# Workplace Safety and Insurance Board

Second Quarter 2012 Report to Stakeholders

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

## Management's Responsibility for Financial Reporting

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and accompanying condensed interim consolidated financial statements as approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"), are prepared by management as at and for the three months and the six months ended June 30, 2012.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three months and the six months ended June 30, 2012 have been prepared in accordance with IAS 34 *Interim Financial Statements*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this MD&A, "WSIB," the "Agency," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated August 16, 2012, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A 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 information currently available, and involving assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

**I. David Marshall**
President and Chief Executive Officer

**Lawrence E. Davis**
Chief Financial Officer

August 16, 2012
Toronto, Ontario

## Table of Contents

## 1 Quarter in Review

*Highlights of our performance for the three and six months ended June 30, 2012 compared to the same periods in 2011.*

The WSIB provides one of the most comprehensive worker's compensation benefit systems in North America, including wage replacement, health care, recovery and return to work services.

**Highlights for the three months ended June 30, 2012 compared to the three months ended June 30, 2011:**

- Adjusted comprehensive income was $3 million prior to reflecting a $165 million or 1.0% negative rate of return on our investments due to both realized and unrealized gains recorded at fair value and representing the second consecutive quarter where premium revenues approximated total costs (see Section 12 - Non-IFRS Financial Measure). Additionally, we transferred $50 million of cash and cash equivalents to our investments totaling $125 million transferred in 2012 further demonstrating continued strong operating results.
- Premium revenues increased $64 million or 6.5% reflecting $73 million of higher premiums partially offset by a $9 million increase in experience rating refunds, penalties and interest, indicative of improved return to work outcomes and strengthening economic conditions.
- Benefit payments decreased $46 million or 6.4% reflecting reduced claims duration, notwithstanding a small increase in the number of new registered claims, reflective of increased employment levels.
- Administration and other expenses decreased $1 million or 1.4% prior to reflecting $6 million of additional pension plan costs attributed to adverse changes in actuarial assumptions.
- While our financial performance is heavily impacted by external factors, including the level of insurable earnings and investment returns, we continue to anticipate meeting our financial targets for 2012, reflecting our continued focus on return to work initiatives and disciplined financial management.

***Increased* premium *revenues.*** Premium revenues increased $64 million or 6.5% reflecting $73 million or 7.5% of higher gross premiums attributed to $64 million of insurable earnings growth and $9 million attributed to the 2% increase in average premium rates announced in 2010. Additionally, we experienced a $9 million increase in experience rating refunds, penalties and interest, indicative of improved return to work outcomes and economic conditions.

***Lower investment returns.*** Net investment loss was $165 million reflecting a 1.0% negative rate of return on our investments due to volatile equity markets compared to realizing net investment income of $100 million representing a 0.8% rate of return. However, as noted below, we realized $538 million or a 4.0% rate of return on our investments for the first six months of 2012, ahead of our expectations.

***Benefit payments continue to trend down.*** Benefit payments decreased $46 million or 6.4% reflecting:

- a $31 million or 11.2% reduction in loss of earnings benefits reflecting continued improvements in claims duration attributable to better health care and return to work outcomes;
- a $7 million or 29.2% reduction in external provider costs reflecting the implementation of our new work reintegration program, delivering improved return to work outcomes for injured workers;

- a $5 million or 3.0% decrease in workers' pension payments reflecting the natural reduction of claims due to mortality; and
- a $3 million or 1.2% reduction in health care and other costs notwithstanding higher payments to specialty clinics supporting early return to work of injured/ill workers.

***Administration and other expenses decreasing*.** Administration and other expenses, prior to a $6 million increase in pension plan costs attributed to adverse changes in actuarial assumptions, decreased $1 million or 1.4% reflecting continued prudent fiscal management.

**Highlights for the six months ended June 30, 2012 compared to the six months ended June 30, 2011:**

- Comprehensive income was $535 million reflecting a $538 million or 4.0% rate of return on our investments and continued improving operating results evidenced by premium revenues approximating costs.
- Premium revenues increased $136 million or 7.2% reflecting $145 million of higher premiums partially offset by a $9 million increase in experience rating refunds, penalties and interest indicative of improved return to work outcomes and economic conditions.
- Benefit payments decreased $85 million or 5.8% reflecting continued strong operating performance as evidenced by lower durations while facing a modestly higher number of new claims registered.
- Administration and other expenses decreased $7 million or 4.9% prior to reflecting $11 million in termination benefits associated with the elimination of 317 full-time positions and $11 million of additional pension plan costs attributed to adverse changes in actuarial assumptions. We continue to anticipate realizing additional reductions as we transform our business in the coming years.

***Increased premium revenues.*** Premium revenues increased $136 million or 7.2% reflecting $145 million or 7.8% of higher gross premiums attributed to $103 million of insurable earnings growth and $42 million attributed to the 2% increase in average premium rates announced in 2010. Additionally, we experienced a $9 million increase in experience rating refunds, penalties and interest indicative of improved return to work outcomes and economic conditions.

***Higher investment returns.*** Net investment income was $538 million reflecting a 4.0% rate of return compared to $370 million or a 2.8% rate of return, ahead of our expectations and reflecting stronger equity market performance. We continue to anticipate a moderate improvement over 2011.

***Benefit payments continue to trend down.*** Benefit payments decreased $85 million or 5.8% reflecting:

- a $51 million or 9.3% reduction in loss of earnings benefits reflecting better health care and return to work outcomes;
- a $18 million or 35.3% reduction in external provider costs attributed to our decision in 2010 to in-source work reintegration activities which has led to improved return to work outcomes for injured workers;
- a $12 million or 3.5% decrease in workers' pension payments reflecting the natural reduction of claims due to mortality; and
- a $4 million or 0.8% reduction in health care costs notwithstanding higher payments to specialty clinics supporting early return to work of injured/ill workers.

***Administration and other expenses are decreasing*.** Administration and other expenses increased $15 million or 10.6% primarily due to increased termination benefits, and pension plan costs. Administration and other costs decreased $7 million or 4.9% prior to $11 million in termination benefits associated with the elimination of 317 full-time positions and $11 million in increased pension plan costs due to adverse changes in actuarial assumptions.

**Delivering tangible operating results.** We continue to see tangible results of improved recovery and return to work outcomes as evidenced by a 8.3% decrease in the percentage of non-locked-in claims on 100% loss of earnings, the continued decrease in the percentage of workers on-benefit up to 48 months and a stabilization of duration at 72 months. At the same time however, employment levels, and correspondingly the number of registered claims has increased, albeit modestly.

**Other notable items:**

*Appointment of a New Chair.* On May 28, 2012, Elizabeth Witmer was appointed Chair of the WSIB, for a five-year term, replacing Steven W. Mahoney, who announced his retirement in March 2012. As former Minister of Labour and Minister of Health and Long Term Care, Mrs. Witmer brings a special blend of leadership and an in-depth understanding of the complex environment in which the WSIB operates. Her leadership and skills will be invaluable as we move ahead with our strategic plan, reform our employer classification, rates setting and incentive programs drawing on the advice of Professor Harry Arthurs and his report “Funding Fairness” and our modernization and business transformation work.

*New Legislation and Regulation Requiring the WSIB to Eliminate its Unfunded Liability.* On June 5, 2012, the Government of Ontario proclaimed legislation and created an accompanying regulation requiring the WSIB to eliminate its deficit, or unfunded liability by 2027. In order to meet this obligation which comes into force on January 1, 2013, we have developed a robust financial plan to measure our progress.

*Presentation to the Ontario Legislature’s Standing Committee on Government Agencies.* On July 4 and 5, 2012, the WSIB appeared before the Ontario Legislature’s Standing Committee on Government Agencies (the “Standing Committee”). The Standing Committee is empowered to review and report to the House its observations, opinions and recommendations on the operation of the Ontario government’s agencies, boards and commissions. The WSIB confirmed that it is on course to eliminate its unfunded liability by 2027. At the two-day appearance before the Standing Committee, the WSIB also heard submissions and fielded questions from stakeholders and government representatives from all three political parties. In addition, the WSIB highlighted its recent success in improving recovery and return to work outcomes for injured workers and confirmed its commitment to a better, more responsive workplace safety and insurance system that is financially stable and sufficiently funded.

*Future Adoption of IFRS Accounting Standards for Employee Benefits.* The WSIB is required to implement a new accounting standard on January 1, 2013 relating to how it accounts for employee benefits (see Section 7 - Recent Accounting Pronouncements, IAS 19 Employee Benefits). Under this standard, the WSIB is expected to add approximately $586 million to its unfunded liability, with a corresponding reduction in its funding ratio of approximately 1.0%. Had the WSIB reflected this new accounting standard as at June 30, 2012, its unfunded liability would have been $14,326 million, with a corresponding reduction in its funding ratio from 54.2% to 53.2%.

## 2 Operating Results

*A more detailed discussion of our financial performance for the three and six months ended June 30, 2012.*

This section provides a detailed discussion of our financial performance. Certain prior year's figures have been reclassified to conform to the current year's presentation.

### Financial highlights

The following table sets out our operating results for the three months and the six months ended June 30.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2012** | **2011** | **2012** | **2011** |
| **Revenues** | | | | |
| Premiums | 1,056 | 992 | 2,026 | 1,890 |
| Net investment income (loss) | | | | |
| Investment income (loss) | (157) | 116 | 556 | 403 |
| Investment expenses | (24) | (22) | (48) | (42) |
| Income from associates and jointly controlled entities | 16 | 6 | 30 | 9 |
| | (165) | 100 | 538 | 370 |
| | 891 | 1,092 | 2,564 | 2,260 |
| **Expenses** | | | | |
| Benefit costs | | | | |
| Benefit payments | 673 | 719 | 1,378 | 1,463 |
| Claims administration costs | 102 | 90 | 225 | 182 |
| Changes in actuarial valuation of benefit liabilities | 150 | (112) | 140 | (51) |
| | 925 | 697 | 1,743 | 1,594 |
| Loss of Retirement Income Fund contributions | 17 | 17 | 34 | 35 |
| Administration and other expenses | 75 | 70 | 157 | 142 |
| Legislated obligations and commitments | 36 | 53 | 95 | 110 |
| | 1,053 | 837 | 2,029 | 1,881 |
| **Comprehensive income (loss) for the period** | **(162)** | **255** | **535** | **379** |
| **Comprehensive income (loss) attributable to:** | | | | |
| WSIB stakeholders | (145) | 241 | 459 | 328 |
| Non-controlling interest | (17) | 14 | 76 | 51 |
| | (162) | 255 | 535 | 379 |
| **Other measures** | | | | |
| Cash provided by (used in) operating activities[1] | 18 | 147 | (44) | (22) |
| Return on Investments[2] | (1.0%) | 0.8% | 4.0% | 2.8% |

| | **June 30 2012** | **December 31 2011** |
|---|---|---|
| Unfunded liability[3] | (13,740) | (14,199) |
| Funding ratio[4] | 54.2% | 52.2% |

1 Cash provided by (used in) operating activities represents comprehensive income (loss) for the period prior to items not involving cash and non-cash balances related to operations.

2 Return on investments is calculated as the change in the fair value of the investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses.

3 Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.

4 Funding ratio is calculated as total assets, excluding non-controlling interest in investments, divided by total liabilities as at the end of the reporting period.

## Premiums

| (millions of Canadian dollars) | For the three months ended 2012 | 2011 | Change $ | Change % | For the six months ended 2012 | 2011 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Schedule 1 employer premiums | | | | | | | | |
| Gross Schedule 1 premiums | 1,045 | 972 | 73 | 7.5 | 2,002 | 1,857 | 145 | 7.8 |
| Other income | - | 1 | (1) | (100.0) | - | 1 | (1) | (100.0) |
| Net experience rating refunds | (16) | (9) | (7) | 77.8 | (28) | (21) | (7) | 33.3 |
| Interest and penalties | 12 | 15 | (3) | (20.0) | 21 | 26 | (5) | (19.2) |
| | 1,041 | 979 | 62 | 6.3 | 1,995 | 1,863 | 132 | 7.1 |
| Schedule 2 administration fees | 15 | 13 | 2 | 12.9 | 31 | 27 | 4 | 12.5 |
| | **1,056** | **992** | **64** | **6.5** | **2,026** | **1,890** | **136** | **7.2** |

For the three months ended June 30, 2012, Gross Schedule 1 premiums were $1,045 million compared to $972 million, an increase of $73 million or 7.5%, as a result of a $64 million increase in insurable payroll and a $9 million increase in average premium rates. Net experience rating refunds increased by $7 million or 77.8%, reflecting improved return to work outcomes. Schedule 2 administration fees increased by $2 million or 12.9%, as a result of an increase in the administration rate charged to Schedule 2 employers reflecting a modest increase in expected administration costs and a lower base of benefit reimbursements.

For the six months ended June 30, 2012, Gross Schedule 1 premiums were $2,002 million compared to $1,857 million, an increase of $145 million or 7.8%, as a result of a $103 million increase in insurable payroll and a $42 million increase in premium rates. Net experience rating refunds increased by $7 million or 33.3%, reflecting improved return to work outcomes. Schedule 2 administration fees increased by $4 million or 12.5%, as a result of an increase in the administration rate charged to Schedule 2 employers reflecting a modest increase in the expected administration costs and a lower base of benefit reimbursements.

## Net Investment income (loss)

A summary of net investment income (loss), prior to investment expenses, segmented by asset class is as follows:

| Asset Class (millions of Canadian dollars) | Three months ended June 30: 2012 Investment income | 2012 Return % | 2011 Investment income | 2011 Return % | Six months ended June 30: 2012 Investment income | 2012 Return % | 2011 Investment income | 2011 Return % |
|---|---|---|---|---|---|---|---|---|
| Fixed income | 100 | 2.1 | 114 | 2.5 | 90 | 1.9 | 104 | 2.3 |
| Public equities | (344) | (5.1) | (80) | (1.2) | 289 | 4.5 | 152 | 2.1 |
| Multi-asset strategies | 47 | 2.0 | 68 | 3.3 | 119 | 5.2 | 116 | 6.3 |
| Real estate | 49 | 3.3 | 19 | 1.5 | 74 | 6.6 | 37 | 2.6 |
| Infrastructure | 6 | 3.3 | 1 | 0.5 | 12 | 7.0 | 2 | 1.1 |
| Interest on operating funds | 1 | - | - | - | 2 | - | 1 | - |
| Investment income (loss) | (141) | (1.0) | 122 | 0.8 | 586 | 4.0 | 412 | 2.8 |
| Investment expenses | (24) | | (22) | | (48) | | (42) | |
| | **(165)** | | **100** | | **538** | | **370** | |

For the three months ended June 30, 2012, net investment loss, prior to $24 million of investment expenses, was $141 million reflecting a 1.0% negative rate of return compared to net investment income of $122 million reflecting a 0.8% rate of return. The investment loss was primarily due to the public equities asset class which generated a 5.1% negative rate of return.

For the six months ended June 30, 2012, net investment income, prior to $48 million of investment expenses, was $586 million reflecting a 4.0% rate of return compared to $412 million reflecting a 2.8% rate of return. The increase in investment income was primarily due to the public equities asset class which generated a 4.5% rate of return in the period compared to a 2.1% rate of return.

Global markets continue to exhibit significant volatility; consequently, our net investment income for 2012 is cautiously anticipated to increase modestly over 2011. Our financial performance is heavily reliant on the amount of investment income we are able to generate as each 1.0% rate of return on investments represents $125 million of net investment income equating to 8 cents of premium per $100 of insurable payroll or 3% of annual premiums.

### Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support existing claims; and (iii) the change in the actuarial valuation of our benefit liabilities, which represent an adjustment to the actuarially determined estimates for future claim costs existing at the date of the condensed interim consolidated statement of financial position. Benefit costs were comprised of the following:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| **(millions of Canadian dollars)** | **2012** | **2011** | **$** | **%** | **2012** | **2011** | **$** | **%** |
| Benefit payments | 673 | 719 | (46) | (6.4) | 1,378 | 1,463 | (85) | (5.8) |
| Claims administration costs | 102 | 90 | 12 | 13.3 | 225 | 182 | 43 | 23.6 |
| Changes in actuarial valuation of benefit liabilities | 150 | (112) | 262 | (233.9) | 140 | (51) | 191 | (374.5) |
| | **925** | **697** | **228** | **32.7** | **1,743** | **1,594** | **149** | **9.3** |

### Benefit payments

Benefit payments represent cash paid during the year to or on behalf of injured workers and are detailed by category as follows:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| **(millions of Canadian dollars)** | **2012** | **2011** | **$** | **%** | **2012** | **2011** | **$** | **%** |
| Loss of earnings | 247 | 278 | (31) | (11.2) | 499 | 550 | (51) | (9.3) |
| Workers' pension | 164 | 169 | (5) | (3.0) | 329 | 341 | (12) | (3.5) |
| Health care | 113 | 114 | (1) | (0.9) | 243 | 244 | (1) | (0.4) |
| Future economic loss | 66 | 72 | (6) | (8.3) | 133 | 142 | (9) | (6.3) |
| Survivor benefits | 44 | 41 | 3 | 7.3 | 89 | 84 | 5 | 6.0 |
| External providers | 17 | 24 | (7) | (29.2) | 33 | 51 | (18) | (35.3) |
| Non-economic loss | 15 | 20 | (5) | (25.0) | 36 | 47 | (11) | (23.4) |
| Other benefit costs | 7 | 1 | 6 | 600.0 | 16 | 4 | 12 | 300.0 |
| | **673** | **719** | **(46)** | **(6.4)** | **1,378** | **1,463** | **(85)** | **(5.8)** |

A summary of the changes in benefit payments for the three months ended June 30, 2012 is noted below.

- Loss of earnings benefits decreased by $31 million or 11.2% reflecting 5,918 or 15.1% fewer non-locked-in claims as at June 30, 2012 compared to the same period in 2011. The decrease was primarily due to fewer workers on claims as a result of fewer injuries, improved claims management through better recovery and return to work outcomes. This is a lagging indicator of improved performance as reductions in volumes of non-locked-in claims are muted by the fact that more than 40% of the payments in the loss of earnings category relate to locked-in claims, over which we have little influence.
- Workers' pension decreased by $5 million or 3.0% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased by $1 million or 0.9% notwithstanding a 5.6% increase in the number of claims receiving health care services, a $2.3 million increase in payments to specialty clinics supporting early return to work of injured/ill workers, partially offset by a $2.8 million reduction in drug payments reflecting price reductions for generic drugs and fewer narcotics.
- Future economic loss benefits decreased by $6 million or 8.3% reflecting an increase in the number of claimants reaching age 65, the age at which these benefits cease.
- Survivor benefits increased by $3 million or 7.3% reflecting a higher number of traumatic and occupational disease fatalities.
- External providers decreased by $7 million or 29.2% primarily due to our decision in 2010 to in-source work reintegration activities, which was partially offset by $6 million of administrative costs allocated to claims administration cost.
- Non-economic loss awards decreased by $5 million or 25.0%, primarily due to fewer lost time claims, earlier and more effective health care and case management resulting in improved recovery and return to work outcomes.
- Other benefit costs increased $6 million or 600.0% primarily due to lower recoveries related to asbestos settlements from United States("US")-based bankruptcy trusts.

A summary of the changes in benefit payments for the six months ended June 30, 2012 is noted below.

- Loss of earnings benefits decreased by $51 million or 9.3% reflecting 5,619 or11.2% fewer non-locked-in claims as at June 30, 2012 compared to the same period ending in 2011.
- Workers' pension decreased by $12 million or 3.5% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased by $1 million or 0.4%, notwithstanding a 2.8% increase in the number of claims receiving health care services, a $7.2 million increase in payments to specialty clinics supporting the early return to work of injured/ill workers, partially offset by a $5.3 million reduction in drug payments reflecting price reductions for generic drugs and fewer narcotics and a $2.9 million reduction in physiotherapy and chiropractor services.
- Future economic loss benefits decreased by $9 million or 6.3% reflecting the number of claimants reaching age 65, the age at which these benefits cease.
- Survivor benefits increased by $5 million or 6.0% reflecting a higher number of traumatic and occupational disease fatalities.

- External providers decreased by $18 million or 35.3% primarily due to our decision in 2010 to in-source work reintegration activities, which resulted in administrative costs of $12 million, contributing to an increase in claims administration cost.
- Non-economic loss awards decreased by $11 million or 23.4%, primarily due to fewer lost time claims, earlier and more effective health care and case management resulting in improved recovery and return to work outcomes.
- Other benefit costs increased by $12 million or 300.0% resulting mainly from lower recoveries related to asbestos settlements from US-based bankruptcy trusts.

**Claims administration costs**

For the three months ended June 30, 2012, claims administration costs increased by $2 million or 2.2% prior to reflecting $1 million of termination benefits and $9 million of increased pension plan costs attributed to adverse changes in actuarial assumptions. The increases were primarily due to adding staff in areas that will directly enhance service levels to injured workers and employers. Additionally, in-sourcing our work reintegration program has contributed to better return to work outcomes for injured workers and has resulted in a reduction of overall costs associated with this activity.

For the six months ended June 30, 2012, claims administration costs increased by $10 million or 5.5% prior to reflecting $16 million of termination benefits associated with the elimination of 317 full time positions in the first quarter and $17 million of increased pension plan costs attributed to adverse changes in actuarial assumptions. The increases are attributed to those factors noted above.

### Changes in actuarial valuation of benefit liabilities

The change in the actuarial valuation of the benefit liabilities is as follows:

| (millions of Canadian dollars) | Three months ended June 30 2012 | Three months ended June 30 2011 | Six months ended June 30 2012 | Six months ended June 30 2011 |
|---|---|---|---|---|
| Changes in actuarial valuation of benefit liabilities | 150 | (112) | 140 | (51) |

Changes in the actuarial valuation of benefit liabilities represent the financial impact of the change in assumptions concerning the cost to settle future injured worker claims. For the three months ended June 30, 2012, the change in actuarial valuation of benefit liabilities was $150 million and was primarily due to a provision of $250 million for expected changes in actuarial assumptions, offset by a decrease of $100 million reflecting improved claims experience.

For the six months ended June 30, 2012, the change in actuarial valuation of benefit liabilities was $140 million and was primarily due to a provision of $250 million for expected changes in actuarial assumptions, offset by a decrease of $110 million reflecting improved claims experience.

### Administration and other expenses

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| (millions of Canadian dollars) | 2012 | 2011 | $ | % | 2012 | 2011 | $ | % |
| Salaries and short-term benefits | 97 | 95 | 2 | 2.1 | 194 | 186 | 8 | 4.3 |
| Long-term benefit plans | 37 | 22 | 15 | 68.2 | 72 | 44 | 28 | 63.6 |
| Facilities | 11 | 10 | 1 | 10.0 | 21 | 20 | 1 | 5.0 |
| Bad debts | 7 | 11 | (4) | (36.4) | 9 | 22 | (13) | (59.1) |
| New systems development and integration | 6 | 1 | 5 | 500.0 | 8 | 2 | 6 | 300.0 |
| Amortization | 5 | 5 | - | - | 11 | 10 | 1 | 10.0 |
| Equipment and maintenance | 5 | 6 | (1) | (16.7) | 24 | 22 | 2 | 9.1 |
| Communications | 2 | 2 | - | - | 5 | 5 | - | - |
| Termination benefits | 1 | - | 1 | 100.0 | 27 | - | 27 | 100.0 |
| Other | 6 | 8 | (2) | (25.0) | 11 | 13 | (2) | (15.4) |
| | 177 | 160 | 17 | 10.6 | 382 | 324 | 58 | 17.9 |
| Claims administration costs allocated to benefit costs | (102) | (90) | (12) | 13.3 | (225) | (182) | (43) | 23.6 |
| | **75** | **70** | **5** | **7.1** | **157** | **142** | **15** | **10.6** |

Administration and other expenses decreased by $1 million or 1.4% prior to reflecting a $6 million increase in the cost of long-term benefit plans. A summary of changes in administration and other expenses for the three months ended June 30, 2012 compared to the prior period is as follows:

- Long-term benefits plans increased by $15 million primarily due to increased pension expense reflecting changes in actuarial assumptions.
- Salaries and short-term benefits increased by $2 million primarily due the hiring of an additional 36 full-time equivalents in the three months ended June 30, 2012 to support work reintegration activities.
- Bad debts decreased by $4 million reflecting a more favourable trend in recent collections.

- New systems development and integration increased by $5 million due to increased activity in business transformation projects.
- Refer to Section 2 – Operating Results for a detailed discussion of claims administration costs.

Administration and other expenses decreased by $7 million or 4.9% prior to reflecting an $11 million increase in the cost of long-term benefit plans and $11 million of termination benefits, as previously noted. A summary of changes in administration and other expenses for the six months ended June 30, 2012 compared to the prior period is as follows:

- Long-term benefits plans increased by $28 million primarily due to increased pension expense reflecting changes in actuarial assumptions.
- Termination benefits increased by $27 million reflecting costs incurred to eliminate 317 full-time positions.
- Salaries and short-term benefits increased by $8 million primarily due to the filing of vacancies to enhance service levels to injured workers and employers and the hiring an additional 36 full-time equivalents to support work reintegration activities.
- Bad debts decreased by $13 million reflecting a more favourable trend in recent collections.
- New systems development and integration increased by $6 million due to increased activity in business transformation projects.
- Refer to Section 2 – Operating Results for a detailed discussion of claims administration costs.

### Legislated obligations and commitments

| (millions of Canadian dollars) | Three months ended June 30 2012 | 2011 | Change $ | Change % | Six months ended June 30 2012 | 2011 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| **Legislated obligations** | | | | | | | | |
| Occupational Health & Safety Act | 6 | 20 | (14) | (70.0) | 31 | 45 | (14) | (31.1) |
| Mine rescue program | - | 2 | (2) | (100.0) | 1 | 2 | (1) | (50.0) |
| Prevention | 19 | - | 19 | 100.0 | 19 | - | 19 | 100.0 |
| | **25** | **22** | **3** | **13.6** | **51** | **47** | **4** | **8.5** |
| Workplace Safety & Insurance Appeals Tribunal | 5 | 5 | - | - | 10 | 10 | - | - |
| Workplace Safety & Insurance Advisory Program | | | | | | | | |
| Office of the Worker Adviser | 3 | 3 | - | - | 6 | 6 | - | - |
| Office of the Employer Adviser | 1 | 1 | - | - | 2 | 2 | - | - |
| | **4** | **4** | **-** | **-** | **8** | **8** | **-** | **-** |
| **Total legislated obligations** | **34** | **31** | **3** | **9.7** | **69** | **65** | **4** | **6.2** |
| **Commitments** | | | | | | | | |
| Safe Workplace Associations | - | 16 | (16) | (100.0) | 17 | 33 | (16) | (48.5) |
| Workplace Health & Safety Centre | - | 2 | (2) | (100.0) | 2 | 4 | (2) | (50.0) |
| Health clinics | - | 2 | (2) | (100.0) | 2 | 3 | (1) | (33.3) |
| Grants | 1 | 1 | - | - | 3 | 3 | - | - |
| Institute for Work & Health | 1 | 1 | - | - | 2 | 2 | - | - |
| **Total commitments** | **2** | **22** | **(20)** | **(90.9)** | **26** | **45** | **(19)** | **(42.2)** |
| **Total legislated obligations and commitments** | **36** | **53** | **(17)** | **(32.1)** | **95** | **110** | **(15)** | **(13.6)** |

For the three months ended June 30, 2012, legislated obligations and commitments were $36 million, a decrease of $17 million, or 32.1% reflecting a lower amount billed by the Ministry of Labour and a $6 million reimbursement of previous costs paid. For the six months ended June 30, 2012, legislated obligations and commitments were $95 million, a decrease of $15 million, or 13.6%, substantially reflecting the fluctuations noted above.

## 3 Financial Condition

*A discussion of the significant changes in our condensed interim consolidated statement of financial position.*

Changes in our consolidated condensed interim statement of financial position for the six months ended are as follows:

| (millions of Canadian dollars) | June 30 2012 | December 31 2011 | Change $ | Change % | Commentary |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,082 | 983 | 99 | 10.1 | See Section 5 – Liquidity and Capital Resources. |
| Receivables | 1,171 | 1,041 | 130 | 12.5 | Increase reflects higher experience rating surcharges. |
| Investment receivables | 218 | 115 | 103 | 89.6 | Increase reflects higher amounts of pending sales and cash collateral held to cover futures contracts. |
| Investments | 13,852 | 13,648 | 204 | 1.5 | Reflects increase in fair value of investments and a $125 million transfer from cash and cash equivalents to investments. |
| Investments under securities lending program | 715 | 523 | 192 | 36.7 | Increase in securities lending activity reflecting greater utilization of available securities. |
| Investments in associates and jointly controlled entities | 430 | 375 | 55 | 14.7 | Increase reflects equity income earned and additional investments partially offset by declared dividend payouts. |
| Investment property | 587 | 488 | 99 | 20.3 | Increase reflects property acquisitions, property fair value increases and capita expenditures. |
| Property and equipment | 176 | 182 | (6) | (3.3) | Reduction due to amortization. |
| Intangible assets | 45 | 50 | (5) | (10.0) | Reduction due to amortization. |
| **Liabilities** | | | | | |
| Payables and accruals | 1,088 | 1,077 | 11 | 1.0 | Increase due to termination benefits. |
| Investment payables | 90 | 23 | 67 | 291.3 | Increase in investment pending trades. |
| Long-term debt | 169 | 143 | 26 | 18.2 | Increase reflects new mortgage loans of real estate subsidiaries. |
| Loss of Retirement Income Fund liability | 1,302 | 1,254 | 48 | 3.8 | Increase reflects higher investment returns. |
| Employee benefit plans | 851 | 812 | 39 | 4.8 | Increase reflects the additional liabilities due to lower interest rates. |
| Benefit liabilities | 26,530 | 26,390 | 140 | 0.5 | Reflects the changes in actuarial assumptions. See Section 2 – Operating Results. |
| Unfunded liability | (13,740) | (14,199) | 459 | 3.2 | Reflects comprehensive income attributable to WSIB stakeholders. |

## 4 Summary of Quarterly Results

*A summary view of our quarterly financial performance.*

Selected financial information for the eight consecutive quarters ended June 30, 2012 is as follows:

| | 2012 | | 2011 | | | | 2010 | |
|---|---|---|---|---|---|---|---|---|
| **(millions of Canadian dollars)** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
| Premiums | 1,056 | 970 | 987 | 998 | 992 | 898 | 867 | 958 |
| Net investment income (loss) | (165) | 703 | 614 | (688) | 100 | 270 | 572 | 854 |
| Benefit payments | 673 | 705 | 692 | 695 | 719 | 744 | 757 | 757 |
| Claims administration costs | 102 | 123 | 97 | 89 | 90 | 92 | 81 | 87 |
| Change in actuarial valuation of benefit liabilities | 150 | (10) | 2,400 | (309) | (112) | 61 | 447 | (40) |
| Benefit costs | 925 | 818 | 3,189 | 475 | 697 | 897 | 1,285 | 804 |
| Loss of Retirement Income Fund contributions | 17 | 17 | 17 | 18 | 17 | 18 | 18 | 18 |
| Administration and other expenses | 75 | 82 | 113 | 69 | 70 | 72 | 76 | 63 |
| Legislated obligations and commitments | 36 | 59 | 60 | 58 | 53 | 57 | 61 | 60 |
| Comprehensive income (loss) attributable to WSIB stakeholders | (145) | 604 | (1,866) | (223) | 241 | 87 | (75) | 758 |
| **Other measures** | | | | | | | | |
| Cash provided by (used in) operating activities[1] | 18 | (62) | (2,391) | 423 | 147 | (169) | (621) | (55) |
| Unfunded liability[2] | 13,740 | 13,595 | 14,199 | 12,333 | 12,110 | 12,351 | 12,438 | 12,363 |
| Funding ratio (%)[3] | 54.2 | 54.3 | 52.2 | 55.0 | 56.1 | 55.4 | 54.7 | 54.4 |
| Return on investments (%)[4] | (1.0) | 5.1 | 4.4 | (4.7) | 0.8 | 2.0 | 4.2 | 6.8 |

1 Cash provided by (used in) operating activities represents comprehensive income (loss) prior to items not involving cash and non-cash balances related to operations.

2 Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.

3 Funding ratio is calculated as total assets, excluding non-controlling interest in pooled investments, divided by total liabilities as at the end of the reporting period.

4 Return on investments is calculated as the change in the fair value of the investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses.

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, reflecting higher insurable payrolls in the construction industry in the first and second quarters of 2012 largely attributed to warmer temperatures. Our premium revenues are also impacted by insurable payrolls, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by worldwide capital markets and has been volatile on a quarterly basis for the last few years. We anticipate the volatility in net investment income will continue through 2012; however we believe our net investment income will be modestly improved over 2011.

Refer to Section 2 - Operating Results for a discussion of the current quarter results in the chart above.

## 5 Liquidity and Capital Resources

*A discussion of cash flow, liquidity, credit facilities and other arrangements.*

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds including: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used for benefit payments and operating expenses. As at June 30, 2012, we held $1,082 million of cash and cash equivalents of which $250 million was held for operating purposes, $157 million was held in our Loss of Retirement Income Fund on behalf of injured workers and $675 million was held for investing.

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2012** | **2011** | **2012** | **2011** |
| Cash and cash equivalents, beginning of period | 951 | 902 | 983 | 1,009 |
| Cash provided by (used in) operating activities | 168 | 8 | 63 | (125) |
| Cash provided by (used in) investing activities | (36) | 77 | 42 | 108 |
| Cash provided by (used in) financing activities | (1) | 12 | (6) | 7 |
| **Cash and cash equivalents, end of period** | **1,082** | **999** | **1,082** | **999** |

For the three months ended June 30, 2012, cash provided by operating activities was $168 million compared to $8 million for the comparable period in 2011 primarily due to changes in fair value of investments offset by the comprehensive loss for the period. Cash used in investing activities was $36 million compared to cash provided by investing activities of $77 million for the comparable period in 2011 primarily due to the purchase of investments. Cash used in financing activities was $1 million compared to cash provided by financing activities of $12 million for the comparable period in 2011, primarily due to the net contributions paid to non-controlling interests and payments related to mortgages and leases.

For the six months ended June 30, 2012, cash provided by operating activities was $63 million compared to cash used in operating activities of $125 million for the comparable period of 2011 primarily due to comprehensive income in the period from continued improvements in operating performance. Cash provided by investing activities was $42 million compared to $108 million for the comparable period of 2011, primarily due to the purchase of investments. Cash used in financing activities was $6 million compared to cash provided by financing activities of $7 million for the comparable period in 2011, primarily due the net contributions paid to non-controlling interests and payments related to mortgages and leases.

### Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at June 30, 2012, we had utilized $nil (December 31, 2011 - $0.4 million) of the unsecured line of credit to support letters of credit in favour of the Ontario Ministry of Finance related to real estate transactions.

**Investment commitments**

As at June 30, 2012, we had commitments to fund investments of $269 million (December 31, 2011 - $88 million), commitments for investments in associates and jointly controlled entities of $225 million (December 31, 2011 - $240 million) and commitments for investment properties for $19 million (December 31, 2011 - $nil).

**New legislation and regulation to eliminate unfunded liability.**

On June 5, 2012, the Government of Ontario proclaimed legislation and created an accompanying regulation requiring the WSIB to eliminate its deficit, or unfunded liability by 2027. In order to meet this obligation which comes into force on January 1, 2013, we have developed a robust financial plan to measure our progress.

## 6 Critical Accounting Estimates and Judgments

*A description of the critical estimates and judgments that affect the measurement and presentation within the condensed interim consolidated financial statements.*

The preparation of the condensed interim consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the condensed interim consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the condensed interim consolidated financial statements, and actual results could differ from estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the condensed interim consolidated financial statements.

**Benefit liabilities**

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred prior to the reporting date. The measurement of the benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on investments, general inflation and discount rates. Changes in these estimates and assumptions could have an impact on the measurement of the benefit liabilities and benefit costs.

**Employee benefit plans**

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and employee benefit costs.

**Fair value measurement of financial instruments**

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

### Fair value measurement of investment properties

The WSIB's investment properties are owned indirectly through subsidiaries or jointly controlled entities. Investment properties are remeasured to fair value at each reporting date. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

## 7 Recent Accounting Pronouncements

*A discussion of new and amended IFRS developments that will or might impact our condensed interim consolidated financial statements.*

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

**IFRS 9 *Financial Instruments*** ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 as part of the IASB's ongoing project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carried forward the existing requirements in IAS 39.

**IFRS 10 *Consolidation*** ("IFRS 10")

IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 Consolidated and Separate Financial Statements ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC 12 Consolidation - Special Purpose Entities and parts of IAS 27.

**IFRS 11 *Joint Arrangements*** ("IFRS 11")

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non-monetary Contributions by Venturers.

In conjunction with the issue of IAS 11, IAS 28 Investments in Associates was amended to include joint ventures within its scope, and to address the guidance included in IFRS 10 and IFRS 12 Disclosure of Interests in Other Entities. IAS 28 has been retitled Investments in Associates and Joint Ventures.

**IFRS 12 *Disclosures of Interests in Other Entities*** ("IFRS 12")

IFRS 12 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

**IFRS 13 *Fair Value Measurement*** ("IFRS 13")

IFRS 13 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 13 defines fair value and sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

**IAS 19 *Employee Benefits*** ("IAS 19")

Amendments to IAS 19 were issued in June 2011. The amended standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The amendments to IAS 19 include eliminating the corridor approach to recognizing actuarial gains and losses. Entities will also need to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components: service costs; net interest on the net defined benefit liabilities (assets); and remeasurements of the net defined benefit liabilities (assets). The amendments also enhance disclosure about the risks arising from defined benefit plans.

**IAS 1 *Financial Statement Presentation*** ("IAS 1")

Amendments to IAS 1 were issued in June 2011. The amended standard is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The amendments to IAS 1 will require entities to group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date.

**IAS 32 *Financial Instruments: Presentation*** ("IAS 32") **and IFRS 7 *Financial Instruments: Disclosures*** ("IFRS 7")

Amendments to IAS 32 and IFRS 7 were issued in December 2011. The amended IFRS 7 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The amended IAS 32 is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments. The amendments to IFRS 7 include new disclosure requirements intended to facilitate comparisons to financial statements prepared under US GAAP.

### Exposure Drafts

- **Insurance contracts.** In July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant impact on the WSIB's consolidated financial statements, primarily as it relates to the calculation of benefit liabilities due to the use of a lower discount rate reflecting current market interest rates and the inclusion in liabilities of an explicit risk margin. However, the new standard is not finalized and will not have an impact until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain, however at this time it is unlikely that the new standard would be implemented before 2016.
- **Other.** The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

## 8 Legal Contingences

*A discussion of our legal proceedings, claims and other legal contingencies.*

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

## 9 Outlook

*The outlook for our business.*

Set forth below is an update of our Outlook included in our Fourth Quarter 2011 Report to Stakeholders.

| Item | Original Expectation | Current Outlook |
|---|---|---|
| Premiums | 2.0% increase reflecting a 2.0% increase in average published premium rates. | Modestly higher premiums reflecting growth in insurable payrolls and increase in average published premium rates. |
| Net investment income | Moderate improvement over 2.3% return in 2011. | No change. |
| Benefit costs | Continued downward trend reflecting improved operating results. | Lower than expected claims reflecting greater improvement in operating results. |
| Administration and other expenses | Relatively stable after reflecting more than $27 million of termination benefits. | No change. |
| Legislated obligations | Modest growth in this area as the prevention mandate moves to the Ministry of Labour. | No change. |
| Unfunded liability | Based on current funding and benefit levels and current accounting and actuarial standards (see Section 7 - Recent Accounting Pronouncements), we believe the unfunded liability has peaked and will decrease in 2012 and beyond, reflecting continued improved operating performance. | No change. |

## 10 Internal Control Over Financial Reporting

*A statement of responsibilities regarding internal control over financial reporting.*

The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed interim consolidated financial statements using accounting policies consistent with IFRS. Management is responsible for the accuracy, integrity and objectivity of the condensed interim consolidated financial statements within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information included in the second quarter report and ensuring its consistency with the condensed interim consolidated financial statements.

## 11 Risk Factors

*A discussion of the more significant risk factors affecting our business.*

### Introduction

We face a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties we face. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected. While we employ a broad and diversified set of risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every outcome or the specifics and timing of such outcomes.

Our risks can be broadly categorized as either operational or investment related in nature, each of which is summarized below, along with our mitigation strategies.

### Operational risks

Operational risks include those risks that can cause an adverse impact on our operating results. Significant risks related to Operations are listed below.

### Strategy

While we have been successful in implementing the near term milestones of our strategic plan, we cannot be sure we will continue to be successful in implementing our strategies. We may experience difficulties due to adverse economic conditions, changes in regulatory requirements, delays in implementing new technologies or incurring unforeseen costs. To help mitigate these risks, we rely extensively on a comprehensive planning capability, analytical tools, and technology.

### Benefit liabilities

Benefit liabilities are estimated to cover the estimated ultimate unpaid liability for benefits with respect to reported and unreported claims incurred as of the end of each accounting period. Our success is dependent on our ability to accurately assess the risks associated with the benefit liability being compensated. Failure to accurately assess the risks assumed may lead to the setting of premium rates that are inadequate to cover costs and could adversely affect our comprehensive income and financial condition. Benefit liabilities do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of benefit liabilities is an inherently uncertain process.

Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected levels of inflation, the availability, utilization and cost of health care services, injury severity and duration, availability of return to work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes. We mitigate these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting our resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and specifically as it relates to worker compensation matters.

Under expected future accounting changes for insurance contracts (see Section 7 - Recent Accounting Pronouncement), this standard is expected to have a significant impact on the WSIB's consolidated financial statements, primarily as it relates to the calculation of benefit liabilities due to the use of a lower discount rate reflecting current market interest rates and the inclusion in liabilities of an explicit risk margin.

**Premium revenues**

We set premiums on an annual basis to cover a significant portion of our anticipated operating costs. Factors, many of which are beyond our control, can change between the time of premium setting and the fiscal year to which the premium relates, causing premiums to be insufficient to cover annual operating costs and leading to an increase in both the size of the unfunded liability and pressure to increase future premium rates. We mitigate this risk by diligently assessing our anticipated operating costs factoring in both known variables such as salaries and benefits as well as anticipated variables such as new claims costs and the cost of our business transformation efforts.

**Economic conditions and workforce changes**

Our business may be materially adversely affected from time to time by general economic conditions. We are particularly susceptible to both the level and composition of employment in the province. Employers covered under the Workplace Safety and Insurance Act, 1997 ("WSIA") pay premiums based on one of 154 premium rates established by us multiplied by the employer's insurable payroll. Accordingly, to the extent the province's economy incurs low or modest growth, our premiums will be adversely affected. Additionally, the province's workforce continues to have a greater percentage of older workers and shift toward non-traditional jobs such as knowledge work generally supplied by workplaces not compulsorily covered by the WSIA. As well, the trend to more part-time and temporary work may result in higher claims volumes and costs due to challenges with return to work programs. We mitigate these risks by conducting economic forecasting to better project the level of future insurable payrolls and the employment levels within the underlying rate groups.

**Business interruption**

We may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events, an example of which is a global flu pandemic. Our operations may be subject to losses resulting from such disruptions. Losses can relate to financial assets and also to key personnel. If our business continuity plans cannot be put into action or do not take such events into account, losses may increase further. In order to maintain the integrity and continuity of our operations in the event of a crisis, we have developed several communication protocols. For example, emergency action plans, business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis.

**Dependency on key employees**

Our success is dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the efficiency of our business operations. We have developed a focused recruiting strategy to aggressively market careers and opportunities. The strategy includes an updated website, focused external recruiting campaigns, rebranding and targeted advertising. Talent identification and development programs have been implemented to retain and grow existing talent and ingrain succession planning.

### Technology

Third parties provide certain key components of our business infrastructure such as voice and data communications and network access. We retain confidential information regarding our business dealings in our computer systems, including, in some cases, confidential personal information regarding benefit claimants. Given the high volume of transactions processed daily, we are reliant on such third party provided services to successfully deliver our products and services while ensuring the security of our data. Despite our contingency plans and those of the third party service providers, failure of these systems could interrupt our operations and impact our ability to rapidly evaluate and commit to new business opportunities. In addition, a security breach of our information systems could damage our reputation or result in liability. The WSIB has taken steps e.g. encryption requirements for portable devices, confidentiality agreements with vendors, privacy protocols etc. to mitigate these risks.

### Reputation

From time to time, various stakeholder groups or the media may focus attention on our services, thereby subjecting us to periodic negative publicity. We also may be negatively impacted in relation to our information systems and technology, or if we engage in practices resulting in increased public attention to our business. To mitigate these risks, our senior officers oversee our disclosure practices and procedures, and under the direction of our Audit and Finance Committee approve the release of material financial information. Additionally, we continually review our enterprise risk management activities to identify situations that can adversely affect our reputation.

### Regulatory, political and other influences

As an Agency of the Provincial government, our business is especially susceptible to changing political and regulatory influences. Any programs to reform or amend the WSIA could adversely affect us. We mitigate this risk by engaging with the Minister of Labour as well as our stakeholder community to ensure, to the greatest extent possible, that any changes to existing programs are developed and implemented in a manner that best aligns with our strategic plan and organizational capabilities.

### Investment risks

Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the fund is established. This risk would be manifest in the failure to achieve a return of at least the long-term actuarial discount rate of 6% (5.5% to 2015 and 6% thereafter) over a horizon of rolling ten to fifteen-year periods. Our overarching risk mitigation tool for investment risk is through the diversification of investment return sources as provided for in our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for their approval.

The significant risks related to investments include liquidity risk, credit risk and market risk and are discussed below:

### Liquidity risk

Liquidity risk is the risk we will encounter difficulty in meeting obligations associated with financial liabilities. We mitigate this risk by investing the majority of our assets in readily marketable instruments, publicly traded equity, and fixed income securities and invest the remainder of our investments in real estate and infrastructure investments that provide steady cash flows. A portion of our investments is maintained in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements. We also have a $150 million unsecured committed credit facility, which we can utilize to manage our liquidity needs.

## Credit risk

Credit risk is the risk one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. We are exposed to several types of credit risk, as follows:

- Our fixed income investments consist primarily of investment grade debt instruments. We manage our credit risk through holding a diversified portfolio of debt instruments.
- We manage counterparty risk relating to our security lending program by establishing a pre-approved qualified borrower list and through exposure limits. In addition, we mitigate credit risk by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety. We further mitigate credit risk on counterparties by receiving indemnities from financial institutions.
- We pay insurance benefits for Schedule 2 workers and are then reimbursed by their employers for the related costs. We mitigate the risk of credit loss by holding collateral in the form of letters of credit issued by highly rated Canadian financial institutions.
- We enter into annuity agreements with various Canadian life insurance companies, which have credit ratings of at least A or better, to provide for fixed and recurring payments to claimants. We are exposed to the credit risk that life insurers may fail to fulfill their obligations.

## Market risk

There are four types of market risk we are exposed to including currency risk, interest rate risk, price risk and concentration risk as follows:

- Currency risk is the risk of loss due to adverse movements in foreign currency rates as compared with the Canadian dollar. We use foreign exchange contracts to hedge exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception.
- Interest rate risk is the potential for financial loss arising from changes in interest rates. We review interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify the WSIB's exposure to the impact of changes in interest rate levels.
- Price risk is the risk 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. We mitigate price risk by diversifying our investment portfolio in accordance with our investment policies.
- Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet contractual commitments. We mitigate these risks through limits on exposure to regions and sectors and limits on underlying securities.

## 12 Non-IFRS Financial Measure

*A definition of our non-IFRS financial measure.*

The WSIB's MD&A includes "adjusted comprehensive income" which is a non-IFRS financial measure. The definition of adjusted comprehensive income is comprehensive income (loss) minus net investment income (loss). This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other companies. The WSIB uses this measure to assess its performance and to make further operating decisions.

## 13 Forward-looking Statements

*Caution regarding forward-looking statements.*

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words, such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements relate to, among other things, our future results, levels of activity, performance, goals or achievements or other future events. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other charges announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

# WORKPLACE SAFETY AND INSURANCE BOARD

## Condensed Interim Consolidated Statements of Financial Position

**Unaudited**

**(millions of Canadian dollars)**

| | Note | June 30 2012 | December 31 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 1,082 | 983 |
| Receivables | | 1,171 | 1,041 |
| Investment receivables | | 218 | 115 |
| Investments | 8 | 13,852 | 13,648 |
| Investments under securities lending program | 8 | 715 | 523 |
| Investments in associates and jointly controlled entities | | 430 | 375 |
| Investment property | 9 | 587 | 488 |
| Property and equipment | | 176 | 182 |
| Intangible assets | | 45 | 50 |
| **Total assets** | | **18,276** | **17,405** |
| **Liabilities** | | | |
| Payables and accruals | | 1,088 | 1,077 |
| Investment payables | | 90 | 23 |
| Long-term debt | | 169 | 143 |
| Loss of Retirement Income Fund liability | | 1,302 | 1,254 |
| Employee benefit plans | | 851 | 812 |
| Benefit liabilities | 10 | 26,530 | 26,390 |
| **Total liabilities** | | **30,030** | **29,699** |
| **Deficiency of assets** | | | |
| Unfunded liability attributable to WSIB stakeholders | | (13,740) | (14,199) |
| Non-controlling interest | | 1,986 | 1,905 |
| **Total deficiency of assets** | | **(11,754)** | **(12,294)** |
| **Total liabilities and deficiency of assets** | | **18,276** | **17,405** |

Commitments and contingent liabilities (note 11)

Subsequent events (note 13)

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

## Condensed Interim Consolidated Statements of Comprehensive Income

**Unaudited**

**(millions of Canadian dollars)**

| | Note | Three months ended June 30 2012 | Three months ended June 30 2011 | Six months ended June 30 2012 | Six months ended June 30 2011 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums | 5 | 1,056 | 992 | 2,026 | 1,890 |
| Net investment income (loss) | | | | | |
| Investment income (loss) | 8 | (157) | 116 | 556 | 403 |
| Investment expenses | 8 | (24) | (22) | (48) | (42) |
| Income from associates and jointly controlled entities | | 16 | 6 | 30 | 9 |
| | | (165) | 100 | 538 | 370 |
| | | **891** | **1,092** | **2,564** | **2,260** |
| **Expenses** | | | | | |
| Benefit costs | | | | | |
| Benefit payments | 10 | 673 | 719 | 1,378 | 1,463 |
| Claim administration costs | 10 | 102 | 90 | 225 | 182 |
| Changes in actuarial valuation of benefit liabilities | 10 | 150 | (112) | 140 | (51) |
| | | 925 | 697 | 1,743 | 1,594 |
| Loss of Retirement Income Fund contributions | | 17 | 17 | 34 | 35 |
| Administration and other expenses | 6 | 75 | 70 | 157 | 142 |
| Legislated obligations and commitments | 12 | 36 | 53 | 95 | 110 |
| | | **1,053** | **837** | **2,029** | **1,881** |
| **Comprehensive income (loss) for the period** | | **(162)** | **255** | **535** | **379** |
| **Comprehensive income (loss) attributable to:** | | | | | |
| WSIB stakeholders | | (145) | 241 | 459 | 328 |
| Non-controlling interest | | (17) | 14 | 76 | 51 |
| | | **(162)** | **255** | **535** | **379** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD

**Condensed Interim Consolidated Statements of Changes in Deficiency of Assets**
**Unaudited**
**(millions of Canadian dollars)**

| | Deficiency of Assets | | |
|---|---|---|---|
| | **Unfunded Liability Attributable to WSIB Stakeholders** | **Non-controlling Interest** | **Total** |
| Balance at December 31, 2010 | (12,438) | 1,863 | (10,575) |
| Comprehensive income | 328 | 51 | 379 |
| Change in ownership share in investments | - | 1 | 1 |
| Balance at June 30, 2011 | (12,110) | 1,915 | (10,195) |
| Comprehensive income (loss) | (2,089) | 2 | (2,087) |
| Change in ownership share in investments | - | (12) | (12) |
| Balance at December 31, 2011 | (14,199) | 1,905 | (12,294) |
| Comprehensive income | 459 | 76 | 535 |
| Change in ownership share in investments | - | 5 | 5 |
| **Balance at June 30, 2012** | **(13,740)** | **1,986** | **(11,754)** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD
## Condensed Interim Consolidated Statements of Cash Flows
**Unaudited**
**(millions of Canadian dollars)**

| | Three months ended June 30 2012 | Three months ended June 30 2011 | Six months ended June 30 2012 | Six months ended June 30 2011 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Comprehensive income (loss) | (162) | 255 | 535 | 379 |
| Adjustments: | | | | |
| Amortization of net discounts on investments | 2 | 2 | 5 | 6 |
| Amortization of property, equipment and intangible assets | 6 | 6 | 13 | 12 |
| Changes in fair value of investments | 335 | 22 | (317) | (178) |
| Changes in fair value of investment property | (16) | - | (14) | - |
| Dividend income from equity securities | (77) | (74) | (127) | (117) |
| Income from associates and jointly controlled entities | (16) | (6) | (30) | (9) |
| Interest income | (58) | (62) | (116) | (122) |
| Interest expense | 4 | 4 | 7 | 7 |
| | 18 | 147 | (44) | (22) |
| Change in non-cash balances related to operations: | | | | |
| Receivables | (74) | (128) | (130) | (170) |
| Payables and accruals | 68 | 78 | 11 | 55 |
| Loss of Retirement Income Fund liability | (11) | 16 | 48 | 47 |
| Employee benefit plans | 17 | 7 | 38 | 16 |
| Benefit liabilities | 150 | (112) | 140 | (51) |
| | 150 | (139) | 107 | (103) |
| **Net cash provided by (used in) operating activities** | **168** | **8** | **63** | **(125)** |
| **Investing activities:** | | | | |
| Dividends received from equity securities, associates and jointly controlled entities | 80 | 73 | 128 | 106 |
| Interest received | 78 | 81 | 119 | 122 |
| Additions of property, equipment and intangible assets | (1) | (4) | (2) | (7) |
| Purchase of investments | (5,490) | (3,937) | (10,883) | (9,335) |
| Sale of investments | 5,372 | 3,865 | 10,764 | 9,197 |
| Additions of investment property | (17) | (1) | (20) | (1) |
| Acquisition of associates and jointly controlled entities | (23) | - | (29) | (4) |
| Acquisition of subsidiaries | (35) | - | (35) | - |
| Disposition of subsidiaries | - | - | - | 30 |
| **Net cash provided by (used in) investing activities** | **(36)** | **77** | **42** | **108** |
| **Financing activities:** | | | | |
| Disposition of non-controlling interest | 15 | 32 | 27 | 46 |
| Distributions paid by subsidiaries to non-controlling interest | (15) | (15) | (27) | (29) |
| Repayment on mortgages and finance leases | 3 | (2) | 1 | (3) |
| Interest paid on mortgages and finance leases | (4) | (3) | (7) | (7) |
| **Net cash provided by (used in) financing activities** | **(1)** | **12** | **(6)** | **7** |
| **Increase (decrease) in cash and cash equivalents** | 131 | 97 | 99 | (10) |
| Cash and cash equivalents, beginning of period | 951 | 902 | 983 | 1,009 |
| **Cash and cash equivalents, end of period** | **1,082** | **999** | **1,082** | **999** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

## 1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario, Canada (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act (Ontario)*, 1997 (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario-based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's primary place of business is 200 Front Street West, Toronto, Ontario M5V 3J1.

## 2. Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

The condensed interim consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on August 16, 2012.

## 3. Summary of Significant Accounting Policies

### Basis of presentation

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for the following items:

i) financial instruments classified as at fair value through profit or loss, which are measured at fair value;

ii) investment properties, which are measured at fair value; and

iii) the defined benefit pension and other employee benefit plan liabilities, which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

### Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB employees' pension plan is a non-controlling interest. These subsidiaries include the following:

i) Absolute Return (2012) Pooled Fund Trust;

ii) Diversified Beta Strategies Limited;

iii) Diversified Markets (2009) Pooled Fund Trust;

iv) WSIB Investments (Fixed Income) Pooled Fund Trust;

v) WSIB Investments (Infrastructure) Pooled Fund Trust;

vi) WSIB Investments (Public Equities) Pooled Fund Trust;

vii) WSIB Investments (Realty) Limited; and

viii) WSIB Investments (Total Return) Pooled Fund Trust.

b) Non-controlling interests

Non-controlling interests represent other investors' proportionate interest of the net assets and comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100%. Comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

c) Investments in associates and jointly controlled entities

Associates are entities over which the WSIB has significant influence, but not control. Generally, the WSIB is considered to have significant influence when it owns more than 20% of an entity, but does not control or jointly control that entity. Jointly controlled entities are entities over whose activities the WSIB has joint control. Joint control exists when the strategic, financial, and operating decisions related to the entity require unanimous consent of parties sharing control.

Investments in associates and jointly controlled entities are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and are adjusted for the WSIB's proportionate share of the associates' or jointly controlled entities' net income or loss. The consolidated financial statements include the WSIB's share of the net income and losses and any equity movements of investments in associates and jointly controlled entities from the date significant influence or joint control commences until the date significant influence or joint control ceases. When the WSIB's share of losses exceeds its interest in an investment, in an associate, or in a jointly controlled entity, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent the WSIB has an obligation to make payments, or has made payments, on behalf of the investee.

d) Jointly controlled assets

Jointly controlled assets are investments in economic activities over which the WSIB has joint control. Joint control exists when the strategic, financial, and operating decisions related to the assets require unanimous consent of parties sharing control.

These consolidated financial statements include the WSIB's share of the jointly controlled assets and its share of the liabilities incurred jointly with the other investors. The consolidated financial statements also include the WSIB's share of the revenues generated and expenses incurred by the economic activity related to the jointly controlled assets from the date joint control commences until the date joint control ceases.

**Business combinations**

At times, the WSIB's investment properties are acquired through business combinations. Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

**Foreign currency**

The WSIB's functional and presentation currency is the Canadian dollar. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries, associates and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statement of comprehensive income.

**Financial instruments**

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position only when the WSIB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets classified as at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial assets and financial liabilities are classified as follows:

| Financial asset or financial liability | Classification |
|---|---|
| Cash and cash equivalents | Fair value through profit and loss - a) |
| Receivables | Loans and receivables - b) |
| Investment receivables | Loans and receivables - b) |
| Investments | Fair value through profit and loss - a) |
| Investments under securities lending program | Fair value through profit and loss - a) |
| Payables and accruals | Other financial liabilities - c) |
| Investment payables | Other financial liabilities - c) |
| Long-term debt | Other financial liabilities - c) |

a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of comprehensive income.

Investments and investments under the WSIB's securities lending program are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Interest income is recognized when it is earned and dividend income is recognized when the WSIB's right to receive payment has been established. Interest income and dividend income are included in investment income on the consolidated statement of comprehensive income.

### Investment property

Investment property is property held either to earn rental income or for capital appreciation, or both. Investment properties acquired through a business combination are recognized at fair value and the related transaction costs are expensed as incurred. Investment properties acquired through an asset purchase are recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are primarily based on discounted expected future cash flows of each property, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based on, among other things, rental income from current leases and assumptions in respect of rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

### Property and equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Property and equipment are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Land | Not amortized |
| Buildings | |
| Primary structure | 60 years |
| Components with different useful lives | 10 - 30 years |
| Leasehold improvements | Lesser of the lease term or 10 years |
| Office and computer equipment | 3 - 5 years |

### Intangible assets

Intangible assets, which include internally developed and acquired software, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years.

Development costs associated with internally developed computer software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB’s intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

### Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee.

a) Leases where the WSIB is the lessee

Assets held under finance leases are recognized as assets and included in property and equipment. At the inception of the lease, the asset is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset. A corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

Total payments under operating leases are recognized as an expense in administration and other expenses on a straight-line basis over the term of the lease. As an exception, operating leases for investment property are accounted for as a finance lease. Investment properties held under operating leases are recognized as an asset and measured at fair value.

b) Leases where the WSIB is the lessor

All leases to which the WSIB is the lessor are leases of its investment property and have been determined to be operating leases. Rental revenue from operating leases is recognized in investment income on a straight-line basis over the term of the lease.

**Impairment of non-financial assets**

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of comprehensive income. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets with independent cash inflows.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

**Premium revenues**

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employers are required by legislation to pay premiums to the WSIB, which are fully earned and recognized over the period that coverage is provided.

b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provisions of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenue or expenses.

**Loss of Retirement Income Fund liability**

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB makes contributions to the Loss of Retirement Income Fund for injured workers who have received loss of earnings benefits for twelve consecutive months. The WSIB's contributions, and any voluntary contributions from injured workers, are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation to injured workers is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense in the consolidated statement of comprehensive income.

**Benefit liabilities**

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. These future payments are for loss of earnings, labour market re-entry, short and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. The benefit liabilities are determined by estimating future benefit payments in accordance with the adjudication practices and relevant legislation in effect at the consolidated statement of financial position date. At a minimum, actuarial assumptions are reviewed annually when the actuarial valuation is performed. Changes in the benefit liabilities are recognized in benefit costs in the consolidated statement of comprehensive income.

The benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

**Employee future benefits**

The WSIB maintains two employee defined benefit pension plans, and a plan that provides other long-term employee benefits. The obligations for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability.

a) Defined benefit pension plans

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, compensation level increases and retirement ages of workers.

Actuarial gains and losses are recognized in the consolidated statement of comprehensive income based on the corridor method. Under the corridor method, net actuarial gains and losses are amortized when the amount exceeds 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The net actuarial gains or losses in excess of this threshold are amortized on a straight-line basis over the average remaining service period of active workers expected to receive benefits under the plan.

b) Other long-term employee benefits

Other long-term employee benefits include post-retirement dental, extended health and life insurance benefits. The cost of other long-term employee benefits is actuarially determined and represents the amount of future benefit that workers have earned in return for their service in the current and prior periods.

**Termination benefits**

Termination benefits refer to benefits payable to employees as a result of voluntary or involuntary termination of employment. The cost of termination benefits is recognized in administration and other expenses when the WSIB is demonstrably committed to terminate the employment of an employee or group of employees or to provide benefits resulting from an offer of voluntary exit packages.

**Consolidated statements of cash flows**

The WSIB's consolidated statements of cash flows are presented using the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the consolidated financial statements for periods ending prior to December 31, 2011, the WSIB presented its consolidated statements of cash flows using the direct method, whereby major classes of gross cash receipts and gross cash payments were disclosed.

## 4. Critical Accounting Estimates and Judgments

The preparation of these condensed interim consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the condensed interim consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the condensed interim consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can have an effect on the amounts recognized in the condensed interim consolidated financial statements.

### Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. The measurement of the benefit liabilities requires the chief actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on investments, general inflation and discount rates. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Changes in these estimates and assumptions could have an impact on the measurement of the benefit liabilities and benefit costs.

### Employee benefit plans

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans' liability and employee benefit costs.

### Fair value measurement of financial instruments

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

### Fair value measurement of investment properties

Investment properties are re-measured to fair value at each reporting date, estimated based on annual valuations performed by third party appraisers. On a quarterly basis, the fair values of investment properties are updated based on internal valuation models incorporating available market evidence. When estimating the fair value of investment properties, the third party appraisers and management make estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

**Unaudited (millions of Canadian dollars)**

## 5. Revenues

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Premiums** | | | | |
| Schedule 1 employer premiums | 1,041 | 979 | 1,995 | 1,863 |
| Schedule 2 employer administration fees | 15 | 13 | 31 | 27 |
| | **1,056** | **992** | **2,026** | **1,890** |
| **Net investment income (loss)** (note 8) | **(165)** | **100** | **538** | **370** |
| | **891** | **1,092** | **2,564** | **2,260** |

### Premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Premiums are primarily derived from total insurable payrolls of Schedule 1 employers and are recognized over the period coverage is provided. Premiums also include:

i) experience rating refunds and surcharges, which are assessed based on the employers’ actual workplace injury experience and are recognized when determined; and

ii) interest and penalties, which are recognized when assessed.

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. The WSIB administers the payment of the benefits for workers of Schedule 2 employers. The Schedule 2 employer administration fees represent revenue received for the administration of Schedule 2 benefit payments.

## 6. Administration and Other Expenses

Administration and other expenses for the three months and the six months ended June 30 are comprised of the following:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Salaries and short-term benefits | 97 | 95 | 194 | 186 |
| Long-term benefit plans | 37 | 22 | 72 | 44 |
| Facilities | 11 | 10 | 21 | 20 |
| Bad debts | 7 | 11 | 9 | 22 |
| New systems development and integration | 6 | 1 | 8 | 2 |
| Amortization | 5 | 5 | 11 | 10 |
| Equipment and maintenance | 5 | 6 | 24 | 22 |
| Communications | 2 | 2 | 5 | 5 |
| Termination benefits | 1 | - | 27 | - |
| Other | 6 | 8 | 11 | 13 |
| | 177 | 160 | 382 | 324 |
| Claim administration costs allocated to benefit costs (note 10) | (102) | (90) | (225) | (182) |
| | **75** | **70** | **157** | **142** |

**Unaudited (millions of Canadian dollars)**

Claim administration costs allocated to benefit costs represent management's estimate of the administration and other expenses incurred to adjudicate and administer claims, and to process claim payments. These costs are allocated to benefit costs.

## 7. Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents are comprised of the following:

| | June 30 2012 | December 31 2011 |
|---|---|---|
| Cash | 421 | 467 |
| Short-term money market securities | 661 | 516 |
| | **1,082** | **983** |

For management purposes, cash and cash equivalents are held as follows:

| | June 30 2012 | December 31 2011 |
|---|---|---|
| For operating purposes | 250 | 328 |
| Held in investment portfolio (note 8) | 675 | 502 |
| Held in Loss of Retirement Income Fund | 157 | 153 |
| | **1,082** | **983** |

## 8. Investments and Net Investment Income

### Investment portfolio

The investment portfolio is presented in five asset classes as follows:

| | |
|---|---|
| Fixed income | Bonds, debentures, loans, notes, mortgages, money market and other fixed income investments. |
| Public equities | Investment in the equity, or securities convertible into equity, of public corporations. |
| Multi-asset strategies | Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset strategies may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments. |
| Real estate | Real estate debentures and properties in Canada diversified across office, retail, industrial and mixed use assets. |
| Infrastructure | Investments in transportation, utilities, energy and health care facilities. |

# WORKPLACE SAFETY AND INSURANCE BOARD
**Notes to Condensed Interim Consolidated Financial Statements**
**June 30, 2012**
**Unaudited (millions of Canadian dollars)**

The following provides a summary of the nature of the investments in the investment portfolio by asset class:

| | Fixed income | Public equities | Multi-asset strategies | Real estate | Infra-structure | Other | Jun. 30 2012 Total | Dec. 31 2011 Total |
|---|---|---|---|---|---|---|---|---|
| Equity securities | - | 6,699 | 454 | - | - | - | 7,153 | 6,875 |
| Fixed income securities | 4,874 | - | 382 | - | - | - | 5,256 | 5,337 |
| Hedge funds | - | - | 825 | - | - | - | 825 | 707 |
| Real estate debentures | - | - | - | 336 | - | - | 336 | 337 |
| Commingled investment funds | - | - | 685 | - | 216 | - | 901 | 771 |
| Annuities | - | - | - | - | - | 71 | 71 | 74 |
| Foreign exchange contracts | - | 11 | 13 | - | 1 | - | 25 | 70 |
| Investments and investments under securities lending program | 4,874 | 6,710 | 2,359 | 336 | 217 | 71 | 14,567 | 14,171 |
| Investment in associates and jointly controlled entities | - | - | - | 396 | 34 | - | 430 | 375 |
| Investment property (note 9) | - | - | - | 587 | - | - | 587 | 488 |
| Investment receivables | 38 | 112 | 66 | - | 2 | - | 218 | 115 |
| Investment payables | (3) | (87) | - | - | - | - | (90) | (23) |
| Cash and cash equivalents (note 7) | 166 | 217 | 256 | 31 | 5 | - | 675 | 502 |
| **Total investment portfolio** | **5,075** | **6,952** | **2,681** | **1,350** | **258** | **71** | **16,387** | **15,628** |
| June 30, 2012 - % of total | 31.0% | 42.4% | 16.4% | 8.2% | 1.6% | 0.4% | | |
| December 31, 2011 - % of total | 32.4% | 42.9% | 15.4% | 7.7% | 1.1% | 0.5% | | |

Holdings in the WSIB's investment portfolio are held directly or held indirectly through investments in subsidiaries, associates, jointly controlled entities or jointly controlled assets.

The WSIB's investment portfolio is presented in the consolidated statement of financial position within the following line items:

| | June 30 2012 | December 31 2011 |
|---|---|---|
| Investments | 13,852 | 13,648 |
| Investments under securities lending program - a) | 715 | 523 |
| Investment receivables | 218 | 115 |
| Investment payables | (90) | (23) |
| Investments in associates and jointly controlled entities | 430 | 375 |
| Investment property (note 9) | 587 | 488 |
| Cash and cash equivalents (note 7) | 675 | 502 |
| | **16,387** | **15,628** |

**Unaudited (millions of Canadian dollars)**

a) The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statement of financial position and are reclassified as investments under the securities lending program.

As at June 30, 2012, the fair value of securities maintained as collateral was approximately $759 (December 31, 2011- $551).

**Net investment income (loss)**

Net investment income (loss) by category of investments for the three months and the six months ended June 30 is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Equity securities | (362) | (88) | 316 | 138 |
| Fixed income securities | 114 | 132 | 112 | 130 |
| Amortization of premium/discount on bonds | (2) | (2) | (5) | (6) |
| Hedge funds | 10 | 38 | 17 | 37 |
| Real estate debentures | 6 | 5 | 9 | 9 |
| Commingled investment funds | 43 | - | 59 | (2) |
| Foreign exchange contracts | (53) | 16 | 16 | 80 |
| Futures | 43 | 12 | 32 | 25 |
| Income from associates and jointly controlled entities | 16 | 6 | 30 | 9 |
| Investment property | 30 | 11 | 41 | 22 |
| Investment expenses | (24) | (22) | (48) | (42) |
| Less: Income attributable to Loss of Retirement Income Fund | 14 | (8) | (41) | (30) |
| | **(165)** | **100** | **538** | **370** |

**Unaudited (millions of Canadian dollars)**

Net investment income (loss) is comprised of:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Realized and unrealized gains | 462 | 586 | 1,837 | 1,217 |
| Realized and unrealized losses | (796) | (607) | (1,519) | (1,038) |
| Interest and dividend income | 133 | 134 | 238 | 232 |
| Investment property | 30 | 11 | 41 | 22 |
| Income attributable to Loss of Retirement Income Fund | 14 | (8) | (41) | (30) |
| **Investment income (loss)** | **(157)** | **116** | **556** | **403** |
| Investment expenses | (24) | (22) | (48) | (42) |
| Income from associates and jointly controlled entities | 16 | 6 | 30 | 9 |
| | **(165)** | **100** | **538** | **370** |

## 9. Investment Property

The reconciliation of carrying amounts for investment properties is set forth below:

| | **June 30 2012** |
|---|---|
| Balance, beginning of period | 488 |
| Asset acquisitions | 11 |
| Business combinations | 63 |
| Capital expenditures | 9 |
| Other | 2 |
| Gains from increases in fair value | 14 |
| **Balance, end of period (note 8)** | **587** |

### Asset acquisition

On June 4, 2012, the WSIB acquired a 75% undivided co-ownership interest in an investment property through an asset acquisition for total cash consideration of $11.

### Business combinations

On April 19, 2012, the WSIB acquired an investment property through the acquisition of 100% of a business for total cash consideration of $17.

On May 1, 2012, the WSIB acquired an investment property through the acquisition of 80% of a business for total cash consideration of $18.

**Unaudited (millions of Canadian dollars)**

Total assets acquired and liabilities assumed were as follows:

| | **June 30, 2012** |
|---|---|
| Investment property | 63 |
| Payables | (1) |
| Mortgage | (22) |
| | 40 |
| Non-controlling interest | (5) |
| | **35** |

## 10. Benefit Liabilities and Benefit Costs

### Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments of claims related to workers of Schedule 1 employers. The benefit liabilities include reported and unreported claims incurred on or before the statement of financial position date, and the estimated cost of administering those claims. The benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

The benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; the WSIB's payment of these claims is reimbursed by the self-insured Schedule 2 employers on an ongoing basis.

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the Canadian Institute of Actuaries and are comprised of the following:

| | **June 30 2012** | **December 31 2011** |
|---|---|---|
| Loss of earnings | 9,831 | 9,758 |
| Workers' pension | 6,391 | 6,552 |
| Health care | 3,865 | 3,825 |
| Survivor benefits | 2,542 | 2,508 |
| Future economic loss | 2,094 | 2,176 |
| External providers | 248 | 261 |
| Non-economic loss | 278 | 274 |
| Future claims administration costs and other | 1,281 | 1,036 |
| | **26,530** | **26,390** |

**Unaudited (millions of Canadian dollars)**

### Benefit costs

Benefit costs are comprised of the following:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Benefit payments | 673 | 719 | 1,378 | 1,463 |
| Claim administration costs | 102 | 90 | 225 | 182 |
| Change in actuarial valuation of benefit liabilities | 150 | (112) | 140 | (51) |
| | **925** | **697** | **1,743** | **1,594** |

## 11. Commitments and Contingent Liabilities

### Investment commitments

As at June 30, 2012, the WSIB had commitments to fund real estate and infrastructure investments for $18 and $251, respectively (December 31, 2011 - $21 and $67). In addition, the WSIB had $225 of commitments for additional investments in associates and jointly controlled entities (December 31, 2011 - $240) and $19 of commitments to acquire investment properties (December 31, 2011 - $nil).

### Legislated obligations and commitments

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the Occupational Health and Safety Act. The WSIB also funds the Ministry of Labour prevention mandate, Safe Workplace Associations, clinics, and training centres, the Workplace Safety and Insurance Appeals Tribunal, the offices of each of the Worker and Employer Adviser, and the Institute for Work and Health. Funding is recognized in the consolidated statement of comprehensive income in the period to which the funding related.

Commitments as at June 30, 2012 were $244 related to the Government of Ontario's 2013 fiscal year April 1, 2012 through March 31, 2013.

### Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

## 12. Related Party Transactions

### Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

On June 5, 2012, the Government of Ontario passed legislation and an accompanying regulation which comes into force on January 1, 2013 requiring the WSIB to reach sufficiency funding of 60% by 2017, 80% by 2022, and 100% by 2027.

Pursuant to the Occupational Health and Safety Act ("OHSA"), the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is required to fund the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres. The total amount of funding provided under these legislated obligations and commitments for the three months and the six months ended June 30, 2012 were $36 and $95 (2011 - $53 and $110) respectively.

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents as legislated obligations in the consolidated statement of comprehensive income, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments at June 30, 2012 are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,048 (December 31, 2011 - $975).

### 13. Subsequent Event

On August 8, 2012, the WSIB disposed of an investment in a jointly controlled entity for net proceeds of $61, which equals the carrying value as at June 30, 2012.