Workplace Safety and Insurance Board

Third 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 and nine months ended September 30, 2012.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 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 December 13, 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

December 13, 2012
Toronto, Ontario

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1 Quarter in Review

Highlights of our performance for the three and nine months ended September 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.

In order to better measure the underlying performance of our business, we are introducing the use of Operating comprehensive income, a non-IFRS measure defined as premium revenues less total costs excluding Changes in actuarial valuation of benefit liabilities and employee benefit plans. See Section 12 – Non-IFRS Financial Measure.

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

- Comprehensive income was $648 million reflecting $488 million of net investment income and corresponding to a 3.4% return on investments. Operating comprehensive income increased by $98 million, which, along with repatriating $100 million of cash to our Investment Fund demonstrates continued operating improvements.
- Premium revenues increased $59 million or 5.9% reflecting $81 million of higher premiums indicative of strengthening economic conditions partially offset by a $22 million increase in experience rating refunds, primarily attributed to improved return to work outcomes.
- Benefit payments decreased $58 million or 8.3% reflecting improved recovery and return to work outcomes for injured workers, notwithstanding a 1.3% increase in the number of allowed claims attributed to increased employment levels.
- Administration and other expenses, before allocation to benefit costs, decreased $1 million or 0.6% prior to a $13 million increase in the cost of long-term benefit plans reflecting more conservative actuarial assumptions.
- During the third quarter, the WSIB continued to make significant progress in operating efficiency and improving injured worker outcomes, as follows:
    - *Faster Entitlement Decisions.* During the third quarter of 2012, 41% of all registered claims were eAdjudicated, resulting in 94.9% of eligibility decisions being made within two weeks compared to 87.6% in the third quarter of 2011.
    - *Improving Recovery and Return to Work Outcomes.* During the third quarter of 2012, we saw a 4.3% decrease in the number of injured workers receiving wage loss benefits compared to the third quarter of 2011, further demonstrating meaningful progress in improved recovery and return to work outcomes. Additionally, the percentage of non-locked in claims on 100% loss of earnings decreased from 62.1% in the third quarter of 2011 to 52.2% in the third quarter of 2012 further demonstrating improved results.
    - *More Focused Health Care.* As a result of consistent assessments and application of policy, we saw a 1.8 basis point reduction in the percentage of workers receiving a permanent impairment award (8.1% in the third quarter of 2012 from 9.9% in the third quarter of 2011).

Increased premium revenues. Gross premiums increased $81 million or 8.3% reflecting $44 million attributed to the 2.0% premium rate increase announced in 2011 and $37 million attributed to a 3.6% increase in insurable earnings. Additionally, as previously noted, we experienced a $22 million increase in experience rating refunds, which are deducted from gross premiums. Our experience rating programs will be addressed as part of the broader Rate Framework consultation to commence in the first quarter of 2013.

Strong investment returns. Net investment income was $488 million reflecting a 3.4% return on investments attributed to strong equity returns and contributions from all other asset classes and ahead of expectations.

Benefit payments continue to trend down. Benefit payments decreased $58 million or 8.3% reflecting: (i) improved recovery and return to work outcomes for injured workers resulting in a 5.7% decrease in the number of workers receiving loss of earnings benefits; (ii) fewer paid claims, combined with more focused care resulting in health care costs declining by 5.3%; (iii) focused health care, combined with consistent assessment and application of policies resulting in a 1.8% reduction in the percentage of workers receiving permanent impairment awards; and (iv) a reduction in the average non-economic loss award from 13.1% to 10.1%.

***Administration and other expenses remain tightly controlled*.** Administration and other expenses, before allocation to benefit costs, and prior to a $13 million increase in long-term benefit plans reflecting more conservative actuarial assumptions decreased $1 million or 0.6% reflecting continued prudent fiscal management. This decrease was achieved by aggressive cost containment measures implemented during 2012, which fully offset $11 million of higher costs due to inflationary pressures.

Highlights for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011:

- Comprehensive income was $1,183 million reflecting $1,026 million of net investment income corresponding to a 7.5% return on investments. Operating comprehensive income increased by $279 million, which, along with repatriating $225 million of cash to our Investment Fund continues to demonstrate improved operating improvements.
- Premium revenues increased $195 million or 6.7% reflecting $225 million of higher premiums indicative of strengthening economic conditions and were partially offset by a $30 million increase in experience rating refunds attributed to improved return outcomes and reduced penalties and interest.
- Benefit payments decreased $143 million or 6.6% reflecting improved recovery and return to work outcomes for injured workers, notwithstanding a 1.4% increase in allowed claims attributed to increased employment levels.
- Administration and other expenses, before allocation to benefit costs, remained unchanged prior to a $41 million increase in the cost of long-term benefit plans reflecting more conservative actuarial assumptions and $27 million of termination benefits used to fund our transformational efforts.

Increased premium revenues. Gross premiums increased $225 million or 7.9% reflecting $133 million attributed to a 4.6% increase in insurable earnings and $92 million attributed to the 2.0% premium rate increase announced in 2011. Additionally, as previously noted, we experienced a $30 million increase in experience rating refunds, which are deducted from gross premiums.

Strong investment returns. Net investment income was $1,026 million reflecting a 7.5% return on investments, ahead of expectations. We expect to meet our 2012 investment return expectations reflecting prudent investment management and reduced volatility in our investment portfolio.

Benefit payments continue to trend down. Benefit payments decreased $143 million or 6.6% reflecting: (i) improved recovery and return to work outcomes for injured workers resulting in a 3.7% decrease in the number of workers receiving loss of earnings benefits; (ii) fewer paid health care claims, combined with more focused care resulting in a 1.8% decline in health care costs; (iii) focused health care, combined with consistent assessment and application of policies resulting in a 1.3% reduction in the percentage of workers receiving permanent impairment awards; and (iv) a reduction in the average non-economic loss payments from 13.1% to 10.5%.

***Administration and other expenses remain tightly controlled*.** Administration and other expenses, before allocation to benefit costs, prior to a $41 million increase in long-term benefit plans attributed to more conservative actuarial assumptions and $27 million of termination benefits due to the elimination of 317 full-time positions, were held flat, fully offsetting $13 million of inflationary pressures.

Other notable items:

Announcement of proposed new legislation. On October 22, 2012, the Ministry of Labour announced two changes to the Workplace Safety and Insurance Act (the “WSIA”), that it proposes to introduce when the Legislature resumes sitting. The first proposed change would eliminate the current provision that “locks in” loss of earnings benefits. Currently, benefits are generally “locked-in” after 72 months. Ontario is the only Canadian jurisdiction with a 72-month lock-in provision and the proposed legislative reforms would align the WSIB with workers’ compensation systems in other provinces. The second proposed change would have the WSIB base survivor benefits on the average earnings of the deceased worker’s occupation or trade rather than the statutory minimum currently provided under the WSIA.

Announcement of 2013 premium rates. On October 24, 2012, the WSIB announced that premium rates will increase by 2.5% for all employer rate groups in 2013. This action is a necessary step to reducing the WSIB’s unfunded liability, creating stable and competitive premium rates for the future and ensuring a sustainable workplace safety and insurance system for workers and employers.

Future adoption of IFRS accounting standards for employee benefits. The WSIB is required to implement an amended accounting standard on January 1, 2013 relating to how it accounts for employee benefits. Under this standard, the WSIB is expected to add approximately $586 million to its unfunded liability. Additionally, as long-term interest rates have declined by approximately 40 basis points or 10% for the nine months ended September 30, 2012, we estimate we will incur approximately $225 million of additional liability which will be added to our Employee benefit plan obligations at December 31, 2012. Accordingly, had the WSIB been required to reflect these obligations as at September 30, 2012, its unfunded liability would have been $13,934 million rather than $13,179 million and its corresponding funding ratio would have decreased from 56.3% to 54.9%. Given the severity that such accounting standards can have on our income, and hence our progress in meeting our sufficiency targets, we anticipate consulting with stakeholders in the development of a funding policy. This consultation will, among other things, address the volatile impact the accounting standards have on our earnings and their impact on achieving our sufficiency targets.

2 Operating Results

A more detailed discussion of our financial performance for the three and nine months ended September 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 and nine months ended September 30.

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Revenues				
Premiums	1,058	999	3,084	2,889
Net investment income (loss)				
Investment income (loss)	502	(670)	1,058	(267)
Investment expenses	(26)	(29)	(74)	(71)
Income from associates and jointly controlled entities	12	12	42	21
	488	(687)	1,026	(317)
	1,546	312	4,110	2,572
Expenses				
Benefit costs				
Benefit payments	637	695	2,015	2,158
Claims administration costs	99	90	324	273
Changes in actuarial valuation of benefit liabilities	8	(309)	148	(360)
	744	476	2,487	2,071
Loss of Retirement Income Fund contributions	16	18	50	53
Administration and other expenses	71	68	228	211
Legislated obligations and commitments	67	58	162	168
	898	620	2,927	2,503
Comprehensive income (loss) for the period	**648**	**(308)**	**1,183**	**69**
Comprehensive income (loss) attributable to:				
WSIB stakeholders	584	(221)	1,043	104
Non-controlling interest	64	(87)	140	(35)
	648	(308)	1,183	69
Other measures				
Operating comprehensive income[1]	168	70	305	26
Return on investments[2]	3.4%	(4.7)%	7.5%	(2.0)%

	September 30 2012	**December 31 2011**
Unfunded liability[3]	(13,179)	(14,222)
Funding ratio[4]	56.3%	52.1%

1. Operating comprehensive income is calculated as premium revenues less total costs excluding changes in actuarial valuation of benefit liabilities and employee benefit plans. See Section 12 – Non-IFRS Financial Measure.
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)	Three months ended September 30 2012	2011	Change $	Change %	Nine months ended September 30 2012	2011	Change $	Change %
Schedule 1 employer premiums								
Gross Schedule 1 premiums	1,057	976	81	8.3	3,059	2,834	225	7.9
Other income	-	-	-	-	-	1	(1)	(100.0)
Net experience rating refunds	(22)	(2)	(20)	100+	(49)	(23)	(26)	100+
Interest and penalties	9	11	(2)	(18.2)	29	36	(7)	(19.4)
	1,044	985	59	6.0	3,039	2,848	191	6.7
Schedule 2 administration fees	14	14	-	-	45	41	4	9.8
	1,058	**999**	**59**	**5.9**	**3,084**	**2,889**	**195**	**6.7**

For the three months ended September 30, 2012, Gross Schedule 1 premiums were $1,057 million compared to $976 million, an increase of $81 million or 8.3% reflecting a $44 million increase in average premium rates and a $37 million increase in insurable earnings. Net experience rating refunds increased by $20 million or 100+% reflecting improved return to work outcomes and strengthening economic conditions.

For the nine months ended September 30, 2012, Gross Schedule 1 premiums were $3,059 million compared to $2,834 million, an increase of $225 million or 7.9% reflecting a $133 million increase in insurable earnings and a $92 million increase in average premium rates. Net experience rating refunds increased by $26 million or 100+% reflecting improved return to work outcomes. Schedule 2 administration fees increased by $4 million or 9.8%, reflecting a modest increase in the expected administration costs and a lower base of benefit payments reimbursed by Schedule 2 employers.

Net Investment income (loss)

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

Asset Class	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(millions of Canadian dollars)	Investment income	Return %	Investment income	Return %	Investment income	Return %	Investment income	Return %
Fixed income	59	1.4	224	4.9	148	3.3	329	7.2
Public equities	284	4.4	(921)	(13.8)	571	9.1	(770)	(11.9)
Multi-asset strategies	133	4.9	7	0.4	252	10.5	121	6.8
Real estate	31	2.8	28	1.4	105	9.6	66	4.0
Infrastructure	5	2.7	4	3.1	18	10.2	5	4.3
Cash and cash equivalents	2	0.5	-	0.2	6	2.1	3	0.7
Investment income (loss)	514	3.4	(658)	(4.7)	1,100	7.5	(246)	(2.0)
Investment expenses	(26)		(29)		(74)		(71)	
	488		**(687)**		**1,026**		**(317)**	

For the three months ended September 30, 2012, investment income, prior to $26 million of investment expenses, was $514 million reflecting a 3.4% rate of return compared to investment loss of $658 million reflecting a 4.7% negative rate of return in the comparable period last year. The increase in net investment income is primarily attributed to strong returns in the public equities classes which generated 4.4% and 4.9% respective rates of return in the period.

For the nine months ended September 30, 2012, net investment income, prior to $74 million of investment expenses, was $1,100 million reflecting a 7.5% rate of return compared to an investment loss of $246 million reflecting a 2.0% negative rate of return in the comparable period in 2011. The increase in investment income reflects contributions in all asset classes and in particular public equities and multi-asset strategy asset classes, which generated 9.1% and 10.5%, respectively, rates of return in the period.

While global equity markets have been strong in 2012, they continue to exhibit significant volatility. Consequently, our net investment income for 2012 is cautiously anticipated to increase 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 statements of financial position. Benefit costs were comprised of the following:

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	**2012**	**2011**	**$**	**%**	**2012**	**2011**	**$**	**%**
Benefit payments	637	695	(58)	(8.3)	2,015	2,158	(143)	(6.6)
Claims administration costs	99	90	9	10.0	324	273	51	18.7
Changes in actuarial valuation of benefit liabilities	8	(309)	317	100+	148	(360)	508	100+
	744	**476**	**268**	**56.3**	**2,487**	**2,071**	**416**	**20.1**

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 September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	**2012**	**2011**	**$**	**%**	**2012**	**2011**	**$**	**%**
Loss of earnings	229	260	(31)	(11.9)	728	810	(82)	(10.1)
Workers' pension	162	170	(8)	(4.7)	491	511	(20)	(3.9)
Health care	106	112	(6)	(5.4)	349	356	(7)	(2.0)
Future economic loss	64	68	(4)	(5.9)	197	210	(13)	(6.2)
Survivor benefits	43	43	-	-	132	127	5	3.9
External providers	15	18	(3)	(16.7)	48	69	(21)	(30.4)
Non-economic loss	12	23	(11)	(47.8)	48	70	(22)	(31.4)
Other benefit costs	6	1	5	100+	22	5	17	100+
	637	**695**	**(58)**	**(8.3)**	**2,015**	**2,158**	**(143)**	**(6.6)**

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

- Loss of earnings benefits decreased by $31 million or 11.9% reflecting 6,272 or 17.3% fewer non-locked-in claims as at September 30, 2012 compared to the same period in 2011. This decrease was primarily due to 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 there was a reduction in the average non-economic loss award from 13.1% to 10.1%.
- Workers' pension decreased by $8 million or 4.7% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased by $6 million or 5.4% reflecting a 17.8% decrease in the number of claims requiring health care services, a $2.8 million reduction in drug payments, which reflects price reductions for generic drugs and few narcotics, notwithstanding a $1 million increase in payments to specialty clinics and programs of care supporting early return to work of injured workers.
- Future economic loss benefits decreased by $4 million or 5.9% reflecting the natural drop in the number of claimants that reach age 65, the age at which these benefits cease.
- Survivor benefits remained unchanged from the prior year.
- External providers expense decreased by $3 million or 16.7% primarily due to a fewer number of lost time claims and better management of external provider services for injured workers.
- Non-economic loss awards decreased by $11 million, reflecting fewer lost time injury claims in recent years, earlier and more effective health care and consistent assessment and application of policy as evidenced by a 3% reduction in the average permanent impairment award.
- Other benefit costs increased by $5 million or 100+% primarily due to lower recoveries related to asbestos settlements from United States-based bankruptcy trusts.

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

- Loss of earnings benefits decreased by $82 million or 10.1% reflecting 6,180 or 10.2% fewer non-locked-in claims as at September 30, 2012 compared to the same period ending in 2011. This decrease was primarily due to improved claims management through better recovery and return to work outcomes while the number of new lost time claims was virtually unchanged from 2011.
- Workers' pension decreased by $20 million or 3.9% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased by $7 million or 2.0%, reflecting a 3.2% decrease in the number of claims requiring health care services, an $8 million reduction in drug payments reflecting price reductions due to greater use of generic drugs and fewer narcotics and a $4.4 million reduction in physiotherapy and chiropractor services notwithstanding a $10.4 million increase in payments to specialty clinics and programs of care supporting the early return to work of injured workers.
- Future economic loss benefits decreased by $13 million or 6.2% reflecting the number of claimants reaching age 65, the age at which these benefits cease.

- Survivor benefits increased by $5 million or 3.9% reflecting a higher number of traumatic and occupational disease fatalities and indexation of benefits.
- External providers expense decreased by $21 million or 30.4% primarily due to a fewer number of lost time claims and better management of external provider services for injured workers.
- Non-economic loss awards decreased by $22 million, primarily due to fewer lost time claims in recent years, earlier and more effective health care and consistent assessment and application of policy as previously noted.
- Other benefit costs increased by $17 million or 100+% resulting mainly from lower recoveries related to asbestos settlements from United States-based bankruptcy trusts.

Claims administration costs

For the three months ended September 30, 2012, claims administration costs increased by $1 million or 1.1% prior to reflecting $8 million of increased long-term benefit plan costs attributed to adverse changes in actuarial assumptions. This nominal increase reflects the addition of 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 nine months ended September 30, 2012, claims administration costs increased by $10 million or 3.7% prior to reflecting $16 million of termination benefits associated with the elimination of 317 full-time positions in the first quarter of 2012 and $25 million of long-term benefit plan costs as previously noted.

Changes in actuarial valuation of benefit liabilities

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

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Changes in actuarial valuation of benefit liabilities	8	(309)	148	(360)

Changes in the actuarial valuation of benefit liabilities represent the financial impact of the change in assumptions concerning the estimated cost to settle future injured worker claims. For the three months ended September 30, 2012, the change in actuarial valuation of benefit liabilities was $8 million reflecting a $350 million provision for additional long latency occupational disease costs offset by a $342 million decrease reflecting improved claims experience.

For the nine months ended September 30, 2012, the change in actuarial valuation of benefit liabilities was $148 million reflecting a $600 million provision for additional long latency occupational disease costs offset by a $452 million decrease reflecting improved claims experience.

Administration and other expenses

(millions of Canadian dollars)	Three months ended September 30				Nine months ended September 30			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Salaries and short-term benefits	92	92	-	-	286	279	7	2.5
Long-term benefit plans	36	23	13	56.5	108	67	41	61.2
Facilities	11	11	-	-	32	32	-	-
Bad debts	6	10	(4)	(40.0)	15	32	(17)	(53.1)
New systems development and integration	5	2	3	100+	13	4	9	100+
Amortization	6	7	(1)	(14.3)	17	17	-	-
Equipment and maintenance	6	6	-	-	30	28	2	7.1
Communications	2	2	-	-	7	7	-	-
Termination benefits	-	-	-	-	27	-	27	100+
Other	6	5	1	20.0	17	18	(1)	(5.6)
	170	158	12	7.6	552	484	68	14.0
Claims administration costs allocated to benefit costs	(99)	(90)	(9)	10.0	(324)	(273)	(51)	18.7
	71	**68**	**3**	**4.4**	**228**	**211**	**17**	**8.1**

Administration and other expenses for the three months ended September 30, 2012 compared to the prior period decreased by $2 million or 2.9% prior to reflecting a $5 million increase in the cost of long-term benefit plans, as follows:

- Long-term benefits plans increased by $13 million due to increased pension and other post-employment benefit obligations expense reflecting changes in actuarial assumptions.
- New systems development and integration increased by $3 million reflecting business transformation projects as part of our modernization efforts and improved efficiency for the benefit of both employers and injured workers.
- Other expenses increased by $1 million due to the outsourcing of our data centre which is expected to generate ongoing cost savings.
- Bad debts decreased by $4 million reflecting a more favourable trend in recent collections.
- Amortization decreased by $1 million due to a lower capital asset base.
- Refer to Section 2 – Operating Results for a detailed discussion of claims administration costs.

Administration and other expenses for the nine months ended September 30, 2012 compared to the prior period decreased by $10 million or 4.7% prior to reflecting a $16 million increase in the cost of long-term benefit plans and $11 million of termination benefits, as follows:

- Long-term benefits plans increased by $41 million 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 as part of our transformation efforts. These termination benefits are anticipated to represent $30 million of annualized cost savings which we are now beginning to realize.
- New systems development and integration increased by $9 million due to increased business transformation projects.

- Salaries and short-term benefits increased by $7 million due to filling staff vacancies to enhance service levels to injured workers and employers.
- Equipment and maintenance expense increased by $2 million due to higher software licence fees.
- Bad debts decreased by $17 million reflecting a more favourable trend in recent collections.
- Other expenses decreased by $1 million due to lower travel expenses and lower healthcare processing fees.
- Refer to Section 2 – Operating Results for a detailed discussion of claims administration costs.

Legislated obligations and commitments

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
(millions of Canadian dollars)	**2012**	**2011**	**$**	**%**	**2012**	**2011**	**$**	**%**
Legislated obligations								
Occupational Health & Safety Act	28	25	3	12.0	59	70	(11)	(15.7)
Ministry of Labour Prevention Costs	29	1	28	100+	48	3	45	100+
	57	26	31	119.2	107	73	34	46.6
Workplace Safety & Insurance Appeals Tribunal	5	5	-	-	15	15	-	-
Workplace Safety & Insurance Advisory Program								
Office of the Worker Adviser	3	3	-	-	9	8	1	12.5
Office of the Employer Adviser	1	1	-	-	3	3	-	-
	4	4	-	-	12	11	1	9.1
Total legislated obligations	**66**	**35**	**31**	**88.6**	**134**	**99**	**35**	**35.4**
Commitments								
Safe Workplace Associations	-	17	(17)	(100.0)	17	50	(33)	(66.0)
Workplace Health & Safety Centre	-	2	(2)	(100.0)	2	7	(5)	(71.4)
Health clinics	-	2	(2)	(100.0)	2	5	(3)	(60.0)
Grants	-	1	(1)	(100.0)	3	4	(1)	(25.0)
Institute for Work & Health	1	1	-	-	4	3	1	33.3
Total commitments	**1**	**23**	**(22)**	**(95.7)**	**28**	**69**	**(41)**	**(59.4)**
	67	**58**	**9**	**15.5**	**162**	**168**	**(6)**	**(3.6)**

On April 1, 2012, the Ministry of Labour ("MoL") assumed responsibility for prevention activities which were previously carried out by the WSIB. Accordingly, amounts previously incurred by the WSIB for prevention activities recorded as Commitments are now recorded as Legislated obligations. For the three months ended September 30, 2012, Legislated obligations and commitments were $67 million, an increase of $9 million or 15.5% primarily attributed to the timing of payments for costs incurred in previous periods. For the nine months ended September 30, 2012, Legislated obligations and commitments were $162 million, a decrease of $6 million or 3.6% compared to the prior period also reflecting timing differences between when costs were incurred and billed.

3 Financial Condition

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

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

(millions of Canadian dollars)	September 30 2012	December 31 2011	Change $	Change %	Commentary
Assets					
Cash and cash equivalents	1,517	983	534	54.3	See Section 5 - Liquidity and Capital Resources.
Receivables	1,217	1,041	176	16.9	Higher experience rating surcharges.
Investment receivables	216	115	101	87.8	Higher amounts of pending sales and cash collateral held to cover futures contracts.
Investments	14,361	13,648	713	5.2	Increase in fair value of investments and $225 million of cash and cash equivalents transferred to investment portfolio.
Investments under securities lending program	513	523	(10)	(1.9)	Decrease reflecting lower utilization of available securities.
Investments in associates and jointly controlled entities	380	375	5	1.3	Increase in equity income earned and additional investments partially offset by disposition of investment in associates and declared dividend payouts.
Investment property	610	488	122	25.0	Increased property acquisitions, property fair value increases and additional capital expenditures.
Property and equipment	150	159	(9)	(5.7)	Reflects amortization.
Intangible assets	44	50	(6)	(12.0)	Reflects amortization.
Liabilities					
Payables and accruals	1,162	1,077	85	7.9	Termination benefits and higher experience rating rebates.
Investment payables	64	23	41	100+	Increase in investment pending trades.
Long-term debt	168	143	25	17.5	New mortgage loans of real estate subsidiaries.
Loss of Retirement Income Fund liability	1,340	1,254	86	6.9	Higher investment returns.
Employee benefit plans	869	812	57	7.0	Additional liabilities due to lower interest rates.
Benefit liabilities	26,538	26,390	148	0.6	Changes in actuarial assumptions. See Section 2 - Operating Results.
Unfunded liability	(13,179)	(14,222)	1,043	7.3	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 September 30, 2012 is as follows:

	2012			2011				2010
(millions of Canadian dollars)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Premiums	1,058	1,056	970	987	999	992	898	867
Net investment income (loss)	488	(165)	703	613	(687)	100	270	572
Benefit payments	637	673	705	692	695	719	744	757
Claims administration costs	99	102	123	96	89	91	92	82
Change in actuarial valuation of benefit liabilities	8	150	(10)	2,400	(309)	(112)	61	447
Benefit costs	744	925	818	3,188	476	698	897	1,286
Loss of Retirement Income Fund contributions	16	17	17	17	18	17	18	18
Administration and other expenses	71	75	82	114	68	71	72	76
Legislated obligations and commitments	67	36	59	60	58	53	57	61
Comprehensive income (loss) attributable to WSIB stakeholders	584	(145)	604	(1,867)	(221)	239	86	(76)
Other measures								
Operating comprehensive income (loss)[1]	168	153	(16)	8	70	41	(85)	(127)
Unfunded liability[2]	13,179	13,763	13,618	14,222	12,355	12,134	12,373	12,459
Funding ratio (%)[3]	56.3	54.2	54.2	52.1	54.9	56.0	55.3	54.6
Return on investments (%)[4]	3.4	(1.0)	5.1	4.4	(4.7)	0.8	2.0	4.2

1. Operating comprehensive income (loss) is calculated as premium revenues less total costs excluding changes in actuarial valuation of benefit liabilities and employee benefit plans. See Section 12 – Non-IFRS Financial Measure.
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, particularly in the construction industry, which had higher insurable earnings in the last two quarters due to increased construction projects supported by the strengthening economic conditions. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure.

Additionally, net investment income is influenced by global capital markets and has been volatile on a quarterly basis. We anticipate the volatility in net investment income will continue, however we believe our net investment income will increase over 2011.

Refer to Section 2 - Operating Results for a discussion of the current quarter results in the table 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 September 30, 2012, we held $1,517 million of cash and cash equivalents of which $364 million was held for operating purposes, $153 million was held in our Loss of Retirement Income Fund on behalf of injured workers and $ 1,000 million was held for investing.

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Cash and cash equivalents, beginning of period	1,082	999	983	1,009
Cash provided by operating activities	216	146	279	23
Cash provided by (used in) investing activities	227	(133)	269	(26)
Cash provided by (used in) financing activities	(8)	(13)	(14)	(7)
Cash and cash equivalents, end of period	**1,517**	**999**	**1,517**	**999**

For the three months ended September 30, 2012, cash provided by operating activities was $216 million compared to $146 million for the comparable period in 2011 primarily due to continued improved operating performance. Cash provided by investing activities was $227 million compared to cash used in investing activities of $133 million for the comparable period in 2011 primarily due to higher cash held in the investment portfolio. Cash used in financing activities was $8 million compared $13 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 nine months ended September 30, 2012, cash provided by operating activities was $279 million compared to $23 million for the comparable period of 2011 primarily due to continued improvement in operating performance. Cash provided by investing activities was $269 million compared to cash used in investing activities of $26 million for the comparable period. Cash used in financing activities was $14 million compared to $7 million for the comparable period in 2011, primarily due to the net distributions 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 September 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 September 30, 2012, we had commitments to fund investments of $266 million (December 31, 2011 - $88 million), and commitments for investments in associates and jointly controlled entities of $230 million (December 31, 2011 - $240 million).

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 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 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.

The IASB has proposed further amendments including a third category "fair value through other comprehensive income" for certain investments in debt securities and expects to include these amendments in IFRS 9 prior to 2015.

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. This 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 the new standard would be implemented before 2018.
- **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 Contingencies

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.	Anticipate between 4.0% and 6.0% increase reflecting stronger than anticipated growth in insurable earnings and industry mix.
Net investment income	Moderate improvement over 2.3% return in 2011.	Higher return reflecting strong year-to-date performance.
Benefit costs	Continued downward trend reflecting improved operating results.	Benefit costs anticipated to be lower than 2011 reflecting new service delivery model.
Administration and other expenses	Relatively stable after reflecting more than $27 million of termination benefits.	No change prior to the additional costs accrued for our long-term benefit plans as a result of lower interest rates.
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 as measured under 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 quarterly 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 Pronouncements), 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 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 including 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 "Operating comprehensive income", which is a non-IFRS financial measure. The definition of Operating comprehensive income is premium revenues less total costs excluding changes in actuarial valuation of benefit liabilities and employee benefit plans. 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 operating performance prior to reflecting the impact of investment income and changes in actuarial valuation of benefit liabilities and employee benefit plans, which can significantly impact our underlying operating performance.

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 changes 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	September 30 2012	December 31 2011
Assets			
Cash and cash equivalents	7	1,517	983
Receivables		1,217	1,041
Investment receivables		216	115
Investments	8	14,361	13,648
Investments under securities lending program	8	513	523
Investments in associates and jointly controlled entities		380	375
Investment property	9	610	488
Property and equipment		150	159
Intangible assets		44	50
Total assets		**19,008**	**17,382**
Liabilities			
Payables and accruals		1,162	1,077
Investment payables		64	23
Long-term debt		168	143
Loss of Retirement Income Fund liability		1,340	1,254
Employee benefit plans		869	812
Benefit liabilities	10	26,538	26,390
Total liabilities		**30,141**	**29,699**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(13,179)	(14,222)
Non-controlling interest		2,046	1,905
Total deficiency of assets		**(11,133)**	**(12,317)**
Total liabilities and deficiency of assets		**19,008**	**17,382**

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 September 30		Nine months ended September 30	
		2012	**2011**	**2012**	**2011**
Revenues					
Premiums	5	1,058	999	3,084	2,889
Net investment income (loss)					
Investment income (loss)	8	502	(670)	1,058	(267)
Investment expenses	8	(26)	(29)	(74)	(71)
Income from associates and jointly controlled entities		12	12	42	21
		488	(687)	1,026	(317)
		1,546	**312**	**4,110**	**2,572**
Expenses					
Benefit costs					
Benefit payments	10	637	695	2,015	2,158
Claim administration costs	10	99	90	324	273
Changes in actuarial valuation of benefit liabilities	10	8	(309)	148	(360)
		744	476	2,487	2,071
Loss of Retirement Income Fund contributions		16	18	50	53
Administration and other expenses	6	71	68	228	211
Legislated obligations and commitments	12	67	58	162	168
		898	**620**	**2,927**	**2,503**
Comprehensive income (loss) for the period		**648**	**(308)**	**1,183**	**69**
Comprehensive income (loss) attributable to:					
WSIB stakeholders		584	(221)	1,043	104
Non-controlling interest		64	(87)	140	(35)
		648	**(308)**	**1,183**	**69**

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	(12,459)	1,863	(10,596)
Comprehensive income (loss)	104	(35)	69
Change in ownership share in investments	-	(8)	(8)
Balance at September 30, 2011	(12,355)	1,820	(10,535)
Comprehensive income (loss)	(1,867)	88	(1,779)
Change in ownership share in investments	-	(3)	(3)
Balance at December 31, 2011	(14,222)	1,905	(12,317)
Comprehensive income	1,043	140	1,183
Change in ownership share in investments	-	1	1
Balance at September 30, 2012	**(13,179)**	**2,046**	**(11,133)**

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 September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Operating activities:				
Comprehensive income (loss)	648	(308)	1,183	69
Adjustments:				
Amortization of net discounts on investments	2	3	7	9
Amortization of property, equipment and intangible assets	6	7	19	21
Changes in fair value of investments	(424)	848	(741)	670
Changes in fair value of investment property	(5)	-	(19)	-
Dividend income from equity securities	(51)	(59)	(178)	(176)
Income from associates and jointly controlled entities	(12)	(12)	(42)	(21)
Interest income	(50)	(60)	(166)	(182)
Interest expense	3	3	10	11
	117	422	73	401
Change in non-cash balances related to operations:				
Receivables	(39)	(33)	(169)	(203)
Payables and accruals	74	103	85	159
Loss of Retirement Income Fund liability	38	(42)	86	5
Employee benefit plans	18	5	56	21
Benefit liabilities	8	(309)	148	(360)
	99	(276)	206	(378)
Net cash provided by operating activities	**216**	**146**	**279**	**23**
Investing activities:				
Dividends received from equity securities, associates and jointly controlled entities	53	63	181	168
Interest received	38	40	157	162
Additions of property, equipment and intangible assets	(2)	(4)	(4)	(11)
Purchase of investments	(8,444)	(5,079)	(19,327)	(14,413)
Sale of investments	8,548	4,927	19,312	14,123
Additions of investment property	(4)	(19)	(24)	(20)
Acquisition of associates and jointly controlled entities	(3)	(5)	(32)	(9)
Disposition of associates and jointly controlled entities	61	2	61	2
Acquisition of subsidiaries	(20)	(58)	(55)	(58)
Disposition of subsidiaries	-	-	-	30
Net cash provided by (used in) investing activities	**227**	**(133)**	**269**	**(26)**
Financing activities:				
Disposition of non-controlling interest	7	5	34	51
Distributions paid by subsidiaries to non-controlling interest	(11)	(13)	(38)	(43)
Repayment on mortgages and finance leases	(1)	(1)	-	(4)
Interest paid on mortgages and finance leases	(3)	(4)	(10)	(11)
Net cash used in financing activities	**(8)**	**(13)**	**(14)**	**(7)**
Increase (decrease) in cash and cash equivalents	**435**	**-**	**534**	**(10)**
Cash and cash equivalents, beginning of period	1,082	999	983	1,009
Cash and cash equivalents, end of period	**1,517**	**999**	**1,517**	**999**

The accompanying notes form an integral part of these Condensed Interim Consolidated Financial Statements

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

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 December 13, 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 pooled fund trusts in which the WSIB employees' pension plan is a non-controlling interest. These 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 the 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 statements 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 statements 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 statements 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

During the third quarter of 2012, the WSIB decreased the January 1, 2011 opening balance of property and equipment by $21 to adjust the estimated fair value of the property upon the initial adoption of IFRS, with a corresponding increase to the unfunded liability attributable to WSIB stakeholders.

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 that 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, equipment and intangible assets are reviewed to determine whether there is an indication 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 statements 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 statements 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 statements 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 statements 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 defined benefit plan that provides other long-term employee benefits including post-employment dental, extended health and life insurance benefits.

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. 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.

Actuarial gains and losses are recognized in the consolidated statements 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.

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.

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.

Unaudited (millions of Canadian dollars)

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.

5. Revenues

Revenue for the three and nine months ended September 30 are comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Premiums				
Schedule 1 employer premiums	1,044	985	3,039	2,848
Schedule 2 employer administration fees	14	14	45	41
	1,058	**999**	**3,084**	**2,889**
Net Investment income (loss) (note 8)	**488**	**(687)**	**1,026**	**(317)**
	1,546	**312**	**4,110**	**2,572**

Unaudited (millions of Canadian dollars)

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 and nine months ended September 30 are comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Salaries and short-term benefits	92	92	286	279
Long-term benefit plans	36	23	108	67
Facilities	11	11	32	32
Bad debts	6	10	15	32
Amortization	6	7	17	17
Equipment and maintenance	6	6	30	28
Other	6	5	17	18
New systems development and integration	5	2	13	4
Communications	2	2	7	7
Termination benefits	-	-	27	-
	170	158	552	484
Claim administration costs allocated to benefit costs (note 10)	(99)	(90)	(324)	(273)
	71	**68**	**228**	**211**

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.

Unaudited (millions of Canadian dollars)

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:

	September 30 2012	December 31 2011
Cash	643	467
Short-term money market securities	874	516
	1,517	**983**

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

	September 30 2012	December 31 2011
For operating purposes	364	328
Held in investment portfolio (note 8)	1,000	502
Held in Loss of Retirement Income Fund	153	153
	1,517	**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.

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	Sept. 30 2012 Total	Dec. 31 2011 Total
Equity securities	-	6,714	561	-	-	-	7,275	6,875
Fixed income securities	4,504	-	430	-	-	-	4,934	5,337
Hedge funds	-	-	824	-	-	-	824	707
Real estate debentures	-	-	-	340	-	-	340	337
Commingled investment funds	-	-	1,267	-	200	-	1,467	771
Annuities	-	-		-	-	69	69	74
Foreign exchange contracts	-	(14)	(24)	-	(1)	-	(39)	71
Futures	-	-	4	-	-	-	4	(1)
Investments and investments under securities lending program	4,504	6,700	3,062	340	199	69	14,874	14,171
Investment in associates and jointly controlled entities	-	-	-	346	34	-	380	375
Investment property (note 9)	-	-	-	610	-	-	610	488
Investment receivables	54	67	82	9	4	-	216	115
Investment payables	(9)	(36)	(19)	-	-	-	(64)	(23)
Cash and cash equivalents (note 7)	88	432	385	68	27	-	1,000	502
Total investment portfolio	**4,637**	**7,163**	**3,510**	**1,373**	**264**	**69**	**17,016**	**15,628**
September 30, 2012 - % of total	27.2%	42.1%	20.6%	8.1%	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 statements of financial position within the following line items:

	September 30 2012	December 31 2011
Investments	14,361	13,648
Investments under securities lending program	513	523
Investment receivables	216	115
Investment payables	(64)	(23)
Investments in associates and jointly controlled entities	380	375
Investment property (note 9)	610	488
Cash and cash equivalents (note 7)	1,000	502
	17,016	**15,628**

Unaudited (millions of Canadian dollars)

Investments under securities lending program

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 statements of financial position and are reclassified as investments under the securities lending program.

As at September 30, 2012, the fair value of securities maintained as collateral was approximately $545 (December 31, 2011 - $551).

Net investment income (loss)

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

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Equity securities	262	(897)	578	(759)
Fixed income securities	66	269	178	399
Amortization of premium/discount on bonds	(2)	(3)	(7)	(9)
Hedge funds	(4)	123	13	160
Real estate debentures	4	4	13	13
Commingled investment funds	26	8	85	6
Foreign exchange contracts	142	(267)	158	(187)
Futures	28	30	60	55
Income from associates and jointly controlled entities	12	12	42	21
Investment property	17	13	58	35
Investment expenses	(26)	(29)	(74)	(71)
Less: Income attributable to Loss of Retirement Income Fund	(37)	50	(78)	20
	488	**(687)**	**1,026**	**(317)**

Unaudited (millions of Canadian dollars)

Net investment income (loss) is comprised of:

	Three months ended September 30		**Nine months ended September 30**	
	2012	**2011**	**2012**	**2011**
Realized and unrealized gains	1,117	1,002	2,954	2,219
Realized and unrealized losses	(694)	(1,852)	(2,213)	(2,890)
Interest and dividend income	99	117	337	349
Investment property	17	13	58	35
Less: Income attributable to Loss of Retirement Income Fund	(37)	50	(78)	20
Investment income (loss)	**502**	**(670)**	**1,058**	**(267)**
Investment expenses	(26)	(29)	(74)	(71)
Income from associates and jointly controlled entities	12	12	42	21
	488	**(687)**	**1,026**	**(317)**

9. Investment Property

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

	September 30 2012
Balance, beginning of year	488
Asset acquisition	11
Business combinations	83
Capital expenditures	7
Other	2
Gains from increases in fair value	19
Balance, end of period (note 8)	**610**

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.

On September 27, 2012, the WSIB acquired an investment property through the acquisition of 100% of a business for total cash consideration of $20.

Unaudited (millions of Canadian dollars)

Total assets acquired and liabilities assumed were as follows:

	September 30 2012
Investment property	83
Payables	(1)
Mortgage	(22)
	60
Non-controlling interest	(5)
	55

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 statements 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:

	September 30 2012	**December 31 2011**
Loss of earnings	9,608	9,758
Workers' pension	6,322	6,552
Health care	3,873	3,825
Survivor benefits	2,546	2,508
Future economic loss	2,053	2,176
External providers	239	261
Non-economic loss	279	274
Future claims administration costs and other	1,618	1,036
	26,538	**26,390**

Unaudited (millions of Canadian dollars)

Benefit costs

Benefit costs are comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Benefit payments	637	695	2,015	2,158
Claim administration costs	99	90	324	273
Change in actuarial valuation of benefit liabilities	8	(309)	148	(360)
	744	**476**	**2,487**	**2,071**

11. Commitments and Contingent Liabilities

Investment commitments

As at September 30, 2012, the WSIB had commitments to fund real estate and infrastructure investments for $16 and $250, respectively (December 31, 2011 - $21 and $67). In addition, the WSIB had $230 of commitments for additional investments in associates and jointly controlled entities (December 31, 2011 - $240).

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 substantially recognized in the consolidated statements of comprehensive income in the period to which the funding related and adjusted in subsequent periods to reflect actual payments attributed to the applicable year.

Commitments as at September 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.

The total amount of funding provided under legislated obligations and commitments for the three and nine months ended September 30, 2012 were $67 and $162 (2011 - $58 and $168), respectively.

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents as legislated obligations in the consolidated statements 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 September 30, 2012 are marketable fixed income securities issued by the Government of Ontario and related entities valued at $915 (December 31, 2011 - $975).

13. Subsequent Events

2013 premium rates

On October 24, 2012, the WSIB announced that premium rates for all employer rate groups would increase by 2.5% in 2013. This action was carried out after an extensive consultation process and is a necessary step to reducing the WSIB's unfunded liability, creating stable and competitive premium rates for the future and ensuring a sustainable workplace safety and insurance system for workers and employers.

New legislation

On October 22, 2012, the Ministry of Labour announced two changes to the WSIA, that it proposes to introduce when the Legislature resumes sitting. The first proposed change would eliminate the current provision that "locks in" loss of earnings benefits. Currently, benefits are generally "locked-in" after 72 months. Ontario is the only Canadian jurisdiction with a 72-month lock-in provision and the proposed legislative reforms would align the WSIB with workers' compensation systems in other provinces. The second proposed change would have the WSIB base survivor benefits on the average earnings of the deceased worker's occupation or trade rather than the statutory minimum currently provided under the Act.

14. Comparative Figures

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