WORKPLACE SAFETY AND INSURANCE BOARD

2010 Third Quarter Report to Stakeholders

For the Quarter Ended September 30, 2010

wsib ONTARIO

COMMENTARY

Overview

Overall, the WSIB is experiencing improved financial performance this year. The unfunded liability (UFL) decreased in comparison to expectation. Benefit costs continue to decline, Investment Fund returns are expected to achieve their long-term target, premium revenue continues to meet expected levels, and operating expenses are well-controlled.

Following two quarters of increases to $12.9 billion, the UFL saw a decrease in the third quarter of 2010 to $12.2 billion due to positive returns on the Investment Fund and continued savings in benefit costs. As a result, WSIB's funding ratio (percentage of assets the WSIB has available to meet its financial obligations) also improved this quarter.

Savings in benefit costs is the major contributor to this year's improved financial results and is evidence of the WSIB's efforts to address key operational drivers of the UFL. In particular, the benefit costs savings is due to fewer lost-time claims, increased focus on return to work efforts leading to improved outcomes for injured workers, and better management of health care costs and employer incentives. The Service Delivery Model, new Work Reintegration program, and Health Care Strategy are all showing early benefits which are expected to mature over the next few years. The WSIB is also experiencing early indications that short-term claims durations are decreasing; time will determine whether this is an ongoing trend.

Despite an uncertain start to 2010, financial markets rebounded at the end of the first quarter but then became turbulent in May as the sovereign debt crisis in Europe and weaker U.S. economic statistics continued leading to a negative 1.5 per cent return on the WSIB's Investment Fund as at June 30. In the third quarter, markets again rebounded resulting in a year-to-date return of positive 5.1 per cent as at September 30. To mitigate risk during these uncertain times, WSIB's revised Strategic Investment Plan continues to be implemented. The WSIB is on track to achieve its 7.0 per cent long-term return target in 2010.

While premium revenue was lower than expected in the first quarter of 2010 due to employment level decreases, premium revenue trended upwards in the second and third quarter as a result of gradual economic growth meeting expectations. Modest employment growth experienced in the last 2 quarters is expected to continue to year-end.

Administrative efficiencies at the WSIB continue to be well controlled.

In the first half of 2010, under David Marshall's leadership, the WSIB undertook an in-depth study to identify the key drivers of its UFL and developed management actions to contribute to eliminating it, while continuing to work towards its mandate of safer and healthier Ontario workplaces. The WSIB has analysed its current financial situation and has begun to implement management actions to address concerns raised in the Auditor General's *2009 Annual Report* and via the WSIB Chair's stakeholder consultation.

Key drivers of the UFL include:

- Premium revenue that falls short of covering the cost of funding the system;
- Rising claims and health care costs; and
- Declining investment returns following recent economic downturn

Building on and complementing initiatives already underway, the WSIB's UFL management actions are aligned to these key drivers and focus on key internal operational initiatives that, as administrators of the workplace safety and insurance system, it has a responsibility to address and improve. These actions include:

- Administrative efficiencies such as developing a suite of new eServices, creating a focus on strategy to consolidate WSIB data resources and analyse trends, and a commitment to undertake a comprehensive policy review and renewal;

- Improvements to the way claims are managed including a new Work Reintegration model to address labour market re-entry and return to work efforts in-house, a targeted approach to preventing and managing high-impact claims, and a new Health Care Strategy to promote early intervention and reduce dependence on narcotics;
- An ongoing commitment to a revised Strategic Investment Plan to reduce risk and volatility;
- Modification of existing incentive programs to reflect, as accurately as possible, the full costs of claims; and
- Modest increases in employer premium rates.

In the third quarter of 2010, the WSIB initiated a comprehensive Funding Review to consult broadly with workers, employers, labour groups, and knowledgeable experts across Ontario on a range of public policy issues relating to the WSIB's financial future. The year-long Review is led by Professor Harry Arthurs and will explore full funding of the Insurance Fund and how best to achieve it, the design of employer incentive programs, and the efficiency of the WSIB's rate group structure and premium rate setting methodology. The consultation is expected to end in November 2011 and the findings reported the beginning of 2012.

Also in the third quarter, the WSIB tendered for a firm to undertake the 2010 Value for Money Audit to address the efficiency of claims processing and the effectiveness of the adjudication process. KPMG has been selected to undertake the audit and is expected to report its findings in the second quarter of 2011. In addition, the Minister of Labour's Expert Advisory Panel on Occupational Health and Safety, chaired by Tony Dean, continues its review of Ontario's prevention and enforcement system and is expected to report its recommendations in the fourth quarter of 2010. Findings from these consultations and reviews will further inform the WSIB's management actions to eliminate its UFL.

The latest expert advice expects the Ontario economy to gradually recover in 2010 with low to moderate growth in 2011 through 2013. There remains a high level of uncertainty in the global economy driven primarily by weak demand and slow job growth. In support of the slowing trend expected in 2011, Bank of Canada Governor Mark Carney stated, "The economic outlook for Canada has changed. The Bank expects the economic recovery to be more gradual than it had projected in July. This more modest growth profile reflects a more gradual global recovery and a more subdued profile for household spending" (Bank of Canada (2010). *Monetary Policy Report*, October 20, p. 1).

The WSIB will continue to implement management actions to contribute to the elimination of the UFL while it awaits the results of the Funding Review.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis (MD&A) sets out the WSIB's financial and operational results for the third quarter, year-to-date and year-over-year comparisons as at September 2010. This unaudited quarterly report is prepared in accordance with Canadian generally accepted accounting principles (GAAP) and should be read in conjunction with the WSIB's audited consolidated financial statements.

The information in the MD&A necessarily includes amounts based on informed judgments and estimates. Any forward-looking statements contained in this discussion represent management's expectations, estimates, and projections regarding future events based on the currently available information and involve 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 Summary

The WSIB's third quarter revenues exceeded total benefit costs and other expenses by $124 million, compared with a $117 million shortfall incurred in the third quarter of 2009. This positive change is primarily attributable to higher than expected premium revenue and lower benefit costs, and is partially offset by lower investment revenue.

Although the WSIB experienced shortfalls in revenue over total benefit costs and other expenses of $617 million year-to-date September 2010, this shortfall has improved from the same period in 2009 when it was $1,392 million short of benefit costs and other expenses.

Total comprehensive income for the third quarter 2010 ($756 million) improved over total comprehensive income for the third quarter 2009 ($227 million). The September year-to-date comprehensive loss was $477 million compared with a $270 million loss for the same period last year.

Unfunded Liability

Following two quarters of increases to $12.9 billion, the UFL saw a decrease in the third quarter of 2010 to $12.2 billion due to positive returns on the Investment Fund and savings in benefit costs. As a result, WSIB's funding ratio also improved this quarter (from 51.1 per cent the end of the second quarter 2010 to 54.2 per cent the end of September 2010 but has remain unchanged from December 31, 2009). The UFL is still greater at the end of the third quarter than it was at December 31, 2009 when it was $11.7 billion. There are preliminary indications of improvements to the business drivers influencing the UFL, however future impacts on the UFL will reflect the volatility of financial market returns as well as the continuity and effectiveness of management actions.

Benefit Costs & Liabilities

For the first nine months of 2010, the WSIB's benefit costs decreased by $323 million compared to the same period last year due to the slowing growth of overall claims inventories and their impacts on future costs. Main drivers contributing to lower costs include fewer lost-time injuries, improvements in short-term claims duration rates and return to work outcomes, and management actions to reduce health care costs while improving service quality.

Investment Revenue

Economic data pointing to a slower than expected recovery around the globe and continued weakness in the U.S. contributed to equity market volatility during the third quarter. The expectation is for continued volatility due to weak world-wide fiscal conditions.

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

In the third quarter 2010, Total Investment Revenue was $811 million ($179 million realized and $632 million unrealized), compared with Total Investment Revenue of $865 million ($521 million realized and

$344 million unrealized) for the same period in 2009. In the first nine months of 2010, Total Investment Revenue was $588 million ($448 million realized and $140 million unrealized), compared with Total Investment Revenue of $1,338 million ($216 million realized and $1,122 million unrealized) for the same period in 2009. Year-to-date returns for the Insurance Fund at September 30, 2010 are positive 5.1 per cent compared with positive 11.5 per cent at September 30, 2009.

To reduce the variability of investment fund returns while achieving the WSIB's 7.0 per cent long-term funding return and to mitigate risk during these uncertain times, the WSIB's Strategic Investment Plan target over the next 3 years includes broader diversification in the form of more real estate, infrastructure and total return investments.

Premium Revenue

In the third quarter 2010, premium revenue was $1,017 million – up $75 million from the second quarter ($942 million) and up $165 million from first quarter results ($852 million). Compared to the third quarter 2009, premium revenue this quarter was up $169 million and year-to-date premium revenue increased by $166 million from $2,645 million at the end of September 2009 to $2,811 million the end of September 2010. These increases are primarily attributable to the impact in the growth in payroll.

The WSIB's premium revenue results also include revenue from Schedule 2 employers. Year-to-date revenue for this group is $274 million compared with $275 million for the same period in 2009.

Outlook

The economy is expected to recover more gradually than previously expected with low to moderate growth in 2011 through 2013 due to continued world-wide economic uncertainty.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED BALANCE SHEET (unaudited)

($ millions)	Sep. 30, 2010	Dec. 31, 2009 (audited)
ASSETS		
Cash and cash equivalents	$ 173	$ 62
Receivables	1,057	882
Employee benefit plans (note 5)	28	-
Investments (note 3)	14,763	14,388
Property, equipment and other assets	118	113
Intangible assets	96	96
	$ 16,235	**$ 15,541**
LIABILITIES		
Payables and accruals	$ 1,022	$ 754
Long-term debt	117	109
Loss of Retirement Income Fund	1,134	1,054
Employee benefit plans (note 5)	513	495
Benefit liabilities	23,903	23,250
	26,689	**25,662**
Employees’ Pension Plan interest in pooled investments (note 3)	1,774	1,630
UNFUNDED LIABILITY		
Accumulated excess of expenses over revenues	(13,723)	(13,106)
Accumulated other comprehensive income	1,495	1,355
	(12,228)	**(11,751)**
	$ 16,235	**$ 15,541**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF OPERATIONS (unaudited)

	For the three months ended Sep. 30		For the nine months ended Sep. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
GROSS REVENUES	$ 1,222	$ 1,434	$ 3,325	$ 2,886
CURRENT OPERATIONS				
REVENUES				
Premiums for the period	$ 769	$ 607	$ 2,133	$ 1,892
Investments (note 3)	205	586	512	240
Other income	-	-	2	1
	974	**1,193**	**2,647**	**2,133**
EXPENSES				
Benefit costs	878	1,295	3,453	3,776
Loss of Retirement Income Fund	89	83	106	157
Administrative and other expenses	46	52	153	158
Legislated obligations and commitments	59	56	166	163
	1,072	**1,486**	**3,878**	**4,254**
Excess of expenses over revenues from current operations	**(98)**	**(293)**	**(1,231)**	**(2,121)**
Premiums for unfunded liability	248	241	678	753
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE EMPLOYEES' PENSION PLAN INTEREST IN INCOME FROM POOLED INVESTMENTS	**150**	**(52)**	**(553)**	**(1,368)**
Employees' Pension Plan interest in income from pooled investments (note 3)	(26)	(65)	(64)	(24)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$ 124**	**$ (117)**	**$ (617)**	**$ (1,392)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY (unaudited)

	For the nine months ended Sep. 30	
($ millions)	**2010**	**2009**
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of period	$ (13,106)	$ (11,917)
Excess of expenses over revenues	(617)	(1,392)
Balance at end of period	**(13,723)**	**(13,309)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of period	1,355	448
Unrealized gains on investments net of amount realized	140	1,122
Balance at end of period	**1,495**	**1,570**
UNFUNDED LIABILITY AT END OF PERIOD	**$ (12,228)**	**$ (11,739)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended Sep. 30		For the nine months ended Sep. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$ 124**	**$ (117)**	**$ (617)**	**$ (1,392)**
Other comprehensive income (loss)				
Unrealized net gains on available-for-sale financial assets arising during the period	$ 789	$ 697	$ 318	$ 932
Realized (gains) losses included in income	(73)	(311)	(158)	333
Unrealized gains on investments	**716**	**386**	**160**	**1,265**
Employees' Pension Plan interest in income from pooled investments	(84)	(42)	(20)	(143)
Unrealized gains on investments after Employees' Pension Plan interest in income from pooled investments	**632**	**344**	**140**	**1,122**
COMPREHENSIVE INCOME (LOSS)	**$ 756**	**$ 227**	**$ (477)**	**$ (270)**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended Sep. 30		For the nine months ended Sep. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
OPERATING CASH FLOWS				
Cash received from:				
Premiums for the period	$ 747	$ 653	$ 2,207	$ 1,971
Premiums for unfunded liability	241	260	704	788
Investment income	76	87	339	351
	1,064	1,000	3,250	3,110
Cash paid to:				
Claimants, survivors and care providers	(831)	(851)	(2,535)	(2.601)
Loss of Retirement Income Fund	(20)	(20)	(58)	(54)
Employees and suppliers for administrative goods and services	(148)	(146)	(430)	(454)
Legislated obligations and commitments	(90)	(50)	(168)	(155)
	(1,089)	(1,067)	(3,191)	(3,264)
Net cash provided (required) by operating activities	**(25)**	**(67)**	**59**	**(154)**
INVESTING CASH FLOWS				
Sale of investments	4,796	5,814	14,089	17,936
Purchase of investments	(4,754)	(5,731)	(13,940)	(17,876)
Real estate acquisitions	(8)	-	(95)	-
Net cash provided by investing activities	**34**	**83**	**54**	**60**
FINANCING CASH FLOWS				
Mortgages	(1)	(1)	(1)	(3)
Obligation under capital leases	1	(1)	(1)	(2)
Net cash required by financing activities	**-**	**(2)**	**(2)**	**(5)**
Increase (decrease) in cash and cash equivalents	**9**	**14**	**111**	**(99)**
Cash and cash equivalents, beginning of period	164	28	62	141
Cash and cash equivalents, end of period	**$ 173**	**$ 42**	**$ 173**	**$ 42**

Condensed Notes to Interim Consolidated Financial Statements (unaudited)

September 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 Canadian 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.

3. INVESTMENTS AND INVESTMENT REVENUE

Investments by category are as follows:

($ millions)	September 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	$ 41	$ 3,154	$ -	$ -	$ 3,195	$ 384	$ 2,811	$ 2,994
Foreign - US	-	(2,326)	-	-	(2,326)	(280)	(2,046)	(1,947)
- Global	-	(847)	-	-	(847)	(101)	(746)	(969)
Total Held-for-trading	**41**	**(19)**	**-**	**-**	**22**	**3**	**19**	**78**
Available-for-sale								
Fixed income securities								
Bonds	4,780	-	333	(1)	5,112	621	4,491	4,962
Equity securities								
Domestic	1,699	1	495	-	2,195	256	1,939	2,246
Foreign - US	2,902	3	215	-	3,120	364	2,756	3,661
- Global	2,351	15	317	-	2,683	313	2,370	2,203
Real estate***	167	23	118	(9)	299	35	264	312
Infrastructure	15	-	-	-	15	2	13	-
Alternative investments****	641	-	70	(1)	710	85	625	429
Total Available-for-sale	**12,555**	**42**	**1,548**	**(11)**	**14,134**	**1,676**	**12,458**	**13,813**
Real estate entities subject to significant influence	538	9	-	-	547	95	452	437
Loss of Retirement Income Fund annuities	60	-	-	-	60	-	60	60
Total investments	**$ 13,194**	**$ 32**	**$ 1,548**	**$ (11)**	**$ 14,763**	**$ 1,774**	**$ 12,989**	**$ 14,388**

* Employees' Pension Plan interest in pooled investments
** Unrealized Gains (Losses) include a loss of $42 million from Employees' Pension Plan
*** Participating debentures in Real estate
**** Comprised of a diversified portfolio of investments

Revenue by category of investment is as follows:

	For the three months ended Sep. 30		For the nine months ended Sep. 30	
($ millions)	**2010**	**2009**	**2010**	**2009**
Held-for-trading				
Foreign exchange contracts	$ 41	$ 172	$ 61	$ 245
Available-for-sale				
Bonds	70	71	197	220
Amortization	(5)	(6)	(15)	(16)
Equities	101	343	269	(213)
Real estate*	5	4	14	10
Infrastructure	-	-	-	-
Alternative investments**	2	-	5	-
	173	412	470	1
Real estate entities subject to significant influence	4	8	15	15
Short-term securities	-	1	-	1
	218	**593**	**546**	**262**
Investment expenses	(13)	(7)	(34)	(22)
Net investment revenue	**205**	**586**	**512**	**240**
Employees' Pension Plan interest in income from pooled investments	(26)	(65)	(64)	(24)
	$ 179	**$ 521**	**$ 448**	**$ 216**

* Participating debentures in Real estate
** Comprised of a diversified portfolio of investments

For the three months ended September 30:

Revenue from bonds includes $16 million (2009: $13 million) of net realized gains and equities includes $58 million (2009: $298 million) of net realized gains. Revenue from real estate includes $1 million (2009: $ - million) of net realized losses, infrastructure includes $ - million (2009: $ - million) of net realized gains and alternative investments include $ - million (2009: $ - million) of net realized gains. Revenue from foreign exchange contracts includes $51 million of net realized losses (2009: $108 million of net realized gains).

During the period, $40 million (2009: $10 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income.

For the nine months ended September 30:

Revenue from bonds includes $29 million (2009: $48 million) of net realized gains and equities includes $129 million of net realized gains (2009: $382 million of net realized losses). Revenue from real estate includes $2 million (2009: $1 million) of net realized gains, infrastructure includes $ - million (2009: $ - million) of net realized gains and alternative investments include $2 million (2009: $ - million) of net realized losses. Revenue from foreign exchange contracts includes $128 million (2009: $234 million) of net realized gains.

During the period, $268 million (2009: $634 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 $11 million (2009: $22 million) are not considered to be other-than-temporarily impaired as of September 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 September 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	$ -	$ 22	$ -	$ 22
Available-for-sale				
Bonds	-	5,108	4	5,112
Equities	7,568	430	-	7,998
Real estate*	-	16	283	299
Infrastructure	-	15	-	15
Alternative investments**	-	604	106	710
Other				
Loss of Retirement Income Fund annuities	-	60	-	60
Total	**$ 7,568**	**$ 6,255**	**$ 393**	**$ 14,216**

* Participating debentures in Real estate
** Comprised of a diversified portfolio of investments

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

During the period ended September 30, 2010, the reconciliation of investments measured at fair value using non-observable inputs (Level 3) is presented as follows:

	Available-for-sale
Balances at beginning of year	$ 390
Net purchases, sales, issuances and settlements	(8)
Realized gains recorded in net income	11
Balances at end of the period	**$ 393**

The total unrealized gains for the period ended September 30, 2010 included in comprehensive income which is still held as of quarter-end are $ - 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 $513 million (Dec. 31, 2009: $495 million). Benefit plans with an excess of plan assets over accrued benefit obligation amount to $28 million (Dec. 31, 2009: $ - 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, 2009.

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

	For the three months ended Sep. 30		**For the nine months ended Sep. 30**	
($ millions)	**2010**	**2009**	**2010**	**2009**
Employees' pension plan	$ 9.5	$ 4.2	$ 28.5	$ 8.2
Employees' supplementary pension plan	0.3	0.2	1.1	0.7
Other benefit plans	11.2	9.6	33.6	28.7
Pension guarantee fund	0.8	-	0.8	-
Total benefit plan expenses	**$ 21.8**	**$ 14.0**	**$ 64.0**	**$ 37.6**

6. COMPARATIVE FIGURES

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