10yrs**	**>10yrs**	**No fixed maturity**	**Total**	**EPP***	**WSIB**	**WSIB**
Assets**:**									
Cash and cash equivalents	$62	$ -	$ -	$ -	$ -	$62	$ -	$62	$141
Receivables	882	-	-	-	-	882	-	882	874
Foreign exchange contracts	78	-	-	-	-	78	9	69	(14)
Bonds	48	2,468	1,061	1,385	-	4,962	560	4,402	4,312
Equities	109	-	-	-	8,430	8,539	984	7,555	6,982
Real estate	-	-	-	-	749	749	77	672	648
Loss of Retirement Income Fund annuities	-	-	-	-	60	60	-	60	59
Total	**$1,179**	**$2,468**	**$1,061**	**$1,385**	**$9,239**	**$15,332**	**$1,630**	**$13,702**	**$13,002**

* Employees' Pension Plan interest in pooled investments

Market Risk

There are three types of market 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 and to hedge currency positions arising from foreign equity investments.

Below is a sensitivity analysis of the effect of a fluctuation in the Canadian dollar of +/- 1 per cent against the five major currency positions assuming hedging is in place (actual market fluctuations could differ significantly from the sensitivity analysis presented).

($ millions)				
Currency	**WSIB**	**EPP***	**Total fair value exposure**	**+/- 1%**
US dollar	$1,516	$197	$1,713	$17
Euro	341	45	386	4
Swiss franc	235	30	265	3
British pound sterling	211	27	238	2
Japanese yen	152	20	172	2
Total	**$2,455**	**$319**	**$2,774**	**$28**

* Employees' Pension Plan interest in pooled investments

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 assets 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 $290 million, with all other variables held constant. 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 moderate 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	**WSIB**	**EPP***	**Total fair value exposure**	**Effect on net assets**
S&P/TSX	$2,003	$260	$2,263	$226
S&P 500 Index	2,890	378	3,268	327
MSCI EAFE	2,662	346	3,008	301
Total	**$7,555**	**$984**	**$8,539**	**$854**

* Employees' Pension Plan interest in pooled investments

6. INTANGIBLE ASSETS

Intangible assets include the following:

($ millions)	Dec. 31, 2009			Dec. 31, 2008
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Computer software	$97	$64	$33	$5
Computer software under development (work-in-progress)	63	-	63	77
Total	**$160**	**$64**	**$96**	**$82**

Amortization expenses:

	For the three months ended Dec. 31		For the twelve months ended Dec. 31	
($ millions)	**2009**	**2008**	**2009**	**2008**
Computer software	$7.0	$0.2	$7.5	$0.9

Computer software is amortized on a straight line basis over periods of three to five years with no residual value.

7. 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:

	For the three months ended Dec. 31		For the twelve months ended Dec. 31	
($ millions)	**2009**	**2008**	**2009**	**2008**
Employees’ pension plan	$2.5	$3.3	$10.6	$16.6
Employees’ supplementary pension plan	0.3	0.3	1.0	1.1
Other benefit plans	9.6	11.2	38.3	44.8
Total plan expenses	**$12.4**	**$14.8**	**$49.9**	**$62.5**

8. 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)	Dec. 31, 2009	Dec. 31, 2008
WSIB assets*	$13,911	$13,175
WSIB liabilities	25,662	$24,644
Funding ratio	54.2%	53.5%

* It is the net amount of total assets less the $1,630 million (2008: $32) for Employees' Pension Plan interest in pooled investments.

9. COMPARATIVE FIGURES

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current period.