Workplace Safety and Insurance Board

First 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 condensed interim consolidated financial statements as approved by the Board of Directors of the Workplace Safety and Insurance Board (the “WSIB”), are prepared by management as at and for the three months ended March 31, 2013.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 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 June 19, 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

June 19, 2013
Toronto, Ontario

Management's Discussion and Analysis

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1. Quarter in Review

Highlights of our performance for the three months ended March 31, 2013 compared to the three months ended March 31, 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 months ended March 31, 2013.

Financial highlights for the three months ended March 31, 2013 compared to the three months ended March 31, 2012:

- Comprehensive income was $795 million compared to $768 million reflecting $722 million of net investment income corresponding to a 4.5% return on investments reflecting strong public equity returns along with strong operating performance.
- Our unfunded liability decreased $702 million to $13,359 million and our Funding Ratio improved by 2.4% to 57.5%.
- Premium revenues increased $108 million or 11.1% reflecting $85 million attributed to higher insurable earnings reflecting continued strengthening economic conditions and $28 million reflecting the 2.5% increase in average premium rates announced in 2012, partially offset by $5 million attributed to interest and penalties, other income, Schedule 2 administration fees and net employer incentive programs.
- Benefit payments decreased $65 million or 9.2% reflecting improved recovery and return to work outcomes for injured workers, as well as fewer new lost-time injuries.
- Administration and other expenses, before allocation to benefit costs, decreased $15 million or 7.2% due to $22 million of lower termination benefits and $1 million of other items, partially offset by $8 million of higher bad debt expense.

Continued improvements in operating performance. Many of the 2012 trends continued in the first quarter of 2013. Focused case management and health care continued to help injured workers return to work and recover faster, with less permanent impairment. Financially, the WSIB continues on the path to sustainability as evidenced by $163 million of Core Earnings reflecting both increased premium revenues coupled with lower benefit payments.

Decrease in new claims. The number of Schedule 1 registered claims and allowed lost-time claims, has been decreasing for more than a decade. This trend continued in the first quarter of 2013 as allowed lost-time claims decreased by 7.2% or 690 claims, compared to the first quarter of 2012. Once claims are registered, we continued to make accurate eligibility decisions quickly. During the first quarter of 2013, 92.0% of Schedule 1 eligibility decisions were made within two weeks, compared to 87.9% in the first quarter of 2012.

Improved recovery and return to work. We continued to have more success in helping injured workers mitigate their wage loss. In the first quarter of 2013, the average loss of earnings entitlement at lock-in was 48.7%, compared to 51.5% in the first quarter of 2012. More importantly, 92.0% of all injured workers were able to return to work at no wage loss within 12 months of their injury.

Focused health care investments. We continued to invest in early, appropriate and specialized health care. Overall, fewer claims and improved recovery led to a 12.7% decrease in the number of paid health care claims and a $10 million or 7.7% decrease in health care costs.

Appeals modernization. We modernized our appeals program effective February 1, 2013. The changes support service excellence and will ensure that workers and employers are able to proceed with their appeals in a timely manner.

Benefit payments. Benefit payments decreased by $65 million or 9.2% reflecting a reduction in the number of new claims and continued improvements in recovery and return to work outcomes.

Employer classification reform. In January 2013, Mr. Stanley released a discussion paper and began accepting submissions from stakeholders. Public consultations were held in April 2013, engaging stakeholders across the Province of Ontario (the “Province”) and getting their input and ideas, which will be used to inform Mr. Stanley's final report.

2. Operating Results

A more detailed discussion of our financial performance for the three months ended March 31, 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 months ended March 31.

	Three months ended March 31	
(millions of Canadian dollars)	**2013**	**2012**
Revenues		
Premiums	1,101	981
Net employer incentive programs	(23)	(11)
	1,078	970
Net investment income		
Investment income	747	715
Investment expenses	(33)	(26)
Income from associates and joint ventures	8	14
	722	703
	1,800	1,673
Expenses		
Benefit costs		
Benefit payments	640	705
Claim administration costs	109	125
Changes in actuarial valuation of benefit liabilities	196	(10)
	945	820
Loss of Retirement Income Fund contributions	16	17
Administration and other expenses	84	83
Legislated obligations and commitments	66	59
	1,111	979
Excess of revenues over expenses	**689**	**694**
Other comprehensive income		
Remeasurements of employee defined benefit plans	106	74
Comprehensive income	**795**	**768**
Comprehensive income attributable to:		
WSIB stakeholders	702	675
Non-controlling interests	93	93
	795	**768**
Other measures		
Core Earnings (Loss)[1]	163	(19)
Return on investments[2]	4.5%	5.1%
	March 31 2013	**December 31 2012**
Unfunded liability[3]	(13,359)	(14,061)
Funding Ratio[4]	57.5%	55.1%

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. 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 interest in investments, divided by total liabilities at the reporting date.

Premiums

Premiums were $1,078 million compared to $970 million, an increase of $108 million or 11.1% and are segmented as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	2013	2012	$	%
Schedule 1 employer premiums				
Gross Schedule 1 premiums	1,070	957	113	11.8
Interest and penalties	13	9	4	44.4
Other income	-	(1)	1	(100+)
	1,083	965	118	12.2
Schedule 2 administration fees	18	16	2	12.5
	1,101	981	120	12.2
Net employer incentive programs	(23)	(11)	(12)	(100+)
	1,078	**970**	**108**	**11.1**

Gross premiums were $1,070 million, an increase of $113 million or 11.8% reflecting $85 million attributed to an 8.6% increase in insurable earnings for 2013 reflecting continued economic growth and conservative insurable earnings estimates and $28 million attributed to the 2.5% increase in the average premium rate for 2013 charged to employers. Between 2009 and 2012, gross premiums have increased by $777 million evidencing significant employer contributions to reducing the WSIB's unfunded liability. Our quarterly premium revenues are impacted by a number of trends and recurring factors such as seasonality as well as insurable earnings, which rise and fall with the employment levels in the industries we insure. As such, this increase in premiums must be viewed with caution due to conservative estimates for insurable payrolls in the first quarter of 2012 as a result of the on-going volatility in the economy. We expect a modest growth in premiums revenue in 2013.

Interest and penalties were $13 million, an increase by $4 million or 44.4% attributable to employers who were denied entitlement to employer incentive program rebates as a result of worker fatalities.

Net employer incentive programs were $23 million, an increase of $12 million or 100+% primarily reflecting higher rebates attributed to improved employer experience.

Net investment income

A summary of total investment income, segmented by asset class for the three months ended March 31 is as follows:

	Three months ended March 31			
Asset class	2013		2012	
(millions of Canadian dollars)	Investment income	Return %	Investment income	Return %
Fixed income	33	0.8	(10)	(0.2)
Public equities	555	8.1	633	10.2
Multi-asset strategies	116	3.4	72	3.3
Real estate	42	2.7	26	3.3
Infrastructure	7	3.0	6	3.8
Cash and cash equivalents	2	0.3	2	0.5
Investment income	**755**	**4.5**	**729**	**5.1**
Investment expenses	(33)		(26)	
Net investment income	**722**		**703**	

Investment income, prior to $33 million of investment expenses, was $755 million reflecting a 4.5% rate of return compared to $729 million reflecting a 5.1% rate of return and reflected a higher investment base. The higher than expected returns in the first quarter 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 ten to fifteen 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.

Benefit costs were $945 million, an increase of $125 million, or 15.2% as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Benefit payments	640	705	(65)	(9.2)
Claim administration costs	109	125	(16)	(12.8)
Change in actuarial valuation of benefit liabilities	196	(10)	206	(100+)
Total benefit costs	**945**	**820**	**125**	**15.2**

Benefit payments

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

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Loss of earnings	224	252	(28)	(11.1)
Workers' pensions	158	166	(8)	(4.8)
Health care	120	130	(10)	(7.7)
Future economic loss	63	67	(4)	(6.0)
Survivor benefits	44	44	-	-
External providers	15	17	(2)	(11.8)
Non-economic loss	12	21	(9)	(42.9)
Other	4	8	(4)	(50.0)
Total benefit payments	**640**	**705**	**(65)**	**(9.2)**

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

- Loss of earnings benefits decreased $28 million or 11.1% reflecting fewer new lost- time injuries and better recovery and return to work outcomes.
- Workers' pensions decreased $8 million or 4.8% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased $10 million or 7.7% reflecting lower claim volumes due to improved durations and fewer injuries.
- Future economic loss benefits decreased $4 million or 6.0% 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 expense decreased $2 million or 11.8% 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 $9 million or 42.9% 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% the primarily due to a decline in claimants eligible for supplementary benefits under older legislation.

Claim administration costs

Claim administration costs represent the allocation of overhead costs relating to the administration of claims and were $109 million compared to $125 million, a decrease of $16 million or 12.8% 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 March 31	
(millions of Canadian dollars)	**2013**	**2012**
Changes in actuarial valuation of benefit liabilities	196	(10)

Changes in the actuarial valuation resulted in an increase in the benefit liabilities of $196 million compared to a decrease of $10 million reflecting an increase in the benefit liabilities of $158 million resulting from refinements to our methodology for determining the cost of claims liabilities and $48 million due to changes in mortality assumptions. The refinements to our methodology were implemented in December 2012.

Administration and other expenses

Administration and other expenses, before allocation to benefit costs were $193 million, a decrease of $15 million or 7.2% as noted below:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Salaries and short-term benefits	91	95	(4)	(4.2)
Long-term benefit plans	45	38	7	18.4
Amortization	6	6	-	-
Bad debts	10	2	8	100+
Communications	2	3	(1)	(33.3)
Equipment and maintenance	12	19	(7)	(36.8)
Facilities	10	10	-	-
New systems development and integration	5	2	3	100+
Termination benefits	6	28	(22)	(78.6)
Other	6	5	1	20.0
	193	208	(15)	(7.2)
Claim administration costs allocated to benefit costs	(109)	(125)	16	(12.8)
Total administration and other expenses	**84**	**83**	**1**	**1.2**

A summary of the changes in administration and other expenses for the three months ended March 31, 2013 is as follows:

- Salaries and short-term benefits decreased $4 million primarily due to lower staff levels.
- Long-term benefit plans increased $7 million reflecting a 35 basis point reduction in interest rates used to value our obligations.
- Amortization expenses were unchanged.
- Bad debts increased $8 million reflecting conservative estimating practices.
- Communications expenses decreased $1 million primarily due to lower postage costs.
- Equipment and maintenance expense decreased $7 million reflecting contracts recorded on an accrual basis.
- Facilities expenses remained unchanged.
- New systems development and integration expenses increased $3 million reflecting several information technology projects undertaken to modernize the WSIB.
- Termination benefits decreased $22 million reflecting a lower volume of staff reductions.
- Other expenses increased $1 million due to higher consulting and professional services.
- 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.

Legislated obligations and commitments were $66 million, an increase of $7 million or 11.9% reflecting the timing of payments to the MoL. We anticipate payments to the MoL will approximate the 2012 amounts after reflecting a $6 million one-time credit received in 2012 as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Legislated obligations				
Occupational Health and Safety Act	28	25	3	12.0
Ministry of Labour Prevention Costs	29	1	28	100+
	57	26	31	100+
Workplace Safety and Insurance Appeals Tribunal	5	5	-	-
Workplace Safety and Insurance Advisory Program				
Office of the Workers’ Adviser	3	3	-	-
Office of the Employers' Adviser	1	1	-	-
	4	4	-	-
Total legislated obligations	66	35	31	88.6
Commitments				
Safe Workplace Associations	-	17	(17)	(100.0)
Workplace Health and Safety Centre	-	2	(2)	(100.0)
Health clinics	-	2	(2)	(100.0)
Grants	-	2	(2)	(100.0)
Institute for Work and Health	-	1	(1)	(100.0)
Total commitments	-	24	(24)	(100.0)
	66	**59**	**7**	**11.9**

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)	Mar. 31 2013	Dec. 31 2012	Changes $	%	Commentary
Assets					
Cash and cash equivalents	1,011	1,331	(320)	(24.0)	See Section 5 – Liquidity and Capital Resources.
Receivables	1,077	1,009	68	6.7	Higher experience rating surcharge provision
Investment receivables	196	159	37	23.3	Increase in accrued income and pending investment transactions.
Investments	16,065	15,100	965	6.4	Increase in fair value of investments and $175 million of cash transferred to the investment portfolio.
Investments under securities lending program	738	592	146	24.7	Increase due to higher utilization of available securities.
Investments in associates and joint ventures	388	386	2	0.5	Increase due to higher income and additional investments offset by sale of property and dividends received.
Investment property	651	643	8	1.2	Increase in fair value of investment properties and additional capitalized development costs.
Property and equipment	142	147	(5)	(3.4)	Reduction due to amortization.
Intangible assets	19	17	2	11.8	Increase due to additions.
Liabilities					
Payables and accruals	954	1,038	(84)	(8.1)	Decrease primarily reflecting the reduction of 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 primarily reflecting additional bank loans.
Loss of Retirement Income Fund liability	1,432	1,377	55	4.0	Increase primarily due to asset growth and contributions in excess of disbursements.
Employee benefit plans liability	1,594	1,670	(76)	(4.6)	Decrease primarily reflecting the gains due to actuarial assumption changes and experience.
Benefit liabilities	27,246	27,050	196	0.7	Changes in actuarial methods and assumptions. See Section 2 – Operating Results.
Unfunded liability	(13,359)	(14,061)	702	(5.0)	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 March 31, 2013 is as follows:

	2013	2012				2011[5]		
(millions of Canadian dollars)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Net premiums	1,078	977	1,058	1,056	970	987	999	992
Net investment income (loss)	722	433	488	(165)	703	613	(687)	100
Benefit costs								
Benefit payments	640	649	637	673	705	692	695	719
Claim administration costs	109	128	101	104	125	96	90	91
Change in actuarial valuation of benefit liabilities	196	512	8	150	(10)	2400	(309)	(112)
	945	1,289	746	927	820	3,188	476	698
Loss of Retirement Income Fund contributions	16	17	16	17	17	17	18	17
Administration and other expenses	84	102	72	76	83	114	68	71
Legislated obligations and commitments	66	69	67	36	59	60	58	53
Remeasurements of employee defined benefit plans	106	19	(89)	(166)	74	-	-	-
Comprehensive income (loss) attributable to WSIB stakeholders	702	(108)	493	(314)	675	(1,867)	(221)	239
Other measures								
Core Earnings (Loss)[1]	163	11	165	150	(19)	8	70	41
Unfunded liability[2]	13,359	14,061	13,953	14,446	14,132	14,222	12,355	12,134
Funding Ratio (%)[3]	57.5	55.1	54.9	53.0	53.3	52.1	54.9	56.0
Return on investments (%)[4]	4.5	2.8	3.4	(1.0)	5.1	4.4	(4.7)	0.8

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 interest 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 March 31, 2013, we held $1,011 million of cash and cash equivalents of which $561 million was held for investing, $273 million was held for operating purposes, and $177 million was held in our Loss of Retirement Income Fund on behalf of injured workers.

A summary of our cash flows for the three months ended March 31, 2013 is as follows:

	Three months ended March 31	
(millions of Canadian dollars)	**2013**	**2012**
Cash and cash equivalents, beginning of period	1,331	983
Cash provided (required) by operating activities	38	(107)
Cash provided (used) in investing activities	(349)	80
Cash used in financing activities	(9)	(5)
Cash and cash equivalents, end of period	**1,011**	**951**

- Cash provided by operating activities was $38 million compared to $107 million required by operating activities reflecting continued improvements in operating performance.
- Cash used in investing activities was $349 million compared to $80 million provided by investing activities reflecting the net purchases of investments.
- Cash used in financing activities was $9 million compared to $5 million reflecting net distributions paid to non-controlling interests and changes in finance leases and mortgages.

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at March 31, 2013, we had not utilized any of this credit facility.

Commitments

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

(millions of Canadian dollars)	**March 31 2013**	**December 31 2012**
Real estate, multi-asset strategy and infrastructure investments	443	491
Investments in associates and joint ventures	221	222
Purchase or development of investment properties	5	-
	669	**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)	March 31 2013	December 31 2012	January 1 2012
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	12,699	13,299	14,222
Increase in employee benefit plans liability	660	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**13,359**	**14,061**	**14,807**

	Three months ended March 31	
(millions of Canadian dollars)	**2013**	**2012**
Excess of revenue over expenses prior to change in accounting policy	693	697
Increase in employee benefit expense	(4)	(3)
Excess of revenue over expenses after change in accounting policy	**689**	**694**

	Three months ended March 31	
(millions of Canadian dollars)	**2013**	**2012**
Comprehensive income prior to change in accounting policy	693	697
Increase in employee benefit expense	(4)	(3)
Remeasurements of defined benefit plans	106	74
Comprehensive income after change in accounting policy	**795**	**768**

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.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures 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.

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

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

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 July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant 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 Contingences

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

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

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

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

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements 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.	No change.
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's 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:

- 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 our 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 ten to fifteen-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 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 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;
- holding collateral from Schedule 2 employers in the form of letters of credit issued by highly rated Canadian financial institution;
- 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 the risks:

- we use foreign exchange contracts to hedge 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;
- we review interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify the WSIB's exposure to the impact of changes in interest rate levels; and
- we mitigate price risk by 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;
- 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;

- 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; 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;
- 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;
- we actively monitor 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
- we monitor the quality and timeliness of services through a series of publicly available performance measures and take corrective action when targets are not being met.

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 robust recovery capabilities, targeted for 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:

- 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;
- through contractual protection, third parties are legally bound to the WSIB's standards and requirements for security of systems, privacy, and strict confidentiality of information;
- 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, the most directly comparable financial measure calculated and presented consistent with IFRS:

	Three months ended March 31	
(millions of Canadian dollars)	**2013**	**2012**
Comprehensive income for the period	795	768
Less: Net investment income	(722)	(703)
Add: Changes in actuarial valuation of benefit liabilities	196	(10)
Less: Changes in actuarial valuation of employee benefit plans	(106)	(74)
Core Earnings (Loss)	**163**	**(19)**

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	March 31 2013	December 31 2012	January 1 2012
Assets				
Cash and cash equivalents	8	1,011	1,331	983
Receivables		1,077	1,009	1,041
Investment receivables	9	196	159	115
Investments	9	16,065	15,100	13,648
Investments under securities lending program	9	738	592	523
Investments in associates and joint ventures	9	388	386	375
Investment property	9	651	643	488
Property and equipment		142	147	159
Intangible assets		19	17	50
Total assets		**20,287**	**19,384**	**17,382**
Liabilities				
Payables and accruals		954	1,038	1,077
Investment payables	9	60	38	23
Long-term debt		172	169	143
Loss of Retirement Income Fund liability		1,432	1,377	1,254
Employee benefit plans liability	10	1,594	1,670	1,397
Benefit liabilities	11	27,246	27,050	26,390
Total liabilities		**31,458**	**31,342**	**30,284**
Deficiency of assets				
Unfunded liability attributable to WSIB stakeholders		(13,359)	(14,061)	(14,807)
Non-controlling interests		2,188	2,103	1,905
Total deficiency of assets		**(11,171)**	**(11,958)**	**(12,902)**
Total liabilities and deficiency of assets		**20,287**	**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 March 31 2013	2012
Revenues			
Premiums	6	1,101	981
Net employer incentive programs	6	(23)	(11)
		1,078	970
Net investment income			
Investment income	9	747	715
Investment expenses	9	(33)	(26)
Income from associates and joint ventures		8	14
		722	703
		1,800	**1,673**
Expenses			
Benefit costs			
Benefit payments	11	640	705
Claim administration costs	11	109	125
Change in actuarial valuation of benefit liabilities	11	196	(10)
		945	820
Loss of Retirement Income Fund contributions		16	17
Administration and other expenses	7	84	83
Legislated obligations and commitments	12	66	59
		1,111	**979**
Excess of revenues over expenses		**689**	**694**
Other comprehensive income			
Remeasurements of employee defined benefit plans	10	106	74
Comprehensive income		**795**	**768**

	Three months ended March 31 2013	2012
Excess of revenues over expenses attributable to:		
WSIB stakeholders	596	601
Non-controlling interests	93	93
	689	**694**
Comprehensive income attributable to:		
WSIB stakeholders	702	675
Non-controlling interests	93	93
	795	**768**

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		601	93	694
Remeasurements of employee defined benefit plans	10	74	-	74
Balance at March 31, 2012		(14,132)	1,998	(12,134)
Excess of revenues over expenses		308	105	413
Remeasurements of employee defined benefit plans	10	(237)	-	(237)
Balance at December 31, 2012		(14,061)	2,103	(11,958)
Excess of revenues over expenses		596	93	689
Remeasurements of employee defined benefit plans	10	106	-	106
Change in ownership share in investments		-	(8)	(8)
Balance at March 31, 2013		**(13,359)**	**2,188**	**(11,171)**

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 March 31	
	2013	**2012**
Operating activities:		
Comprehensive income	795	768
Adjustments:		
Amortization of net premium on investments	3	3
Amortization of property, equipment and intangible assets	7	7
Changes in fair value of investments	(656)	(652)
Changes in fair value of investment property	(4)	2
Dividend income from equity securities	(58)	(52)
Income from associates and joint ventures	(8)	(14)
Interest income	(68)	(58)
Interest expense	4	3
	15	7
Change in non-cash balances related to operations:		
Receivables	(68)	(56)
Payables and accruals	(84)	(57)
Loss of Retirement Income Fund liability	55	59
Employee benefit plans liability	(76)	(50)
Benefit liabilities	196	(10)
	23	(114)
Net cash provided (required) by operating activities	**38**	**(107)**
Investing activities:		
Dividends received from equity securities, associates and joint ventures	52	50
Interest received	51	41
Additions of property, equipment and intangible assets	(3)	(1)
Purchase of investments	(5,508)	(5,393)
Sale and maturities of investments	5,059	5,392
Additions of investment property	(3)	(3)
Acquisition of associates and joint ventures	(3)	(6)
Disposition of associates and joint ventures	6	-
Net cash provided (required) by investing activities	**(349)**	**80**
Financing activities:		
Disposition of non-controlling interests	3	12
Distributions paid by subsidiaries to non-controlling interests	(11)	(12)
Issue (repayment) of long-term debt	3	(2)
Interest paid on long-term debt	(4)	(3)
Net cash required by financing activities	**(9)**	**(5)**
Increase (decrease) in cash and cash equivalents	**(320)**	**(32)**
Cash and cash equivalents, beginning of period	1,331	983
Cash and cash equivalents, end of period	**1,011**	**951**

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

1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario, Canada (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 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 June 19, 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 or loss.

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 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 lease.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication 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 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 obligations for these plans are measured as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

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.

	March 31 2013	December 31 2012	January 1 2012
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	12,699	13,299	14,222
Increase in employee benefit plans liability	660	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**13,359**	**14,061**	**14,807**

	Three months ended March 31	
	2013	**2012**
Excess of revenue over expenses prior to change in accounting policy	693	697
Increase in employee benefit expense	(4)	(3)
Excess of revenue over expenses after change in accounting policy	**689**	**694**

	Three months ended March 31	
	2013	**2012**
Comprehensive income prior to change in accounting policy	693	697
Increase in employee benefit expense	(4)	(3)
Remeasurements of defined benefit plans	106	74
Comprehensive income after change in accounting policy	**795**	**768**

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 11)

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.

Unaudited (millions of Canadian dollars)

Employee benefit plans (note 10)

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 (note 13)

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 13)

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.

6. Revenues

	Three months ended March 31	
	2013	**2012**
Premiums		
Schedule 1 employer premiums		
Gross Schedule 1 premiums	1,070	957
Interest and penalties	13	9
Other income	-	(1)
	1,083	965
Schedule 2 employer administration fees	18	16
	1,101	981
Net employer incentive programs	(23)	(11)
	1,078	970
Net investment income (note 9)	722	703
	1,800	**1,673**

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.

Unaudited (millions of Canadian dollars)

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.

7. Administration and Other Expenses

Administration and other expenses are comprised of the following:

	Three months ended March 31	
	2013	**2012**
Salaries and short-term benefits	91	95
Long-term benefit plans	45	38
Amortization	6	6
Bad debts	10	2
Communications	2	3
Equipment and maintenance	12	19
Facilities	10	10
New systems development and integration	5	2
Termination benefits	6	28
Other	6	5
	193	208
Claim administration costs allocated to benefit costs	(109)	(125)
	84	**83**

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 11 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:

	March 31 2013	**December 31 2012**
Cash	485	631
Short-term money market securities	526	700
	1,011	**1,331**

Unaudited (millions of Canadian dollars)

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

	March 31 2013	December 31 2012
For operating purposes	273	439
Held in investment portfolio (note 9)	561	737
Held in Loss of Retirement Income Fund	177	155
	1,011	**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	Mar. 31 2013	Dec. 31 2012
Equity securities	-	7,683	598	-	-	-	8,281	7,707
Fixed income securities	4,760	-	598	-	-	-	5,358	5,058
Hedge funds	-	-	1,098	-	-	-	1,098	1,036
Real estate debentures	-	-	-	352	-	-	352	356
Commingled investment funds	-	-	1,338	-	252	-	1,590	1,514
Annuities	-	-	-	-	-	69	69	71
Foreign exchange contracts	-	15	24	-	1	-	40	(48)
Futures	-	-	15	-	-	-	15	(2)
Investments and investments under securities lending program	4,760	7,698	3,671	352	253	69	16,803	15,692
Investment in associates and joint ventures	-	-	-	353	35	-	388	386
Investment property	-	-	-	651	-	-	651	643
Investment receivables	57	60	74	1	4	-	196	159
Investment payables	(10)	(50)	-	-	-	-	(60)	(38)
Cash and cash equivalents (note 8)	6	355	160	36	4	-	561	737
Total investment portfolio	**4,813**	**8,063**	**3,905**	**1,393**	**296**	**69**	**18,539**	**17,579**
March 31, 2013 - % of total	26.0%	43.5%	21.0%	7.5%	1.6%	0.4%		
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:

	March 31 2013	December 31 2012
Investments	16,065	15,100
Investments under securities lending program (a)	738	592
Investment receivables	196	159
Investment payables	(60)	(38)
Investments in associates and joint ventures	388	386
Investment property	651	643
Cash and cash equivalents (note 8)	561	737
	18,539	**17,579**

Unaudited (millions of Canadian dollars)

c) 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 March 31, 2013, the fair value of securities maintained as collateral was approximately $786 (December 31, 2012 – $627).

Net investment income

Net investment income by category of investments is as follows:

	Three months ended March 31	
	2013	**2012**
Equity securities	653	680
Fixed income securities	46	(3)
Amortization of premium/discounts on bonds	(3)	(3)
Hedge funds	47	7
Real estate debentures	16	3
Commingled investment funds	44	16
Foreign exchange contracts	(32)	69
Futures	6	(11)
Short-term securities	2	1
Income from associates and joint ventures	8	14
Investment property	21	11
Investment expenses	(33)	(26)
Less: Income attributable to Loss of Retirement Income Fund	(53)	(55)
	722	**703**

Unaudited (millions of Canadian dollars)

Net investment income for the three months ended March 31 is comprised of:

	Three months ended March 31	
	2013	**2012**
Realized and unrealized gains	1,317	1,375
Realized and unrealized losses	(661)	(723)
Interest and dividend income	123	107
Investment property	21	11
Less: Income attributable to Loss of Retirement Income Fund	(53)	(55)
Investment income	747	715
Investment expenses	(33)	(26)
Income from associates and joint ventures	8	14
	722	**703**

10. 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 March 31	
	2013	**2012**
Service cost	28	23
Net interest on the employee benefit plans liability	17	15
	45	**38**

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

	Three months ended March 31	
	2013	**2012**
Actuarial gains arising from changes in financial assumptions	33	-
Return in excess of interest income on plan assets	73	74
	106	**74**

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

Unaudited (millions of Canadian dollars)

Employee benefit plans liability

The liability for the employee benefit plans is comprised of the following:

	March 31 2013	December 31 2012	January 1 2012
Present value of unfunded obligations	654	655	594
Present value of wholly or partly funded obligations	3,098	3,089	2,686
Total present value of obligations	3,752	3,744	3,280
Fair value of plan assets	(2,158)	(2,074)	(1,883)
Deficit	**1,594**	**1,670**	**1,397**

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

	Three months ended March 31 2013	Year ended December 31 2012
Balance, beginning of period	3,744	3,280
Current service cost	28	95
Past service cost	-	25
Contributions by employees	6	28
Interest expense on the defined benefit obligations	37	143
Actuarial losses arising from experience in demographics	-	18
Actuarial losses arising from changes in demographic assumptions	-	55
Actuarial losses (gains) arising from changes in financial assumptions	(33)	203
Benefits paid	(30)	(103)
Balance, end of period	**3,752**	**3,744**

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

	Three months ended March 31 2013	Year ended December 31 2012
Balance, beginning of period	2,074	1,883
Return in excess of interest income on plan assets	73	114
Interest income on plan assets	20	80
Contributions by the WSIB	15	72
Contributions by employees	6	28
Benefits paid	(30)	(103)
Balance, end of period	**2,158**	**2,074**

Unaudited (millions of Canadian dollars)

11. 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 March 31, 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.

Benefit liabilities are comprised of the following:

	March 31 2013	December 31 2012
Loss of earnings	9,534	9,366
Workers' pensions	6,326	6,405
Health care	3,872	3,811
Survivor benefits	2,448	2,426
Future economic loss	1,861	1,902
External providers	288	281
Non-economic loss	311	307
Long latent occupational diseases	1,425	1,425
Claim administration and other	1,181	1,127
	27,246	**27,050**

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

	Three months ended March 31 2013	Year ended December 31 2012
Benefit liabilities, beginning of period	27,050	26,390
Benefit costs	945	3,773
Benefit costs paid	(749)	(3,113)
Benefit liabilities, end of period	**27,246**	**27,050**

Benefit costs

Benefit costs are comprised of the following:

	Three months ended March 31 2013	Three months ended March 31 2012
Benefit payments	640	705
Claim administration costs	109	125
Change in actuarial valuation of benefit liabilities	196	(10)
	945	**820**

Unaudited (millions of Canadian dollars)

12. Commitments and Contingent Liabilities

Investment commitments

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

	March 31 2013	December 31 2012
Real estate, multi-asset strategy and infrastructure investments	443	491
Investments in associates and joint ventures	221	222
Purchase or development of investment properties	5	-
	669	**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 March 31, 2013 were $240 for the Government of Ontario’s 2014 fiscal year April 1, 2013 through March 31, 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)

13. 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, investment payables and accruals	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 March 31, 2013 was $205 (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 three months ended March 31, 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.

	March 31, 2013				**December 31, 2012**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	485	-	-	485	631	-	-	631
Short-term money market securities	-	526	-	526	-	700	-	700
	485	526	-	1,011	631	700	-	1,331
Foreign exchange contracts	-	40	-	40	-	(48)	-	(48)
Futures	-	15	-	15	-	(2)	-	(2)
Fixed income securities	-	5,358	-	5,358	-	5,058	-	5,058
Equity securities	8,240	40	1	8,281	7,668	38	1	7,707
Hedge funds	-	1,098	-	1,098	-	1,036	-	1,036
Commingled investment funds	-	1,589	-	1,589	-	1,514	-	1,514
Real estate debentures	-	-	353	353	-	-	356	356
Loss of Retirement Income Fund annuities	-	69	-	69	-	71	-	71
Investments and investments under securities lending program	8,240	8,209	354	16,803	7,668	7,667	357	15,692
	8,725	**8,735**	**354**	**17,814**	**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):

	Three months ended March 31 2013	Year ended December 31 2012
Balance at beginning of period	357	338
Purchases	3	9
Sales	-	(10)
Realized gains recognized in net investment income	-	2
Unrealized gains (losses) recognized in net investment income	(6)	18
	354	**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:

	March 31 2013	December 31 2012
Real estate debentures		
Discount rates	6.0% - 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.

14. 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 Advisor. 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 months ended March 31, 2013 was $66 (2012 – $59).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively present 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 $1,049 (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 10 provides details of transactions with these post-employment benefit plans.