WORKPLACE SAFETY AND INSURANCE BOARD

2010
Second Quarter Report to Stakeholders

For the Quarter Ended
June 30, 2010

wsib
ONTARIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis (MD&A) commentary is as of the end of the second quarter 2010. 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.

Financial Results

Second quarter 2010 revenues fell short of total benefit costs and other expenses by $562 million, compared with the $281 million shortfall incurred in the second quarter 2009. This change is mainly attributable to lower investment revenue, partially offset by higher premium revenue, and a decrease in expenses for the quarter.

June 2010 year-to-date revenues fell short of total benefit costs and other expenses by $741 million compared with a shortfall of $1,274 million for the same period in 2009.

The total comprehensive loss for the second quarter 2010 is $977 million compared with total comprehensive income of $414 million for the second quarter 2009. The June year-to-date comprehensive loss was $1,233 million compared with a $497 million loss for the same period last year.

Unfunded Liability

At the end of the second quarter 2010, the unfunded liability stood at $12,984 million compared with $11,751 million at the end of 2009 and $12,007 million at the end of March 2010. The major factors contributing to the growth of the UFL in the first half of 2010 are the reduced investment returns noted above and the recording of an actuarial assumption change during the quarter. As a result, the funding ratio changed to 51.1 per cent at the end of the second quarter 2010 from 54.2 per cent at the end of December 31, 2009, and 54.0 per cent at the end of March 2010. The WSIB's Funding Ratio represents the percentage of assets it has available to meet its financial obligations.

As noted in the March Quarterly report, the unfunded liability will continue to rise in the near term. Approximately 70 per cent of the current claims inventory represents locked-in claims which may continue for extended periods, reflecting prior legislation for lifetime benefits. The post 1998 loss of earnings inventory of claims is expected to increase until these claims occurrences mature, plateau and begin to be offset by claims terminations. There are preliminary indications of improvements to the business drivers, but the nature of those drivers are such that in the short-term, the UFL will continue to rise, but at a reduced rate.

The unfunded liability remains the key issue for the WSIB. The goal is to make significant progress towards a fully funded workplace safety and insurance system that provides a benefit package comparable to the best of other Canadian jurisdictions, along with premiums for employers that are at a level below the average of other jurisdictions. These goals will be partially achieved by measures discussed later in this report.

Investment Revenue

In the second quarter 2010 capital markets started out steady but became turbulent in May due to many factors, including the continuing sovereign debt crisis in Europe and weaker U.S. economic statistics.

The WSIB's Total Investment Revenue is made up of investment income received (dividends, interest and gains / losses realized net of investment expenses) plus net unrealized gains / losses, which are included in Other Comprehensive Income.

In the second quarter 2010 Total Investment Revenue was negative $465 million (- $50 million realized and -$415 million unrealized), compared with Total Investment Revenue of $1,001 million ($306 million realized and $695 million unrealized) for the same period in 2009 (see Note 3 Investment and Investment Revenue for details).

In the first half 2010, Total Investment Revenue was negative $223 million ($269 million realized and -$492 million unrealized), compared with Total Investment Revenue of $473 million (- $304 million realized and $777 million unrealized) for the same period in 2009. As a result, investment income received was higher by $573 million while unrealized losses were higher by $1,269 million. Year-to-date returns for the Insurance Fund at June 30, 2010 are negative 1.5 per cent compared with positive 4.1 per cent at June 30, 2009.

The global equity market as a whole declined in the second quarter. While some European countries introduced fiscal austerity programs featuring tax increases and cuts to pensions and other social programs, these measures also need to be balanced with efforts to generate future growth. Even though some emerging markets led the global recovery, India, China and Brazil suffered losses at the end of May reflecting investor concerns that growth will not be sustainable. Also, investors were disappointed in macroeconomic data for the U.S. and China.

By the end of June, the Canadian and U.S. markets declined as follows:

	Second Quarter 2010	**First Half-year 2010**
S&P / TSX Index	-5.50%	-2.50%
S&P 500 Index	-7.20%	-5.40%

The Canadian dollar declined versus the USD in the second quarter but remains strong against other currencies and some forecast it to regain parity with the USD by the end of 2010. The Bank of Canada increased interest rates by 25 basis points on June 1 with the expectation they will continue to increase the rate in small increments to the end of 2011.

Looking forward, the global economy is expected to slow down as fiscal stimulus programs are phased out and governments attempt to reduce spending to curb their budgetary deficits.

Premium Revenue

Premium revenue was $942 million in the second quarter 2010 compared with $909 million for the same period in 2009, an increase of $33 million. This increase is mainly due to the combined impact of growth in payroll and premium rate increases in sectors such as Construction and Services. These increases are partially offset by decreases related to payroll in sectors such as Manufacturing and Mining.

Lower net experience rating refunds contributed to the increase in premium revenue as well. Lower experience rating refunds are due to poor claim experience reflecting the longer claim durations than expected.

Year-to-date premium revenue fell by $3 million to $1,794 million at the end of June 2010 from $1,797 million one year ago.

Benefit Costs and Benefit Liabilities

Benefit costs were $1,368 million in the second quarter 2010 compared with $1,305 million in the second quarter 2009, an increase of $63 million. This increase relates primarily to the change in the benefit liabilities for the quarter partially offset by lower benefit costs paid in the period.

In the second quarter 2010, the benefit liabilities increased by $435 million due to changes in actuarial assumptions and a decrease in claims inventories. The $435 million increase is $92 million higher than the second quarter 2009 increase of $343 million due to changes in actuarial assumptions for Loss of Earnings Duration (increase $279 million) and Lost Time Injury rate (decrease $31 million) offset by Claims Inventories (decrease $156 million).

Claims duration, that is the percentage of injured workers who are still on benefits, continues to increase for the long duration claims, while overall low employment levels are limiting re-employment opportunities. Offsetting this trend are the new lost-time injuries being significantly lower than expected. Though older claims currently in the system, especially those that are locked in and are more costly, comprise more than two-thirds of the current liabilities, current trends indicate that there are fewer claims being locked-in than expected. While this may indicate some success as injured workers return to work with lower benefit payments, these claims remain in claims inventory and continue to increase the duration assumption. About one-third of all claims are more current and indications show that they are being influenced through improvements in claims management; especially return-to-work efforts.

Beginning in the later part of 2010, the WSIB will integrate the Labour Market Re-entry (LMR) and Return to Work Programs into a new Work Reintegration Program. The goals of Work Reintegration are to help injured workers return to decent, safe and sustainable jobs and to give Ontario employers more support from the WSIB to retain and re-train their injured workers. Getting value from the investment in injured worker re-training is important to workers, employers, the WSIB and Ontario's economy.

Outlook

The global economic recovery continues, but remains fragile with significant volatility. Considerable uncertainty surrounding the outlook remains as governments around the world focus on debt reduction with the expectation that private sector spending will create opportunities for growth. The Canadian economy is more stable compared with other countries experiencing global economic developments such as a slowing US economy, uncertainty regarding Europe and a slowing Chinese economy.

It remains crucial for the WSIB to remain focused on a long-term financial plan, with regular reviews so we can successfully navigate these turbulent times and achieve our goals. A comprehensive unfunded liability action plan is being developed under the guidance of the Board of Directors and in consultation with the Ministry of Labour. Details of this plan will be released in the fall of 2010.

One of the management actions taken in 2010 include the WSIB's commitment to developing a leading practice program for supporting injured workers as they return to employment – either with their original employer or in the open job market. The WSIB is establishing the Work Reintegration Program with key principles based on stakeholder consultation and research into leading practice in other jurisdictions.

Also, this year, the Ministry of Labour is undertaking a Prevention Review that will bring forward recommendations to improve the delivery of prevention services in Ontario. Pending the completion of this review and adoption of any changes, we will continue to deliver our current mandate to lead the prevention of injuries, illnesses and fatalities in Ontario.

During these turbulent times, the WSIB remains focused on and committed to achieving its goals collaboratively with all of its system partners.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED BALANCE SHEET (unaudited)

($ millions)	**Jun. 30, 2010**	**Dec. 31, 2009**
ASSETS		
Cash and cash equivalents	$ 164	$ 62
Receivables	916	882
Employee benefit plans (note 5)	28	-
Investments (note 3)	13,941	14,388
Property, equipment and other assets	114	113
Intangible assets	95	96
	$ 15,258	**$ 15,541**
LIABILITIES		
Payables and accruals	$ 960	$ 754
Long-term debt	116	109
Loss of Retirement Income Fund	1,053	1,054
Employee benefit plans (note 5)	506	495
Benefit liabilities	23,943	23,250
	26,578	**25,662**
Employees' Pension Plan interest in pooled investments (note 3)	1,664	1,630
UNFUNDED LIABILITY		
Accumulated excess of expenses over revenues	(13,847)	(13,106)
Accumulated other comprehensive income	863	1,355
	(12,984)	**(11,751)**
	$ 15,258	**$ 15,541**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF OPERATIONS (unaudited)

	For the three months ended Jun. 30		For the six months ended Jun. 30	
($millions)	**2010**	**2009**	**2010**	**2009**
GROSS REVENUE	$ 887	$ 1,250	$ 2,103	$ 1,453
CURRENT OPERATIONS				
REVENUES				
Premiums for the period	$ 715	$ 650	$ 1,364	$ 1,285
Investments (note 3)	(55)	341	307	(345)
Other income	-	-	2	1
	660	**991**	**1,673**	**941**
EXPENSES				
Benefit costs	1,368	1,305	2,575	2,480
Loss of Retirement Income Fund	(22)	87	17	74
Administrative and other expenses	55	52	107	106
Legislated obligations and commitments	53	52	107	108
	1,454	**1,496**	**2,806**	**2,768**
Excess of expenses over revenues from current operations	**(794)**	**(505)**	**(1,133)**	**(1,827)**
Premiums for unfunded liability	227	259	430	512
EXCESS OF EXPENSES OVER REVENUES BEFORE EMPLOYEES' PENSION PLAN INTEREST IN INCOME FROM POOLED INVESTMENTS	**(567)**	**(246)**	**(703)**	**(1,315)**
Employees' Pension Plan interest in income from pooled investments (note 3)	5	(35)	(38)	41
EXCESS OF EXPENSES OVER REVENUES	**$ (562)**	**$ (281)**	**$ (741)**	**$ (1,274)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY (unaudited)

	For the six months ended Jun. 30	
($ millions)	**2010**	**2009**
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of period	$ (13,106)	$ (11,917)
Excess of expenses over revenues	(741)	(1,274)
Balance at end of period	**(13,847)**	**(13,191)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of period	1,355	448
Unrealized gains (losses) on investments net of amount realized	(492)	777
Balance at end of period	**863**	**1,225**
UNFUNDED LIABILITY AT END OF PERIOD	**$ (12,984)**	**$ (11,966)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended Jun. 30		For the six months ended Jun. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
EXCESS OF EXPENSES OVER REVENUES	**$ (562)**	**$ (281)**	**$ (741)**	**$ (1,274)**
Other comprehensive income (loss):				
Unrealized net gains (losses) on available-for-sale financial assets arising during the period	$ (516)	$ 886	$ (471)	$ 233
Realized (gains) losses included in income	48	(108)	(85)	644
Unrealized gains (losses) on investments	**(468)**	**778**	**(556)**	**877**
Employees’ Pension Plan interest in income from pooled investments	53	(83)	64	(100)
Unrealized gains (losses) on investments after Employees’ Pension Plan interest in income from pooled investments	**(415)**	**695**	**(492)**	**777**
COMPREHENSIVE INCOME (LOSS)	**$ (977)**	**$ 414**	**$ (1,233)**	**$ (497)**

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended Jun. 30		For the six months ended Jun. 30	
($millions)	2010	2009	2010	2009
OPERATING CASH FLOWS				
Cash received from:				
Premiums for the period	$ 711	$ 632	$ 1,460	$ 1,318
Premiums for unfunded liability	224	251	463	528
Investment income	169	161	263	263
	1,104	1,044	2,186	2,109
Cash paid to:				
Claimants, survivors and care providers	(853)	(883)	(1,704)	(1,749)
Loss of Retirement Income Fund	(20)	(19)	(38)	(34)
Employees and suppliers for administrative goods and services	(152)	(129)	(282)	(309)
Legislated obligations and commitments	(30)	(58)	(78)	(105)
	(1,055)	(1,089)	(2,102)	(2,197)
Net cash provided (required) by operating activities	**49**	**(45)**	**84**	**(88)**
INVESTING CASH FLOWS				
Sale of investments	4,844	6,498	9,293	12,123
Purchase of investments	(4,772)	(6,447)	(9,186)	(12,144)
Real estate acquisitions	(31)	-	(87)	-
Net cash provided (required) by investing activities	**41**	**51**	**20**	**(21)**
FINANCING CASH FLOWS				
Mortgages	(1)	(1)	-	(2)
Obligation under capital leases	(1)	(1)	(2)	(2)
Net cash required by financing activities	**(2)**	**(2)**	**(2)**	**(4)**
Increase (decrease) in cash and cash equivalents	**88**	**4**	**102**	**(113)**
Cash and cash equivalents, beginning of period	76	24	62	141
Cash and cash equivalents, end of period	**$ 164**	**$ 28**	**$ 164**	**$ 28**

Condensed Notes to Interim Consolidated Financial Statements (unaudited)

June 30, 2010

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.

Significant Accounting Changes

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 a 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.

3. INVESTMENTS AND INVESTMENT REVENUE

Investments by category are as follows:

($ millions)	June 2010							Dec 2009
	Amortized cost	Carrying value adjustment	Unrealized** Gains	Unrealized** Losses	Carrying value	EPP*	WSIB	Carrying value
Held-for-trading:								
Foreign exchange contracts								
Domestic	$ 44	$ 3,038	$ -	$ -	$ 3,082	$ 360	$ 2,722	$ 2,994
Foreign - US	-	(2,157)	-	-	(2,157)	(253)	(1,904)	(1,947)
- Global	-	(991)	-	-	(991)	(115)	(876)	(969)
Total held-for-trading	**44**	**(110)**	**-**	**-**	**(66)**	**(8)**	**(58)**	**78**
Available-for-sale:								
Fixed income securities								
Bonds	4,891	-	239	(3)	5,127	616	4,511	4,962
Equities securities								
Domestic	1,655	1	341	-	1,997	231	1,766	2,246
Foreign - US	3,532	3	168	(102)	3,601	420	3,181	3,661
- Global	2,299	15	121	(52)	2,383	276	2,107	2,632
Real estate***	163	23	135	(27)	294	34	260	312
	7,649	42	765	(181)	8,275	961	7,314	8,851
Total available-for-sale	**12,540**	**42**	**1,004**	**(184)**	**13,402**	**1,577**	**11,825**	**13,813**
Real estate entities subject to significant influence	536	9	-	-	545	95	450	437
Loss of Retirement Income Fund annuities	60	-	-	-	60	-	60	60
Total investments	**$ 13,180**	**$ (59)**	**$ 1,004**	**$ (184)**	**$ 13,941**	**$ 1,664**	**$ 12,277**	**$ 14,388**

* Employees' Pension Plan interest in pooled investments

** Unrealized Gains (Losses) include a loss of $43 million from Employees' Pension Plan

*** Participating debentures in Real estate

Revenue by category of investment is as follows:

	For the three months ended Jun. 30		For the six months ended Jun. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
Held-for- trading				
Foreign exchange contracts	$ (120)	$ 116	$ 20	$ 73
Available-for-sale				
Bonds	64	73	127	148
Amortization	(5)	(4)	(10)	(10)
Equities	8	153	171	(559)
Real estate*	-	4	9	7
	67	226	297	(414)
Real estate entities subject to significant influence	9	4	11	7
Short-term securities	-	2	-	3
	(44)	**348**	**328**	**(331)**
Investment expenses	(11)	(7)	(21)	(14)
Net investment revenue	**(55)**	**341**	**307**	**(345)**
Employees' Pension Plan interest in income from pooled investments	5	(35)	(38)	41
	$ (50)	**$ 306**	**$ 269**	**$ (304)**

* Participating debentures in Real estate

For the three months ended June 30:

Revenue from bonds includes $6 million (2009: $18 million) of net realized gains. Revenue from equities includes $54 million net realized losses (2009: $89 million net realized gains) and real estate includes $- million (2009: $1 million) of net realized gains. Revenue from foreign exchange contracts includes $17 million (2009: $173 million) of net realized gains.

During the period, $204 million (2009: $39 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income.

For the six months ended June 30:

Revenue from bonds includes $13 million (2009: $35 million) of net realized gains. Revenue from equities includes $69 million of realized gains (2009: $680 million of realized losses) and real estate includes $3 million (2009: $1 million) of net realized gains. Revenue from foreign exchange contracts includes $179 million (2009: $126 million) of net realized gains.

During the year $228 million (2009: $624 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 $184 million (2009: $38 million) are not considered to be other-than-temporarily impaired as at June 30, 2010 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 June 30, 2010 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	$ -	$ (66)	$ -	$ (66)
Available-for-sale				
Bonds	-	5,123	4	5,127
Equities	6,877	997	107	7,981
Real estate*	-	13	281	294
Other				
Loss of Retirement Income Fund annuities	-	60	-	60
Total	**$ 6,877**	**$ 6,127**	**$ 392**	**$ 13,396**

* Participating debentures in Real estate

For the period ended June 30, 2010, there were no significant transfers between Level 1 and Level 2.

During the period ended June 30, 2010, 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	$ -	$ 390	$ 390
Net purchases, sales, issuances and settlements	-	(8)	(8)
Realized gains recorded in net income	-	4	4
Unrealized gains (losses) recorded in other comprehensive income	-	6	6
Balances at end of the period	**$ -**	**$392**	**$392**

The total unrealized gains for the period ended June 30, 2010 included in comprehensive income which is still held as of quarter-end are $6 million.

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.

Benefit plans with an excess of accrued benefit obligation over plan assets amount to $506 million. Benefit plans with an excess of plan assets over accrued benefit obligation amount to $28 million.

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.

Net benefit plan expenses that are included in *Administrative and other expenses* are as follows:

	For the three months ended Jun. 30		For the six months ended Jun. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
Employees' pension plan	$ 9.5	$ 2.0	$ 19.0	$ 4.0
Employees' supplementary pension plan	0.4	0.2	0.8	0.5
Other benefit plans	11.2	9.6	22.4	19.1
Total plan expenses	**$ 21.1**	**$ 11.8**	**$ 42.2**	**$ 23.6**

6. COMPARATIVE FIGURES

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