Workplace Safety and Insurance Board

Second Quarter 2013 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 unaudited 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 six months ended June 30, 2013.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Statements*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this MD&A, the "WSIB," the "Agency," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated September 26, 2013 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

September 26, 2013
Toronto, Ontario

Management's Discussion and Analysis

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1. Quarter in Review

Highlights of our performance for the three and six months ended June 30, 2013 compared to the same periods in 2012.

The following MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements and accompanying notes as at and for the three and six months ended June 30, 2013.

Financial highlights for the three months ended June 30, 2013 compared to the three months ended June 30, 2012:

- Overall, we experienced continued steady improvement in operational and financial results indicating that the WSIB is on track to ensuring the system is sustainable for future employers and workers and to meet its legislated funding requirements.
- Comprehensive income was $170 million compared to a $332 million loss reflecting continued strong operating performance generating $196 million of Core Earnings, coupled with a gain of $224 million, attributed to favourable changes in employee benefit plan assumptions, partially offset by a net investment loss of $106 million and an unfavourable change in the actuarial valuation of benefit liabilities of $144 million.
- Premium revenues increased $41 million or 3.9% reflecting $19 million of higher insurable earnings attributed to continued strengthening economic conditions and $31 million attributed to the 2.5% increase in average premium rates announced in 2012 partially offset by $9 million attributed to higher net employer incentive programs reflecting improved return to work outcomes.
- Benefit payments decreased $37 million or 5.5% reflecting improved recovery and return to work outcomes for injured workers, as well as 4.2% or 494 fewer new lost-time injuries notwithstanding increased employment levels.
- Administration and other expenses, before allocation to benefit costs, increased $21 million or 11.6% reflecting a $10 million one-time provision for retail sales tax obligations related to prior years and $15 million of higher operating costs reflecting the rapid pace of organizational change being undertaken, partially offset by $4 million of lower salaries reflecting savings derived in the previous year.

Financial highlights for the six months ended June 30, 2013 compared to the six months ended June 30, 2012:

- Comprehensive income was $965 million compared to $436 million reflecting continued strong operating performance generating $359 million of Core Earnings, $616 million of net investment income corresponding to a 4.0% return on investments coupled with a $330 million gain attributed to favourable changes in employee benefit plan assumptions partially offset by an unfavourable change in the actuarial valuation of benefit liabilities of $340 million.
- Premium revenues increased $149 million or 7.4% reflecting $105 million of higher insurable earnings attributed to continued strengthening economic conditions and $58 million attributed to the 2.5% increase in average premium rates announced in 2012, partially offset by higher net employer incentive program expenses of $14 million reflecting improved return to work outcomes.
- Benefit payments decreased $102 million or 7.4% reflecting improved recovery and return to work outcomes for injured workers, as well as 6.1% or 1,045 fewer new lost-time injuries notwithstanding increased employment levels.
- Administration and other expenses, before allocation to benefit costs, increased $6 million or 1.5% reflecting a $10 million one-time provision related to prior years as noted above, $14 million primarily for higher operating costs reflecting the rapid pace of organization change being undertaken and $10 million of higher non-cash employee benefit costs due to unfavourable assumptions, partially offset by $28 million of lower salaries and termination benefits reflecting operating initiatives taken in the previous year.

Unfunded Liability. Our unfunded liability was $13,181 million as at June 30, 2013, a decrease of $880 million or 6.3% since December 31, 2012, corresponding to an increase in our funding ratio from 55.1% at December 31, 2012 to 58.1% at June 30, 2013.

Operational highlights for the six months ended June 30, 2013:

***Strong Ontario labour market driving increased premium revenues*.** During the first six months of 2013, the number of derived full-time equivalent workers covered by the WSIB increased 4.0%, which, coupled with the 2.5% increase in the average premium rate announced in 2012, allowed us to realize a $149 million or 7.4% increase in premium revenues. We experienced strong growth in the Electrical, Manufacturing and Construction sectors. Growth in the Construction sector partially reflects the mandatory coverage requirements introduced by Bill 119.

Reduction in new claims. Despite increased employment levels the total number of claims continued to decrease. The number of new registered claims decreased by 2.9% or 2,800 claims in the first six months of 2013 translating into 0.92 lost-time injuries for every 100 workers employed, 10.2% lower than 2012. Registered claims decreased across most sectors, with notable decreases in Automotive, Manufacturing, Services and Health Care.

Improved injured worker recovery and return to work outcomes. More than 92% of workers with lost-time injuries were back to work at 100% pre-injury earnings within one year and the percentage of workers who remain on benefits continued to decrease. Additionally, for those workers not able to fully recover and return to work, the WSIB is having greater success mitigating the injured workers' wage losses as evidenced by a reduction of 3.3% in the average loss of earnings entitlement percent at lock-in to 47.0%.

Our investment in health care continues to improve injury recovery and reduce permanent impairment* levels*. During the first six months of 2013, the percentage of workers with a permanent impairment decreased to 7.1% from 9.5%. Additionally, the average level of permanent impairment decreased to 9.6% from 10.7% reflecting investing in early expert interventions and greater and more focused spending on claims as evidenced by a 19.9% increase in the number of injured workers benefiting from our Programs of Care with a corresponding 20.5% increase in spending.

Other Notable Items

Benefit policy review. In June, the WSIB released the final report from Jim Thomas, the independent Chair of the Benefits Policy Review. The report provides advice about how the WSIB can achieve more consistent, clear and understandable policies in four benefits policy areas: recurrences, work disruptions, permanent impairments and aggravation basis. In addition, the report recommends that the WSIB create a policy on pre-existing conditions. Ontario is the only Canadian jurisdiction without a policy on pre-existing conditions and Mr. Thomas identified this as a critical policy gap. The report also highlights ways of improving the consultation component of future policy reviews.

As a next step, the WSIB will now draft policies in each of the policy areas under review, and draft a new pre-existing conditions policy, taking the recommendations of the report into consideration. The draft policies will be available for public consultation in the fall. The feedback received will be considered before finalizing the policies.

2. Operating Results

A more detailed discussion of our financial performance for the three and six months ended June 30, 2013.

Our condensed interim consolidated financial statements have been prepared using accounting policies consistent with IFRS. All amounts herein are in millions of Canadian dollars unless otherwise specified.

Financial highlights

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

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Revenues				
Premiums	1,127	1,073	2,228	2,054
Net employer incentive programs	(30)	(17)	(53)	(28)
	1,097	1,056	2,175	2,026
Net investment income (loss)				
Investment income (loss)	(91)	(152)	656	563
Investment expenses	(35)	(29)	(68)	(55)
Income from associates and joint ventures	20	16	28	30
	(106)	(165)	616	538
	991	891	2,791	2,564
Expenses				
Benefit costs				
Benefit payments	636	673	1,276	1,378
Claim administration costs	118	104	227	229
Changes in actuarial valuation of benefit liabilities	144	150	340	140
	898	927	1,843	1,747
Loss of Retirement Income Fund contributions	15	17	31	34
Administration and other expenses	84	77	168	160
Legislated obligations and commitments	48	36	114	95
	1,045	1,057	2,156	2,036
Excess (deficiency) of revenues over expenses	**(54)**	**(166)**	**635**	**528**
Other comprehensive income (loss)				
Remeasurements of employee defined benefit plans	224	(166)	330	(92)
Comprehensive income (loss)	**170**	**(332)**	**965**	**436**
Comprehensive income (loss) attributable to:				
WSIB stakeholders	178	(315)	880	360
Non-controlling interests	(8)	(17)	85	76
	170	**(332)**	**965**	**436**
Other measures				
Core Earnings[1]	196	149	359	130
Return on investments[2]	(0.5%)	(1.0%)	4.0%	4.0%
			June 30 2013	**December 31 2012**
Unfunded liability[3]			(13,181)	(14,061)
Funding Ratio[4]			58.1%	55.1%

Notes:

1. Core Earnings is calculated as comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 13 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the total 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 interests in investments, divided by total liabilities at the reporting date.

Premiums

A summary of premiums for the three and six months ended June 30 is as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**	**2013**	**2012**	**$**	**%**
Schedule 1 employer premiums								
Gross Schedule 1 premiums	1,095	1,045	50	4.8	2,165	2,002	163	8.1
Interest and penalties	14	12	2	16.7	27	21	6	28.6
Other income	-	1	(1)	(100.0)	-	-	-	-
	1,109	1,058	51	4.8	2,192	2,023	169	8.4
Schedule 2 employer administration fees	18	15	3	20.0	36	31	5	16.1
	1,127	1,073	54	5.0	2,228	2,054	174	8.5
Net employer incentive programs	(30)	(17)	(13)	76.5	(53)	(28)	(25)	89.3
	1,097	**1,056**	**41**	**3.9**	**2,175**	**2,026**	**149**	**7.4**

For the three months ended June 30, 2013:

- Gross premiums were $1,095 million, an increase of $50 million or 4.8% reflecting $19 million attributed to a 1.8% increase in insurable earnings reflecting continued economic growth and conservative insurable earnings estimates and $31 million attributed to the 2.5% increase in the average premium rate for 2013 charged to employers. Interest and penalties were $14 million, an increase of $2 million or 16.7% attributable to interest for late payment and penalties charged to employers for failing to submit premium reconciliations.
- Schedule 2 employer administration fees were $18 million, an increase of $3 million or 20.0% reflecting the proportion of certain administrative and other expenses paid for by Schedule 2 employers.
- Net employer incentive programs were $30 million, an increase of $13 million or 76.5% primarily reflecting higher rebates attributed to improved employer experience.

For the six months ended June 30, 2013:

- Gross premiums were $2,165 million, an increase of $163 million or 8.1% reflecting $105 million attributed to a 5.1% increase in insurable earnings for 2013 reflecting continued economic growth, and $58 million attributed to the 2.5% increase in the average premium rate for 2013 charged to employers. Since January 1, 2009, gross premiums have increased by $940 million evidencing significant employer contributions to reducing the WSIB's unfunded liability.
- Interest and penalties were $27 million, an increase of $6 million or 28.6% attributable to employers who were denied entitlement to employer incentive program rebates as a result of worker fatalities, and penalties charged to employers for failing to report premiums and submit premium reconciliations.
- Schedule 2 employer administration fees were $36 million, an increase of $5 million or 16.1% reflecting the proportion of certain administrative and other expenses paid for by Schedule 2 employers.
- Net employer incentive programs were $53 million, an increase of $25 million or 89.3% primarily reflecting the higher cost of the New Experimental Experience Rating program due to favourable claims experience and the incremental cost to extend the Safety Group program for Safety Group graduates for an additional year.

Net investment income (loss)

A summary of investment income (loss), segmented by asset class for the three and six months ended June 30 is as follows:

Asset class	Three months ended June 30				Six months ended June 30			
	2013		2012		2013		2012	
(millions of Canadian dollars)	Investment income	Return %	Investment income	Return %	Investment income	Return %	Investment income	Return %
Fixed income	(103)	(2.3)	100	2.1	(70)	(1.6)	90	1.9
Public equities	147	1.9	(338)	(5.2)	702	10.2	295	4.5
Multi-asset strategies	(182)	(4.5)	47	2.0	(66)	(1.3)	119	5.4
Real estate	52	3.4	48	3.3	94	6.2	74	6.6
Infrastructure	13	4.4	5	3.4	20	7.5	11	7.3
Cash and cash equivalents	2	-	2	-	4	-	4	-
Investment income (loss)	**(71)**	**(0.5)**	**(136)**	**(1.0)**	**684**	**4.0**	**593**	**4.0**
Investment expenses	(35)		(29)		(68)		(55)	
Net investment income (loss)	**(106)**		**(165)**		**616**		**538**	

For the three months ended June 30, 2013, investment loss, prior to $35 million of investment expenses, was $71 million reflecting a 0.5% negative rate of return compared to a $136 million loss reflecting a 1.0% negative rate of return.

For the six months ended June 30, 2013, investment income, prior to $68 million of investment expenses, was $684 million reflecting a 4.0% rate of return compared to $593 million of income reflecting a 4.0% rate of return and a higher investment base. The higher than expected returns in the first six months of 2013 are not a reflection of expected future performance as we set our forward return expectations based on our long-term expected annual rate of return of 6.0% over a 10 to 15 year period.

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 benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statements of financial position.

For the three months and six months ended June 30, 2013 benefit costs were as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	2013	2012	$	%	2013	2012	$	%
Benefit payments	636	673	(37)	(5.5)	1,276	1,378	(102)	(7.4)
Claim administration costs	118	104	14	13.5	227	229	(2)	(0.9)
Change in actuarial valuation of benefit liabilities	144	150	(6)	(4.0)	340	140	200	100+
Total benefit costs	**898**	**927**	**(29)**	**(3.1)**	**1,843**	**1,747**	**96**	**5.5**

Benefit payments

Benefit payments represent cash paid during the three and six months to or on behalf of injured workers as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	2013	2012	$	%	2013	2012	$	%
Loss of earnings	229	247	(18)	(7.3)	453	499	(46)	(9.2)
Workers' pensions	157	163	(6)	(3.7)	315	329	(14)	(4.3)
Health care	115	113	2	1.8	235	243	(8)	(3.3)
Future economic loss	60	66	(6)	(9.1)	123	133	(10)	(7.5)
Survivor benefits	45	45	-	-	89	89	-	-
External providers	13	16	(3)	(18.8)	28	33	(5)	(15.2)
Non-economic loss	13	15	(2)	(13.3)	25	36	(11)	(30.6)
Other	4	8	(4)	(50.0)	8	16	(8)	(50.0)
Total benefit payments	**636**	**673**	**(37)**	**(5.5)**	**1,276**	**1,378**	**(102)**	**(7.4)**

A summary of the changes in benefit payments for the three months ended June 30, 2013 is as follows:

- Loss of earnings benefits decreased $18 million or 7.3% reflecting 5,709 or 17.7% fewer non locked-in claims as at June 30, 2013 compared to the same period ending in 2012. This decrease is primarily due to improved claims management through better recovery and return to work outcomes while the number of new lost-time claims decreased by 494, or 4.2%, from 2012.
- Workers' pensions decreased $6 million or 3.7% reflecting the natural reduction of claims due to mortality.
- Health care costs increased $2 million or 1.8% reflecting higher cost per claim for programs aiming to improve return to work outcomes (e.g. specialty clinics) as well as higher volumes of claims for services such as replacement of hearing aids.
- Future economic loss benefits decreased $6 million or 9.1% reflecting the natural reduction in the number of claimants that reach age 65, the age at which these benefits cease.
- Survivor benefits were unchanged.
- External providers' expenses decreased $3 million or 18.8% primarily due to lower claim volumes as a result of fewer lost-time injuries in recent years and a more targeted approach to return to work.
- Non-economic loss awards decreased $2 million or 13.3% reflecting a decrease in the number of injured workers eligible for non-economic loss awards due to fewer lost-time injuries in recent years, as well as improved focus on health care in the early stages of injury.
- Other benefit costs decreased $4 million or 50.0% primarily due to a decline in claimants eligible for supplementary benefits under older legislation.

A summary of the changes in benefit payments for the six months ended June 30, 2013 is as follows:

- Loss of earnings benefits decreased $46 million or 9.2% reflecting 7,377 or 16.6% fewer non-locked-in claims as at June 30, 2013 compared to the same period ending in 2012. 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 decreased by 1,045, or 6.1%, from 2012.
- Workers' pensions decreased $14 million or 4.3% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased $8 million or 3.3% reflecting a 6% decrease in the number of claims requiring health care services, a $4 million reduction in drug payments reflecting price reductions due to greater use of generic drugs and fewer narcotics, a $5 million reduction in physiotherapy, chiropractor, medical devices and home and vehicle modification services and a reduction in other smaller items that total to $5 million notwithstanding a $6 million increase in payments for specialty clinics, programs of care, and hospital in-patient services supporting the early return to work of injured workers.

- Future economic loss benefits decreased by $10 million or 7.5% reflecting the number of claimants reaching age 65, the age at which these benefits cease.
- External providers' expenses decreased by $5 million or 15.2% 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 or 30.6% primarily due to fewer lost-time claims in recent years, earlier and more effective health care and consistent assessment and application of policy.
- Other benefit costs decreased by $8 million or 50.0% resulting mainly from a decline in claimants eligible for supplementary benefits under older legislation as well as lower benefit overpayment recoveries compared to prior year.

Claim administration costs

Claim administration costs represent the allocation of overhead costs relating to the administration of claims. For the three months ended June 30, 2013, claim administration costs were $118 million compared to $104 million, an increase of $14 million or 13.5% primarily due to higher business transformation expenses.

For the six months ended June 30, 2013, claim administration costs were $227 million compared to $229 million, a decrease of $2 million or 0.9% primarily due to lower administration expenses.

Changes in actuarial valuation of benefit liabilities

The changes in the actuarial valuation of the benefit liabilities are as follows:

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Changes in actuarial valuation of benefit liabilities	144	150	340	140

For the three months ended June 30, 2013, changes in the actuarial valuation resulted in an increase in the benefit liabilities of $144 million compared to an increase of $150 million in 2012. The $144 million increase in 2013 reflects a $96 million increase in the benefit liabilities resulting from the development of claims liability existing at December 31, 2012, plus estimated new claims for the 2013 injury year and $48 million representing the estimated impact of refining our mortality assumptions, based on an approximation completed in the first quarter of 2013. The results of this approximation will be replaced by a full mortality study by December 31, 2013.

For the six months ended June 30, 2013, changes in the actuarial valuation resulted in an increase in the benefit liabilities of $340 million compared to an increase of $140 million in 2012. The $340 million increase in 2013 reflects a $245 million increase in the benefit liabilities resulting from development of claims liability existing at December 31, 2012 plus estimated new claims for the 2013 injury year and $95 million representing the impact of refining our mortality assumptions based on the estimate noted above.

Administration and other expenses

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**	**2013**	**2012**	**$**	**%**
Salaries and short-term benefits	92	96	(4)	(4.2)	183	191	(8)	(4.2)
Long-term benefit plans	44	41	3	7.3	89	79	10	12.7
Amortization	5	5	-	-	11	11	-	-
Bad debts	7	7	-	-	17	9	8	88.9
Communications	3	2	1	50.0	5	5	-	-
Equipment and maintenance	10	5	5	100.0	22	24	(2)	(8.3)
Facilities	11	11	-	-	21	21	-	-
New systems development and integration	10	6	4	66.7	15	8	7	87.5
Termination benefits	4	2	2	100.0	10	30	(20)	(66.7)
Other	16	6	10	100+	22	11	11	100.0
	202	181	21	11.6	395	389	6	1.5
Claim administration costs allocated to benefit costs	(118)	(104)	(14)	13.5	(227)	(229)	2	(0.9)
Total administration and other expenses	**84**	**77**	**7**	**9.1**	**168**	**160**	**8**	**5.0**

For the three months ended June 30, 2013, administration and other expenses, before allocation to benefit costs were $202 million, an increase of $21 million or 11.6%. A summary of the changes in administration and other expenses is as follows:

- Salaries and short-term benefits decreased $4 million primarily due to staff reductions initiated in 2012.
- Long-term benefit plans increased $3 million reflecting a 35 basis point reduction in interest rates used to value our obligations.
- Amortization expenses were unchanged.
- Bad debts were unchanged.
- Communications expenses increased $1 million primarily due to higher service costs.
- Equipment and maintenance expense increased $5 million reflecting amortization of prepaid expenses, higher expenses related to selective outsourcing desktop agreement and higher infrastructure services to support our transformational efforts.
- Facilities expenses were unchanged.
- New systems development and integration expenses increased $4 million reflecting several information technology projects undertaken to modernize the WSIB.
- Termination benefits increased $2 million due to the timing of payments related to staff reductions in 2012.
- Other expenses increased $10 million due to a one-time provision for retail sales tax obligations related to prior years.
- Refer to Section 2 – Operating Results for a detailed discussion of claim administration costs.

For the six months ended June 30, 2013, administration and other expenses, before allocation to benefit costs were $395 million, an increase of $6 million or 1.5%. A summary of the changes in administration and other expenses is as follows:

- Salaries and short-term benefits decreased $8 million primarily due to staff reductions initiated in 2012 partially offset by inflationary pressures of $3 million.
- Long-term benefit plans increased $10 million due to increased pension expense reflecting a 35 basis point reduction in the discount rate.
- Amortization expenses were unchanged.
- Bad debts increased $8 million reflecting an increase in the provision for uncollectible accounts.
- Communications expenses were unchanged.
- Equipment and maintenance expenses decreased $2 million reflecting lower software license fees.
- Facilities expenses were unchanged.
- New systems development and integration expenses increased $7 million reflecting several information technology projects undertaken to modernize the WSIB.
- Termination benefits decreased $20 million reflecting fewer terminations due to transformation efforts.
- Other expenses increased $11 million primarily due to a $10 million one-time provision for retail sales tax related to prior year obligations and higher operating costs reflecting the pace of organization change being undertaken.
- Refer to Section 2 – Operating Results for a detailed discussion of claim administration costs.

Legislated obligations and commitments

On April 1, 2012, the Ministry of Labour (the "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 June 30, 2013, legislated obligations and commitments were $48 million, an increase of $12 million or 33.3% reflecting the timing of payments to the MoL.

For the six months ended June 30, 2013, legislated obligations and commitments were $114 million, an increase of $19 million or 20.0% reflecting the timing of payments to the MoL. We anticipate annual 2013 payments to the MoL will approximate the 2012 amounts after reflecting a $6 million one-time credit received in 2012.

Legislated obligations and commitments are as follows:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**	**2013**	**2012**	**$**	**%**
Legislated obligations								
Occupational Health and Safety Act	18	6	12	100+	46	31	15	48.4
Ministry of Labour Prevention Costs	20	19	1	5.3	49	20	29	100+
	38	25	13	52.0	95	51	44	86.3
Workplace Safety and Insurance Appeals Tribunal	6	5	1	20.0	10	10	-	-
Workplace Safety and Insurance Advisory Program								
Office of the Workers' Adviser	3	3	-	-	6	6	-	-
Office of the Employers' Adviser	1	1	-	-	2	2	-	-
	4	4	-	-	8	8	-	-
Total legislated obligations	48	34	14	41.2	113	69	44	63.8
Commitments								
Safe Workplace Associations	-	-	-	-	-	17	(17)	(100.0)
Workplace Health and Safety Centre	-	-	-	-	-	2	(2)	(100.0)
Health clinics	-	-	-	-	-	2	(2)	(100.0)
Grants	-	1	(1)	(100.0)	1	3	(2)	(66.7)
Institute for Work and Health	-	1	(1)	(100.0)	-	2	(2)	(100.0)
Total commitments	-	2	(2)	(100.0)	1	26	(25)	(96.2)
	48	**36**	**12**	**33.3**	**114**	**95**	**19**	**20.0**

Other Comprehensive Income

As noted in previous quarterly reports to stakeholders, we are required to implement an amended accounting standard in 2013 relating to how we account for employee benefits. This standard requires us to report remeasurements of employee defined benefit plans as other comprehensive income in our financial statements. Previously, remeasurements were reflected in comprehensive income over the expected average remaining service life of the benefit. The revised standard requires immediate recognition of any remeasurement through other comprehensive income. For the three and six months ended June 30, 2013, remeasurements resulted in other comprehensive income of $224 million and $330 million, respectively. These remeasurements include changes in actuarial assumptions, actual experience and investment returns.

3. Financial Condition

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

Changes in our consolidated statements of financial position are as follows:

(millions of Canadian dollars)	Jun. 30 2013	Dec. 31 2012	Changes $	Changes %	Commentary
Assets					
Cash and cash equivalents	992	1,331	(339)	(25.5)	See Section 5 – Liquidity and Capital Resources.
Receivables	1,154	1,009	145	14.4	Higher experience rating surcharge provision.
Investment receivables	213	159	54	34.0	Increase in accrued income and pending investment transactions.
Investments	15,973	15,100	873	5.8	Increase in fair value of investments and $383 million of cash transferred to the investment portfolio.
Investments under securities lending program	777	592	185	31.3	Increase due to higher utilization of available securities.
Investments in associates and joint ventures	405	386	19	4.9	Increase due to income and additional investments offset by sale of property and dividends received.
Investment property	840	643	197	30.6	Increase primarily due to an acquisition and change in the fair value of investment properties.
Property and equipment	139	147	(8)	(5.4)	Reduction due to amortization and a reclassification to intangible assets.
Intangible assets	16	17	(1)	(5.9)	Reduction due to amortization partially offset by reclassification from property and equipment additions.
Liabilities					
Payables and accruals	1,045	1,038	7	0.7	Increase primarily due to provision for experience rating rebates.
Investment payables	60	38	22	57.9	Increase in investment pending trades.
Long-term debt	172	169	3	1.8	Increase reflecting additional bank loans offset by the repayment of mortgages and finance leases.
Loss of Retirement Income Fund liability	1,426	1,377	49	3.6	Increase reflecting asset growth and contributions in excess of disbursements.
Employee benefit plans liability	1,397	1,670	(273)	(16.3)	Decrease primarily reflecting the gains due to actuarial assumption changes and experience, partially offset by higher costs as a result of a lower discount rate in 2013.
Benefit liabilities	27,390	27,050	340	1.3	Changes in actuarial methods and assumptions. See Section 2 – Operating Results.
Unfunded liability	(13,181)	(14,061)	880	(6.3)	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 June 30, 2013 is as follows:

	2013		2012				2011[5]	
(millions of Canadian dollars)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Net premiums	1,097	1,078	977	1,058	1,056	970	987	999
Net investment income (loss)	(106)	722	433	488	(165)	703	613	(687)
Benefit costs								
Benefit payments	636	640	649	637	673	705	692	695
Claim administration costs	118	109	128	101	104	125	96	90
Change in actuarial valuation of benefit liabilities	144	196	512	8	150	(10)	2,400	(309)
	898	945	1,289	746	927	820	3,188	476
Loss of Retirement Income Fund contributions	15	16	17	16	17	17	17	18
Administration and other expenses	84	84	102	71	77	83	114	68
Legislated obligations and commitments	48	66	69	67	36	59	60	58
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	224	106	18	(89)	(166)	74	-	-
Comprehensive income (loss) attributable to WSIB stakeholders	178	702	(108)	494	(315)	675	(1,867)	(221)
Other measures								
Core Earnings (Loss)[1]	196	163	12	166	149	(19)	8	70
Unfunded liability[2]	13,181	13,359	14,061	13,953	14,446	14,132	14,222	12,355
Funding Ratio (%)[3]	58.1	57.5	55.1	54.9	53.0	53.3	52.1	54.9
Return on investments (%)[4]	(0.5)	4.5	2.8	3.4	(1.0)	5.1	4.4	(4.7)

Refer to Section 2 – Operating Results for a discussion of the current quarterly results in the table above.

Notes:

1. Core Earnings (Loss) is calculated as comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 13 – 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 interests in investments, divided by total liabilities at the reporting date.
4. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses. Does not equal annual figures due to rounding.
5. Comparative figures for 2011 have not been adjusted for the changes in accounting policies adopted in 2013. See Section 7 – Changes in Accounting Policies.

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. 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 to continue in 2013.

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: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy benefit payments and operating expenses. As at June 30, 2013, we held $992 million of cash and cash equivalents of which $628 million was held for investing, $201 million was held for operating purposes and $163 million was held in our Loss of Retirement Income Fund on behalf of injured workers.

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Cash and cash equivalents, beginning of period	1,011	951	1,331	983
Cash provided (required) by operating activities	229	163	267	56
Cash provided (used) in investing activities	(242)	(31)	(591)	49
Cash used in financing activities	(6)	(1)	(15)	(6)
Cash and cash equivalents, end of period	**992**	**1,082**	**992**	**1,082**

A summary of our cash flows for the three months ended June 30, 2013 is as follows:

- Cash provided by operating activities was $229 million compared to $163 million provided by operating activities reflecting continued improvements in operating performance.
- Cash used in investing activities was $242 million compared to $31 million used by investing activities reflecting the net purchases of investments.
- Cash used in financing activities was $6 million compared to $1 million reflecting net distributions paid to non-controlling interests and changes in finance leases, mortgages and bank loans.

A summary of our cash flows for the six months ended June 30, 2013 is as follows:

- Cash provided by operating activities was $267 million compared to $56 million provided by operating activities reflecting continued improvements in operating performance.
- Cash used in investing activities was $591 million compared to $49 million provided by investing activities reflecting the increase in net purchases of investments during the year.
- Cash used in financing activities was $15 million compared to $6 million reflecting net distributions paid to non-controlling interests.

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at June 30, 2013, we had not utilized this credit facility.

Commitments

The WSIB had the following commitments related to its investment portfolio:

(millions of Canadian dollars)	**June 30 2013**	**December 31 2012**
Real estate, multi-asset strategy and infrastructure investments	658	491
Investments in associates and joint ventures	218	222
	876	**713**

6. Critical Accounting Estimates and Judgments

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

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the 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 consolidated financial statements.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of 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 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 comprehensive income.

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 joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by external qualified appraisers. The annual third-party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. 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. Changes in Accounting Policies

A discussion of new and amended IFRS standards that are reflected in the consolidated financial statements.

The WSIB has applied the following new or amended accounting standards, effective January 1, 2013. The resulting changes in accounting policies have been made in accordance with the applicable transitional provisions.

IAS 19 *Employee Benefits* (“IAS 19”)

The amendments to IAS 19 revise certain accounting requirements related to defined benefit plans.

The amended standard eliminates the corridor method as an alternative approach to recognizing actuarial gains and losses. Under the amendments, the effect of all remeasurements is immediately recognized in other comprehensive income. Previously, the WSIB recognized actuarial gains and losses using the corridor method; net actuarial gains and losses over a certain threshold were deferred and recognized in expenses on a straight-line basis over the average remaining service period of active plan members.

The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the net liability by the discount rate used to measure the net defined benefit obligation.

Changes in the defined benefit obligations and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities.

The amended standard was applied retrospectively and had the following effect on the consolidated financial statements:

(millions of Canadian dollars)	**June 30 2013**	**December 31 2012**	**January 1 2012**
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	12,741	13,299	14,222
Increase in employee benefit plans liability	440	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**13,181**	**14,061**	**14,807**

	Three months ended June 30		**Six months ended June 30**	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Excess (deficiency) of revenues over expenses prior to change in accounting policy	(51)	(162)	642	535
Increase in employee benefit expense	(3)	(4)	(7)	(7)
Excess (deficiency) of revenues over expenses after change in accounting policy	**(54)**	**(166)**	**635**	**528**

	Three months ended June 30		**Six months ended June 30**	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Comprehensive income (loss) prior to change in accounting policy	(51)	(162)	642	535
Increase in employee benefit expense	(3)	(4)	(7)	(7)
Remeasurements of defined benefit plans	224	(166)	330	(92)
Comprehensive income (loss) after change in accounting policy	**170**	**(332)**	**965**	**436**

IFRS 10 ***Consolidated Financial Statements*** ("IFRS 10")

IFRS 10 is a new standard, replacing the previous guidance for assessing when the WSIB controls, and therefore is required to consolidate, an investee.

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. There have not been significant changes to the accounting requirements applied when an investee is consolidated.

The WSIB has assessed its investees under the requirements of IFRS 10, and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

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

IFRS 11 is a new standard, replacing the previous guidance related to joint arrangements.

The new standard 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 are accounted for using the equity method of accounting whereas a party with joint control of a joint operation recognizes its share of the assets, liabilities, revenues and expenses of the joint operation.

The WSIB has assessed its joint arrangements under the requirements of IFRS 11, and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

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

IFRS 13 is a new standard that 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.

IFRS 13 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.

The WSIB has assessed its fair value measurements under the requirements of IFRS 13, and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

8. Recent Accounting Pronouncements

A discussion of new and amended IFRS developments that will or may impact our consolidated financial statements.

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 2012. 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.

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 United States GAAP.

The WSIB does not expect these amendments will have a significant effect on its annual consolidated financial statements.

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

IFRS 12 was issued in May 2012 and is effective for annual periods beginning on or after January 1, 2013.

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.

Financial statement note disclosures will be amended to reflect the requirements of IFRS 12, however the WSIB does not expect a significant effect on its consolidated financial statements.

The WSIB will include the relevant disclosures in its 2013 annual 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 International Accounting Standards Board's (the "IASB") 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, however, in July 2013 the IASB announced its intention to defer the mandatory effective date to a later date to be announced. 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, as well as amendments that address impairment and hedge accounting, and expects to include these amendments in IFRS 9 prior to 2015.

The WSIB has not completed its assessment of the effect that IFRS 9 may have on its consolidated financial statements.

Exposure drafts

a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The comment period for the new exposure draft is open until October 25, 2013 and 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 effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements 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.

b) 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.

9. 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 vary.

10. Outlook

The outlook for our business.

Set forth below is an update of our outlook included in our fourth quarter 2012 report to stakeholders.

Item	Original Expectation	Current Outlook
Premiums	5.5% increase reflecting a 3.0% increase in insurable earnings and a 2.5% increase in average published premium rates.	Modest increase above original expectations.
Net investment income	We anticipate annual investment income will approximate 6.0% over the long term.	No change.
Benefit costs	Continued downward trend reflecting improved operating results.	No change.
Administration and other expenses	We anticipate stable administration and other expenses.	No change.
Legislated obligations	Modest growth in this area reflecting the impact of full year costs related to the prevention program moved to the MoL.	No change.
Unfunded liability	Based on current funding and benefit levels and as measured under current accounting and actuarial standards, we believe the unfunded liability will decrease in 2013 and beyond, reflecting continued improved operating performance.	No change.

11. Internal Control over Financial Reporting

A statement of responsibilities regarding internal control over financial reporting.

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

12. 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 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 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.

Below are the financial, operational, regulatory and political risks we monitor and mitigate within our span of control.

Financial Risks

Benefit liabilities

The WSIB, as the trust agency for administering the Province of Ontario, Canada ("Province") compensation system, must ensure there is adequate provision of funds to cover the cost of future claims. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors (see Section 6 – Critical Accounting Estimates and Judgments).

Establishing an appropriate level of benefit liabilities is, therefore, an inherently uncertain process, which presents a number of risks that could adversely affect our comprehensive income and financial condition.

The risks are predominantly related to:

- the failure to accurately make assumptions and assess the factors of claims costs, which may result in setting premium rates that are inadequate to cover costs and achieve sufficiency targets set by government; and
- unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate.

We mitigate these risks:

- by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns;
- with regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability;
- by engaging external actuaries to review actuarial assumptions and methodologies in establishing benefit liabilities; and
- by reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and Chief Statistician.

Investment risks

Our ability to meet our long-term obligations is dependent on the sufficiency of our Investment Fund. The risks to our Investment Fund relate to liquidity, credit and the market. 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 6.0% (5.5% to 2017 and 6.0% thereafter) over a horizon of rolling 10 to 15 year periods. Our overarching risk mitigation tool is:

- 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.

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) while the remainder of our investments are in multi-asset strategies, real estate and infrastructure investments that provide diversification;
- maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements; and
- maintaining a $150 million unsecured credit facility, which we can utilize to manage our liquidity needs.

Credit risk

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

- risk that our fixed income investments, consisting primarily of investment grade debt instruments, may become impaired;
- counterparty risk relating to our securities lending and foreign exchange programs;
- credit loss due to Schedule 1 employers not settling their premiums receivable and Schedule 2 employers not reimbursing the WSIB for their respective claim costs;
- the risk that the Canadian life insurance companies, that enter into annuity agreements with the WSIB to provide for fixed and recurring payments to claimants, may fail to fulfill their obligations; and
- 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 manage our credit risk by:

- holding a diversified portfolio of debt instruments including a predominant component that is invested in government-issued bonds, to mitigate the risks of defaulting fixed-income investments;
- mitigating securities lending counterparty risk through adopting a pre-approved qualified borrower list and through exposure limits; by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety, and receiving an indemnity from the financial institution that operates the securities lending program;
- mitigating foreign currency counterparty risk through an approved list of counterparties, credit rating limits, counterparty diversification and frequency of settlements;
- holding collateral from some Schedule 2 employers in the form of letters of credit issued by highly rated Canadian financial institutions;
- entering into annuity agreements with a Canadian life insurance company, which has credit ratings of at least A or better obtained from three reputable rating agencies; and

- restricting concentrations on our investments through limits on exposure to regions and sectors and limits on underlying securities.

Market risk

There are three types of market risk we are exposed to including currency risk, interest rate risk and price risk:

- currency risk is the risk of loss due to adverse movements in foreign currency rates as compared with the Canadian dollar;
- interest rate risk is the potential for financial loss arising from changes in interest rates; and
- 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 apply various measures to mitigate these risks by:

- using foreign exchange contracts to hedge a portion of currency 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;
- reviewing interest rate risk through periodic asset and 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; and
- diversifying our investment portfolio in accordance with our investment policies.

Operating Risks

Strategy

The implementation of the 2012-2016 Strategic Plan has been successful to date. Potential risks to its continued success could include factors such as:

- delays in implementing new technologies;
- unforeseen costs;
- organizational capacity is insufficient to support modernization initiatives and the demands of ongoing operations;
- competing stakeholders' priorities; and
- interruptions in service delivery.

To help mitigate these risks, we have established:

- a business architecture and an enterprise road map to ensure we have the right resources dedicated to executing the plan efficiently and effectively;
- a project portfolio governance framework to ensure project management rigour and management accountability;
- contingency plans to prevent service interruptions to workers and employers during the implementation of new technologies; and
- regular engagement with our stakeholders provides for ongoing feedback to keep us informed and provide opportunities for developing solutions.

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks, including:

- low or modest growth in the Province's employment levels, especially in covered industries, may result in not meeting premium revenue targets as well as limiting work transition opportunities;

- the growing shift in the job market toward non-traditional jobs, such as knowledge work, generally supplied by non-compulsorily covered firms may adversely affect premium revenues;
- lower than expected employer registrations and resulting premium revenue from expansion of WSIB coverage in the construction sector under Bill 119;
- the trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs; and
- a growing number of older workers in the workforce. If injured, they generally have a longer recovery time and a greater challenge with return to work.

We mitigate these risks by:

- conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector;
- managing and monitoring construction sector registrations under Bill 119; and
- continuous monitoring and researching the job market for available, sustainable positions for injured workers ready to transition to the job market.

Claims management

Operational performance is reflected in how efficiently and effectively cases are managed and how closely their outcomes meet operational objectives. A number of risks can impact negatively on performance:

- although outside of our direct control, any rise in the lost-time injury rate will result in an increased volume of incoming claims and increased pressure on front-line resources;
- unexpected sources or volume of claims may arise, such as those arising from certain occupational diseases potentially putting increased cost pressure on the system;
- implementation of transformation initiatives will put strain on organizational capacity as front-line staff adapt to new systems and processes; and
- any operating impacts causing delays in timely health care treatment and return to work services would increase the potential for longer claim durations, development of permanent impairments and ultimately increased claims costs.

We mitigate these risks as follows:

- supporting the reduction of workplace injuries and illnesses through our participation on the Chief Prevention Officer's Prevention Council; the provision of data to aid in the identification of priorities, and the provision of funding for the administration of the *Occupational Health and Safety Act* and support of the Province's health and safety associations and research;
- monitoring the volume of work and impact of change on operational capacity, reprioritizing and assigning resources as required to consistently meet performance objectives and standards; and
- monitoring the quality and timeliness of services through a series of key performance measures and take corrective action when trending of results is not in line with expectation.

Business interruption

Our stakeholders rely on our ability to operate without interruption. Our continuity of business may be subject to a number of risks:

- unforeseeable and/or catastrophic events to resources or infrastructure, such as a global flu pandemic or a power failure, may abruptly interrupt business activities and result in losses that could be related to financial assets and key personnel;
- if our business continuity plans are inadequate, losses may increase further; and
- our continued use of older system technology and back-up procedures to administer core business activities could result in impacts to our operations and in the potential loss of critical information should those systems fail.

In order to mitigate the risks and maintain the integrity and continuity of our operations in the event of a crisis:

- business continuity plans are in place to ensure the safety of our staff and delivery of essential services. While these plans do not currently provide fully redundant systems, our most critical business information and processes are protected to ensure we can continue to issue benefit payments; and
- we are in the process of building new systems with planned robust recovery capabilities, targeted for implementation beginning in 2014.

Our workforce

We are actively engaged in a business transformation undertaking involving our people, work processes and enabling technology. This is part of a long-term business strategy to transform the WSIB into a more effective and efficient organization and to enhance service levels to the Province's workers and employers. We have launched a number of self-serve, eServices and automation improvements in the last two years and more are planned for the future.

A critical measure in our achieving success is dependent on our ability to retain and attract critical resources and scarce employee skills now and in the future. The loss of key employees, or the inability to identify, hire and retain the workforce we require could adversely affect the efficiency of our business operations.

In order to mitigate this risk:

- an enterprise Workforce Planning program is under development to ensure that the WSIB has the right workforce to meet current and future business needs in key business areas. In the near term, the focus is on customizing key talent programs for business critical roles that are key to achieving return to work outcomes. Strategic staffing plans have already been developed where the business has identified a need for additional resources in these roles in 2013;
- a Talent Management Strategy led by our Human Resources division with business unit representation is in place to retain, develop and grow existing talent and ingrain leadership skills, career planning and succession planning; and
- we are also continuing our focused recruiting strategy to aggressively market careers and opportunities. The strategy includes an updated website, focused external recruiting and campaigns, rebranding and targeted advertising.

Technology

Given the high volume of transactions processed daily, we are reliant on technology and third parties that provide certain key components of our business infrastructure such as voice and data communications and network access. This presents a number of risks for the WSIB, mainly:

- failure of third-party systems could interrupt our operations and impact our ability to deliver services and benefits; and
- a security breach of any of our information systems could put sensitive data at risk or result in liability given that they are used to maintain confidential information regarding our business, injured workers and employer firms.

To mitigate these risks:

- we have taken steps to secure our facilities and infrastructure with a series of security protocols for accessing technology;
- we ensure that third parties are legally bound to the WSIB's standards and requirements for security of systems, privacy, and strict confidentiality of information through contractual protection;
- the WSIB and third party providers have contingency plans for ensuring continued operations should any of their systems fail; and
- our staff has been provided requirements to ensure hardware and mobile devices are not compromised in the event they are stolen, lost or accessed without authorization.

Regulatory, political and other influences

Our business is subject to changing legal, regulatory and other influences. Any amendments to the *Workplace Safety and Insurance Act* or other legislation could require the WSIB to make adjustments. For example, changes in law or regulation can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes. One example is the implementation of *Bill 119* requiring expanded coverage in the construction sector, which required new policies and a system to meet the increased demand for registration and clearance certificates by an implementation date established in law. Further, political, including stakeholder, influences may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate this risk by:

- engaging with the Minister of Labour and the MoL to understand the intent of any legislative or regulatory changes and to consult on the potential impact to outcomes and capacity;
- consulting with our stakeholder community during the planning and implementation of any legislative or regulatory changes, as well as WSIB program and policy changes; and
- ensuring that any changes to existing policies and programs are developed and implemented in a timely and seamless manner and that they align with our value propositions and organizational capabilities.

13. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

Core Earnings

In 2012, we introduced “Core Earnings”, a non-IFRS financial measure to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings is defined as comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other organizations.

Set forth below is the reconciliation of Core Earnings and comprehensive income (loss), the most directly comparable financial measure calculated and presented consistent with IFRS:

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
Comprehensive income (loss) for the period	170	(332)	965	436
Less: Net investment income (loss)	106	165	(616)	(538)
Add: Changes in actuarial valuation of benefit liabilities	144	150	340	140
Less: Changes in actuarial valuation of employee benefit plans	(224)	166	(330)	92
Core Earnings	**196**	**149**	**359**	**130**

14. 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	June 30 2013	December 31 2012	January 1 2012
Assets				
Cash and cash equivalents	8	992	1,331	983
Receivables		1,154	1,009	1,041
Investment receivables	9	213	159	115
Investments	9	15,973	15,100	13,648
Investments under securities lending program	9	777	592	523
Investments in associates and joint ventures	9	405	386	375
Investment property	10	840	643	488
Property and equipment		139	147	159
Intangible assets		16	17	50
Total assets		**20,509**	**19,384**	**17,382**
Liabilities				
Payables and accruals		1,045	1,038	1,077
Investment payables	9	60	38	23
Long-term debt		172	169	143
Loss of Retirement Income Fund liability		1,426	1,377	1,254
Employee benefit plans liability	11	1,397	1,670	1,397
Benefit liabilities	12	27,390	27,050	26,390
Total liabilities		**31,490**	**31,342**	**30,284**
Deficiency of assets				
Unfunded liability attributable to WSIB stakeholders		(13,181)	(14,061)	(14,807)
Non-controlling interests		2,200	2,103	1,905
Total deficiency of assets		**(10,981)**	**(11,958)**	**(12,902)**
Total liabilities and deficiency of assets		**20,509**	**19,384**	**17,382**

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

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Comprehensive Income
Unaudited (millions of Canadian dollars)

	Note	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Revenues					
Premiums	6	1,127	1,073	2,228	2,054
Net employer incentive programs	6	(30)	(17)	(53)	(28)
		1,097	1,056	2,175	2,026
Net investment income (loss)					
Investment income (loss)	9	(91)	(152)	656	563
Investment expenses	9	(35)	(29)	(68)	(55)
Income from associates and joint ventures	9	20	16	28	30
		(106)	(165)	616	538
		991	**891**	**2,791**	**2,564**
Expenses					
Benefit costs					
Benefit payments	12	636	673	1,276	1,378
Claim administration costs	12	118	104	227	229
Change in actuarial valuation of benefit liabilities	12	144	150	340	140
		898	927	1,843	1,747
Loss of Retirement Income Fund contributions		15	17	31	34
Administration and other expenses	7	84	77	168	160
Legislated obligations and commitments	15	48	36	114	95
		1,045	**1,057**	**2,156**	**2,036**
Excess (deficiency) of revenues over expenses		**(54)**	**(166)**	**635**	**528**
Other comprehensive income (loss)					
Remeasurements of employee defined benefit plans	11	224	(166)	330	(92)
Comprehensive income (loss)		**170**	**(332)**	**965**	**436**

	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Excess (deficiency) of revenues over expenses attributable to:				
WSIB stakeholders	(46)	(149)	550	452
Non-controlling interests	(8)	(17)	85	76
	(54)	**(166)**	**635**	**528**
Comprehensive income (loss) attributable to:				
WSIB stakeholders	178	(315)	880	360
Non-controlling interests	(8)	(17)	85	76
	170	**(332)**	**965**	**436**

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		
	Note	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests	Total
Balance at December 31, 2011		(14,807)	1,905	(12,902)
Excess of revenues over expenses		452	76	528
Remeasurements of employee defined benefit plans	11	(92)	-	(92)
Balance at June 30, 2012		(14,447)	1,981	(12,466)
Excess of revenues over expenses		457	122	579
Remeasurements of employee defined benefit plans	11	(71)	-	(71)
Balance at December 31, 2012		(14,061)	2,103	(11,958)
Excess of revenues over expenses		550	85	635
Remeasurements of employee defined benefit plans	11	330	-	330
Change in ownership share in investments		-	12	12
Balance at June 30, 2013		**(13,181)**	**2,200**	**(10,981)**

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

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Cash Flows

Unaudited (millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Operating activities:				
Comprehensive income (loss)	170	(332)	965	436
Adjustments:				
Amortization of net premium on investments	2	2	5	5
Amortization of property, equipment and intangible assets	6	6	13	13
Changes in fair value of investments	271	335	(385)	(317)
Changes in fair value of investment property	(10)	(16)	(14)	(14)
Dividend income from equity securities	(92)	(82)	(150)	(134)
Income from associates and joint ventures	(20)	(16)	(28)	(30)
Interest income	(56)	(58)	(124)	(116)
Interest expense	3	4	7	7
	274	(157)	289	(150)
Change in non-cash balances related to operations:				
Receivables	(77)	(74)	(145)	(130)
Payables and accruals	91	68	7	11
Loss of Retirement Income Fund liability	(6)	(11)	49	48
Employee benefit plans liability	(197)	187	(273)	137
Benefit liabilities	144	150	340	140
	(45)	320	(22)	206
Net cash provided by operating activities	**229**	**163**	**267**	**56**
Investing activities:				
Dividends received from equity securities, associates and joint ventures	98	85	150	135
Interest received	71	78	122	119
Additions of property, equipment and intangible assets	(1)	(1)	(4)	(2)
Purchase of investments	(5,913)	(5,490)	(11,421)	(10,883)
Sale and maturities of investments	5,661	5,372	10,720	10,764
Additions of investment property	(3)	(17)	(6)	(20)
Acquisition of associates and joint ventures	(3)	(23)	(6)	(29)
Disposition of associates and joint ventures	-	-	6	-
Business acquisitions	(152)	(35)	(152)	(35)
Net cash provided (required) by investing activities	**(242)**	**(31)**	**(591)**	**49**
Financing activities:				
Disposition of non-controlling interests	13	15	16	27
Distributions paid by subsidiaries to non-controlling interests	(15)	(15)	(26)	(27)
Issue (repayment) of long-term debt	(1)	3	2	1
Interest paid on long-term debt	(3)	(4)	(7)	(7)
Net cash required by financing activities	**(6)**	**(1)**	**(15)**	**(6)**
Increase (decrease) in cash and cash equivalents	**(19)**	**131**	**(339)**	**99**
Cash and cash equivalents, beginning of period	1,011	951	1,331	983
Cash and cash equivalents, end of period	**992**	**1,082**	**992**	**1,082**

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

1. Nature of Operations

The Workplace Safety and Insurance Board (the “WSIB”) is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario, Canada (“Province”). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (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 registered office 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 (“IAS”) 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements were authorized for issuance by the WSIB’s Board of Directors on September 26, 2013.

3. Summary of Significant Accounting Policies

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the previous annual consolidated financial statements, except as described in note 4.

Basis of presentation

The 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) liabilities for employee defined benefit plans, which are measured as the present value of the defined benefit obligation less the fair value of plan assets.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

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

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest, including 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 the WSIB Employees' Pension Plan and 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 joint ventures

Associates are those entities over which the WSIB has significant influence, but not control or joint control, over the financial and operating policies. Generally, the WSIB is considered to have significant influence when it holds 20% or more of voting power of an entity, but does not control or jointly control that entity.

Joint ventures are entities over which the WSIB has joint control, and has rights to the net assets of the arrangement. 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 joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' or joint ventures' comprehensive income.

d) Joint operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement. Joint control exists when the strategic, financial and operating decisions related to the assets require unanimous consent of parties sharing control.

The WSIB's consolidated financial statements include its share of the assets, liabilities, revenues and expenses related to joint operations.

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 date of the transaction. 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 investment income or administration and other expenses.

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 is 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 ("FVTPL"), are measured at fair value plus transaction costs on initial recognition. Financial assets at FVTPL 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	FVTPL (a)
Receivables	Loans and receivables (b)
Investment receivables	Loans and receivables (b)
Investments	FVTPL (a)
Investments under securities lending program	FVTPL (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 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 investment 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 a financial instrument and 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 financial 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.

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 discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The future cash flows of each property are based on estimates of future cash flows from current and future leases.

Valuations of significant investment properties are performed by third-party appraisers, on an annual basis at a minimum, at varying dates throughout the year. On a quarterly basis, the fair value of investment properties is updated based on valuation models incorporating available market evidence.

Property and equipment

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

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

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

Intangible assets

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

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

Leases

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

a) Leases where the WSIB is the lessee

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

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

b) Leases where the WSIB is the lessor

All leases under 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 leases.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication 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 administration and other expenses. 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.

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 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 revenues 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 certain 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 an amount equivalent to 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.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, 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 end of the reporting period. Changes in the estimate of future benefit payments are recognized in benefit costs expense.

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

The changes in defined benefit obligations and plan assets are recognized when they occur as follows:

a) Service costs and the net interest cost are recognized in administration and other expenses; and

b) Remeasurements, which include actuarial gains and losses, are recognized in other comprehensive income. Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

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 offer of the benefits can no longer be withdrawn.

Unaudited (millions of Canadian dollars)

4. Changes in Accounting Policies

The WSIB has applied the following new or amended accounting standards, effective January 1, 2013. The resulting changes in accounting policies have been made in accordance with the applicable transitional provisions.

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

The amendments to IAS 19 revise certain accounting requirements related to defined benefit plans.

The amended standard eliminates the corridor method as an alternative approach to recognizing actuarial gains and losses. Under the amendments, the effect of all remeasurements is immediately recognized in other comprehensive income. Previously, the WSIB recognized actuarial gains and losses using the corridor method; net actuarial gains and losses over a certain threshold were deferred and recognized in expenses on a straight-line basis over the average remaining service period of active plan members.

The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the net liability by the discount rate used to measure the net defined benefit obligation.

Changes in the defined benefit obligations and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities.

The amended standard was applied retrospectively and had the following effect on the consolidated financial statements:

	June 30 2013	December 31 2012	January 1 2012
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	12,741	13,299	14,222
Increase in employee benefit plans liability	440	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**13,181**	**14,061**	**14,807**

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Excess (deficiency) of revenues over expenses prior to change in accounting policy	(51)	(162)	642	535
Increase in employee benefit expense	(3)	(4)	(7)	(7)
Excess (deficiency) of revenues over expenses after change in accounting policy	**(54)**	**(166)**	**635**	**528**

Unaudited (millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Comprehensive income (loss) prior to change in accounting policy	(51)	(162)	642	535
Increase in employee benefit expense	(3)	(4)	(7)	(7)
Remeasurements of defined benefit plans	224	(166)	330	(92)
Comprehensive income (loss) after change in accounting policy	**170**	**(332)**	**965**	**436**

IFRS 10 *Consolidated Financial Statements* (“IFRS 10”)

IFRS 10 is a new standard, replacing the previous guidance for assessing when the WSIB controls, and therefore is required to consolidate, an investee.

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. There have not been significant changes to the accounting requirements applied when an investee is consolidated.

The WSIB has assessed its investees under the requirements of IFRS 10 and has determined that its application does not result in any significant change to the WSIB’s consolidated financial statements.

IFRS 11 *Joint Arrangements* (“IFRS 11”)

IFRS 11 is a new standard, replacing the previous guidance related to joint arrangements.

The new standard 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 are accounted for using the equity method of accounting whereas a party with joint control of a joint operation recognizes its share of the assets, liabilities, revenues and expenses of the joint operation.

The WSIB has assessed its joint arrangements under the requirements of IFRS 11 and has determined that its application does not result in any significant change to the WSIB’s consolidated financial statements.

IFRS 13 *Fair Value Measurement* (“IFRS 13”)

IFRS 13 is a new standard that 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.

IFRS 13 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.

The WSIB has assessed its fair value measurements under the requirements of IFRS 13 and has determined that its application does not result in any significant change to the WSIB’s consolidated financial statements.

5. Critical Accounting Estimates and Judgments

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the 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 consolidated financial statements.

Benefit liabilities (note 12)

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of 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 benefit liabilities and benefit costs.

Employee benefit plans (note 11)

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 comprehensive income (loss).

Fair value measurement of financial instruments (note 14)

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 (note 14)

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by external qualified appraisers. The annual third-party appraisals are performed at varying dates through the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. 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.

Unaudited (millions of Canadian dollars)

6. Revenues

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Premiums				
Schedule 1 employer premiums				
Gross Schedule 1 premiums	1,095	1,045	2,165	2,002
Interest and penalties	14	12	27	21
Other income	-	1	-	-
	1,109	1,058	2,192	2,023
Schedule 2 employer administration fees	18	15	36	31
	1,127	1,073	2,228	2,054
Net employer incentive programs	(30)	(17)	(53)	(28)
	1,097	1,056	2,175	2,026
Net investment income (loss) (note 9)	(106)	(165)	616	538
	991	**891**	**2,791**	**2,564**

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.

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 revenues received for the administration of Schedule 2 benefit payments.

Net employer incentive programs

Under the employer incentive programs, employer premium rates are adjusted based on an employer's health and safety experience. The net employer incentive programs are recognized when determined.

Net investment income

Details of net investment income are provided in note 9.

Unaudited (millions of Canadian dollars)

7. Administration and Other Expenses

Administration and other expenses are comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Salaries and short-term benefits	92	96	183	191
Long-term benefit plans	44	41	89	79
Amortization	5	5	11	11
Bad debts	7	7	17	9
Communications	3	2	5	5
Equipment and maintenance	10	5	22	24
Facilities	11	11	21	21
New systems development and integration	10	6	15	8
Termination benefits	4	2	10	30
Other	16	6	22	11
	202	181	395	389
Claim administration costs allocated to benefit costs	(118)	(104)	(227)	(229)
	84	**77**	**168**	**160**

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. Note 12 provides further details on the benefit liabilities and benefit costs.

8. Cash and Cash Equivalents

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

	June 30 2013	**December 31 2012**
Cash	455	631
Short-term money market securities	537	700
	992	**1,331**

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

	June 30 2013	**December 31 2012**
For operating purposes	201	439
Held in investment portfolio (note 9)	628	737
Held in Loss of Retirement Income Fund	163	155
	992	**1,331**

9. Investments and Net Investment Income

Investment portfolio

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WSIB's investment portfolio. The SIPP is reviewed by the Board of Directors on no less than an annual basis and is amended as required.

The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies. Accordingly, the investment portfolio is currently diversified among five primary asset classes as follows:

Fixed income	Bonds, debentures, loans, notes, mortgages 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	Jun. 30 2013	Dec. 31 2012
Equity securities	-	7,660	575	-	-	-	8,235	7,707
Fixed income securities	4,665	-	538	-	-	-	5,203	5,058
Hedge funds	-	-	1,568	-	-	-	1,568	1,036
Real estate debentures	-	-	-	358	-	-	358	356
Commingled investment funds	-	-	1,272	-	297	-	1,569	1,514
Annuities	-	-	-	-	-	68	68	71
Foreign exchange contracts	-	(66)	(137)	-	(8)	-	(211)	(48)
Futures	-	-	(40)	-	-	-	(40)	(2)
Investments and investments under securities lending program	4,665	7,594	3,776	358	289	68	16,750	15,692
Investment in associates and joint ventures	-	-	-	368	37	-	405	386
Investment property	-	-	-	840	-	-	840	643
Investment receivables	55	46	107	1	4	-	213	159
Investment payables	(12)	(40)	(8)	-	-	-	(60)	(38)
Cash and cash equivalents (note 8)	(6)	248	240	33	13	100	628	737
Total investment portfolio	**4,702**	**7,848**	**4,115**	**1,600**	**343**	**168**	**18,776**	**17,579**
June 30, 2013 - % of total	25.1%	41.8%	21.9%	8.5%	1.8%	0.9%		
December 31, 2012 - % of total	26.0%	42.7%	21.5%	7.9%	1.5%	0.4%		

Holdings in the WSIB's investment portfolio are held directly or held indirectly through investments in subsidiaries, associates, joint ventures or joint operations.

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

	June 30 2013	December 31 2012
Investments	15,973	15,100
Investments under securities lending program (a)	777	592
Investment receivables	213	159
Investment payables	(60)	(38)
Investments in associates and joint ventures	405	386
Investment property	840	643
Cash and cash equivalents (note 8)	628	737
	18,776	**17,579**

Unaudited (millions of Canadian dollars)

a) 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 statement of financial position and are reclassified as investments under the securities lending program.

As at June 30, 2013, the fair value of securities maintained as collateral was approximately $828 (December 31, 2012 – $627).

Net investment income

Net investment income (loss) by category of investments is as follows:

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Equity securities	268	(357)	921	323
Fixed income securities	(103)	114	(57)	111
Amortization of net premium on bonds	(2)	(2)	(5)	(5)
Hedge funds	67	10	114	17
Real estate debentures	8	6	24	9
Commingled investment funds	(45)	43	(1)	59
Foreign exchange contracts	(237)	(53)	(269)	16
Futures	(81)	43	(75)	32
Short-term securities	-	-	2	1
Income from associates and joint ventures	20	16	28	30
Investment property	28	30	49	41
Investment expenses	(35)	(29)	(68)	(55)
Less: (Income) loss attributable to Loss of Retirement Income Fund	6	14	(47)	(41)
	(106)	**(165)**	**616**	**538**

Unaudited (millions of Canadian dollars)

Net investment income (loss) for the three and six months ended June 30 is comprised of:

	Three months ended June 30		**Six months ended June 30**	
	2013	**2012**	**2013**	**2012**
Realized and unrealized gains	794	462	2,111	1,837
Realized and unrealized losses	(1,065)	(796)	(1,726)	(1,519)
Interest and dividend income	146	138	269	245
Investment property	28	30	49	41
Less: (Income) loss attributable to Loss of Retirement Income Fund	6	14	(47)	(41)
Investment income (loss)	**(91)**	**(152)**	**656**	**563**
Investment expenses	(35)	(29)	(68)	(55)
Income from associates and joint ventures	20	16	28	30
	(106)	**(165)**	**616**	**538**

10. Investment Property

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

	June 30 2013
Balance, beginning of period	643
Business combinations	176
Capital expenditures	7
Gains from increases in fair value	14
Balance, end of period (note 9)	**840**

Business combinations

During the six months ended June 30, 2013, the WSIB acquired two investment properties through the acquisition of 100% of one business and 87% of another for a total purchase consideration of $152.

Total assets acquired and liabilities assumed were as follows:

	June 30 2013
Investment property	176
Payables	(2)
	174
Non-controlling interest	(22)
	152

Unaudited (millions of Canadian dollars)

11. Employee Benefit Plans

The WSIB maintains two employee defined benefit pension plans and other defined benefit plans that provide benefits such as post-employment dental, extended health and life insurance benefits.

The cost of employee benefit plans is recognized as the employees provide service to the WSIB, and the liabilities for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets.The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

Defined benefit plan expense

The cost of the employee defined benefit plans recognized in administration and other expenses is as follows:

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Service cost	28	24	56	47
Net interest on the employee benefit plans liability	16	17	33	32
	44	**41**	**89**	**79**

Remeasurements of the employee benefit plans recognized in other comprehensive income are as follows:

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Actuarial gains (losses) arising from changes in financial assumptions	256	(124)	289	(123)
Actuarial losses arising from demographic and other experience	-	(1)	-	(2)
Return in excess (deficiency) of interest income on plan assets	(32)	(41)	41	33
	224	**(166)**	**330**	**(92)**

Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	June 30 2013	December 31 2012	January 1 2012
Present value of unfunded obligations	612	655	594
Present value of wholly or partly funded obligations	2,928	3,089	2,686
Total present value of obligations	3,540	3,744	3,280
Fair value of plan assets	(2,143)	(2,074)	(1,883)
Deficit	**1,397**	**1,670**	**1,397**

Unaudited (millions of Canadian dollars)

The movement in the total present value of defined benefit obligations is as follows:

	Six months ended June 30 2013	**Year ended December 31 2012**
Balance, beginning of period	3,744	3,280
Current service cost	56	95
Past service cost	-	25
Contributions by employees	11	28
Interest expense on the defined benefit obligations	74	143
Actuarial losses arising from demographic and other experience	-	18
Actuarial losses arising from changes in demographic assumptions	-	55
Actuarial losses (gains) arising from changes in financial assumptions	(289)	203
Benefits paid	(56)	(103)
Balance, end of period	**3,540**	**3,744**

The movement in the total fair value of plan assets is as follows:

	Six months ended June 30 2013	**Year ended December 31 2012**
Balance, beginning of period	2,074	1,883
Return in excess of interest income on plan assets	41	114
Interest income on plan assets	41	80
Contributions by the WSIB	32	72
Contributions by employees	11	28
Benefits paid	(56)	(103)
Balance, end of period	**2,143**	**2,074**

12. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments for reported and unreported claims incurred on or before June 30, 2013, including claims in respect of occupational diseases currently recognized by the WSIB. The estimated cost of administering those claims is also included in benefit liabilities. Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

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

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the Canadian Institute of Actuaries.

Unaudited (millions of Canadian dollars)

Benefit liabilities are comprised of the following:

	June 30 2013	December 31 2012
Loss of earnings	9,642	9,366
Workers' pensions	6,247	6,405
Health care	3,938	3,811
Survivor benefits	2,458	2,426
Future economic loss	1,823	1,902
External providers	295	281
Non-economic loss	318	307
Long latent occupational diseases	1,437	1,425
Claim administration and other	1,232	1,127
	27,390	**27,050**

A summary of the changes in benefit liabilities is as follows:

	Six months ended June 30 2013	Year ended December 31 2012
Benefit liabilities, beginning of period	27,050	26,390
Benefit costs	1,843	3,773
Benefit costs paid	(1,503)	(3,113)
Benefit liabilities, end of period	**27,390**	**27,050**

Benefit costs

Benefit costs are comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Benefit payments	636	673	1,276	1,378
Claim administration costs	118	104	227	229
Change in actuarial valuation of benefit liabilities	144	150	340	140
	898	**927**	**1,843**	**1,747**

13. Commitments and Contingent Liabilities

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	June 30 2013	December 31 2012
Real estate, multi-asset strategy and infrastructure investments	658	491
Investments in associates and joint ventures	218	222
	876	**713**

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 "OHSA"). The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal, the offices of each of the Worker and Employer Adviser, and provide funding for the Institute for Work & Health, the Safe Workplace Associations, clinics and training centres. The expenses related to these obligations are recognized in legislated obligations and commitments expense in the period to which the funding related.

Known commitments related to legislated obligations at June 30, 2013 were $254 for the period July 1, 2013 through June 30, 2014.

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 consolidated 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 vary.

Unaudited (millions of Canadian dollars)

14. Financial Instruments Fair Value Measurement and Disclosures

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

Financial instrument	Fair value measurement
Cash and cash equivalents, investments and investments under securities lending program	Measured at fair value in the consolidated statement of financial position.
Receivables, investment receivables, payables and accruals and investment payables	Measured at amortized cost in the consolidated statement of financial position. Due to the short-term nature of these financial assets and financial liabilities, the carrying value approximates fair value.
Long-term debt	Measured at amortized cost in the consolidated statement of financial position. Fair value at June 30, 2013 was $202 (carrying value – $172). Fair value at December 31, 2012 was $204 (carrying value – $169).

Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of assets or liabilities.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments that are measured at fair value in the consolidated statement of financial position. These financial instruments are measured at fair value on a recurring basis each reporting date.

The classifications are as follows:

i) the use of quoted market prices for identical assets or liabilities (Level 1);

ii) internal models using observable market information as inputs (Level 2); and

iii) internal models without observable market information as inputs (Level 3).

Measurements of the fair value of a financial instrument may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the financial instrument is classified in the hierarchy level of the lowest level input that is significant to the measurement.

During the six months ended June 30, 2013 and the year ended December 31, 2012, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

Unaudited (millions of Canadian dollars)

The following table provides the classifications for financial instruments measured at fair value in the consolidated statement of financial position.

	June 30, 2013				December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	455	-	-	455	631	-	-	631
Short-term money market securities	-	537	-	537	-	700	-	700
	455	537	-	992	631	700	-	1,331
Foreign exchange contracts	-	(211)	-	(211)	-	(48)	-	(48)
Futures	-	(40)	-	(40)	-	(2)	-	(2)
Fixed income securities	-	5,203	-	5,203	-	5,058	-	5,058
Equity securities	8,196	38	1	8,235	7,668	38	1	7,707
Hedge funds	-	1,568	-	1,568	-	1,036	-	1,036
Commingled investment funds	-	1,569	-	1,569	-	1,514	-	1,514
Real estate debentures	-	-	358	358	-	-	356	356
Loss of Retirement Income Fund annuities	-	68	-	68	-	71	-	71
Investments and investments under securities lending program	8,196	8,195	359	16,750	7,668	7,667	357	15,692
	8,651	**8,732**	**359**	**17,742**	**8,299**	**8,367**	**357**	**17,023**

The table below provides a general description of the valuation methods used for financial instruments measured at fair value in the consolidated statement of financial position.

Hierarchy level	Valuation method
Level 1	Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	The fair value of the real estate debentures is estimated using valuations of the underlying investment properties. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property.

Unaudited (millions of Canadian dollars)

Level 3 financial instruments fair value measurements

The table below provides a reconciliation of financial instruments measured at fair value using internal models without observable market information as inputs (Level 3):

	Six months ended June 30 2013	Year ended December 31 2012
Balance at beginning of period	357	338
Purchases	3	9
Sales	(1)	(10)
Realized gains recognized in net investment income	-	2
Unrealized gains recognized in net investment income	-	18
Balance at end of period	**359**	**357**

The fair value of the real estate debentures included in Level 3 is primarily estimated using discounted expected future cash flows of the underlying property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

The discount and terminal capitalization rates used are reflective of the characteristics, location and market of each specific property. The following discount and terminal capitalization rates were used in the Level 3 measurements of fair value:

	June 30 2013	December 31 2012
Real estate debentures		
Discount rates	5.8% - 8.5%	6.3% - 8.5%
Terminal capitalization rates	5.3% - 7.5%	5.3% - 7.5%

The WSIB has estimated that a 50 basis point increase (decrease) in the assumptions used for both the terminal capitalization rate and discount rate would result in a $36 decrease (increase) in the estimated fair value of the real estate debentures.

15. 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.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics and training centres. The total funding provided under these legislated obligations and commitments for the three and six months ended June 30, 2013 were $48 and $114, respectively (2012 – $36 and $95).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and commitments expense, 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 are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,044 (December 31, 2012 – $960).

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties. Note 11 provides details of transactions with these post-employment benefit plans.

16. Subsequent Events

On July 12, 2013, the WSIB announced that premium rates will be maintained at current levels for all employers in 2014. This decision by the WSIB Board of Directors provides stability for employers as the WSIB, in consultation with stakeholders, reviews its methods for setting premium rates.