WCB Nova Scotia
Summary of Financial Results
Third Quarter 2019

Year-to-date results as of September 30th:

Revenues exceeded expenses for a comprehensive income of $139.5 million, decreasing the unfunded liability. The funded ratio is currently 92.4 per cent compared to 85.5 per cent at December 31, 2018.

- Primarily due to investment income – strong market returns in the first nine months of the year with a nine month return of 10.8% resulting in investment income of $185.8 million.
- The current approved funding strategy expectation is comprehensive income of $62.9 million for the year. Current projections indicate the year will end with comprehensive income in excess of this amount.
- These results are not necessarily a prediction of what will take place for the remainder of the year, as investment returns and actuarial adjustments may be subject to significant change over the remaining three months.

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SUMMARY OF FINANCIAL RESULTS
THIRD QUARTER 2019

Statement of Financial Position

WCB Nova Scotia's (WCB) asset base at September 30, 2019 was $1,993.7 million, an increase of $111.7 million as compared to September 30, 2018. This was primarily due to increases in the market value of investments and capital assets added through the business transformation project.

These financial statements reflect IFRS 16 Lease Accounting standard changes effective January 1, 2019. As of this date, all leases are considered finance leases with a right to use asset and a liability recorded on the statement of financial position. This standard means there is an increase in capital assets with accompanying liabilities but not a significant impact on year over year expenses reported. The office space leases (Fenwick Street and Charlotte Street) have been recorded as an asset and with a corresponding lease liability of $2.6 million on January 1, 2019. The asset and liability is initially recorded at the present value of the future lease payments. Previously the lease payments were recorded as a lease expense.

Benefits for injuries occurring during the year are paid in the year of injury and for some workers, for many years in the future. The WCB maintains an investment portfolio to secure the payment of benefits in the future. The WCB benchmark investment portfolio asset mix as at September 30, 2019 includes public equity at 43.2 per cent, fixed income at 32.0 per cent, hedge funds at 10.0 per cent, real estate at 10.0 per cent and alternative investments at 4.8 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of $2,081.6 million increased $60.3 million from September 30, 2018 to September 30, 2019. These liabilities have been estimated for the nine months of the year based on a extrapolation performed on data as of June 30, 2019 and projected forward for the remainder of the year. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

The unfunded liability of $164.3 million decreased $54.4 million from September 30, 2018.

Statement of Operations

There was a Comprehensive Income of $139.5 million for the nine months ended September 30, 2019, resulting in a decrease to the unfunded liability. The current funding strategy, approved in June 2019 and with budget revisions anticipates Comprehensive Income of $62.9 million. The year-to-date Comprehensive Income is tracking better than plan at this point, primarily driven by investment returns which can vary depending on market volatility. The impact on the funding strategy will be measured as the variance of the 2019 Comprehensive Income to the funding strategy estimate. These results are not necessarily a prediction of what will take place for the remainder of the year. Investment returns and actuarial adjustments may be subject to significant change over the next three months. As the date when the unfunded liability will be eliminated approaches, the sensitivity to changes increases with any negative impacts representing a challenge as there will be limited market cycles over which to recover.

Revenue

Assessment revenue year-to-date is $234.4 million composed of insured firms' revenue of $228.9 million and $5.5 million from administering self-insured claims. Assessment revenue increased $7.4 million (3.3 per cent) versus the same period in 2018. Insured firms' revenue also includes funds collected rebate and refund programs.

Investment income year-to-date is $185.8 million, an increase of $144.2 million over the same period in 2018. Investment income is the result of gains of $191.7 million, Interest & Dividends income of $0.5 million, less bank service cost and interest of $0.1 million and less $6.3 M in manager fees. Investment markets rebounded from 2018 and the year-to-date return was 10.8 per cent, as compared to the benchmark return of 11.7 per cent. The benchmark is useful for assessing performance of the fund over the longer term. The fund is diversified and positioned for long term results and it is not unexpected to lag the benchmark during market rebounds in the short term. Results year-to-date are not necessarily indicative of what will happen during the remainder of the year.

Claims Costs Incurred, Growth in Present Value of Benefits Liability and Experience Adjustments

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Claims costs incurred of $154.3 million are an increase of $9.3 million (6.4 per cent) over the same period of 2018 and are estimated for the first nine months of the year based on an extrapolation of current and future years' costs.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was $69.1 million. The growth component was $76.2 million, offset by estimated favourable actuarial experience adjustments of $7.1 million. Favourable actuarial experience adjustments are currently projected in Long Term disability and Health Care and to a lesser extent in Rehabilitation, offset by an unfavourable adjustment in Short Term Disability.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were $38.0 million with a $3.7 million favourable variance from the $41.8 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable $8.1 million on expenditures of $57.7 million. Favourable operating variances primarily relate to salary and benefits, depreciation, training and development, capital and smaller variances in other areas. Variances are expected to be partially utilized by year end.

Legislated Obligations

Legislated Obligations expenditures were $13.3 million with a $0.5 million favourable variance from budget. Both Occupational Health and Safety and the Workers Compensation Appeals Tribunal variances were favourable offset by an unfavourable variance in the Workers Advisors Program.

Statement of Cash Flow

The Statement of Cash Flows demonstrates the use of cash year-to-date, with bank indebtedness of $2.7 million at September 30, 2019. This was a decrease of $13.1 million from September 30, 2018.

WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT

	SEPTEMBER 30 2019 (Unaudited) ($000s)	SEPTEMBER 30 2018 (Unaudited) ($000s)	DECEMBER 31 2018 (audited) ($000s)
Assets			
Cash & cash equivalents	$ -	$ 10,375	$ -
Receivables	37,827	27,818	30,328
Investments	1,917,901	1,814,603	1,732,515
Property and equipment	6,590	4,180	4,390
Intangible assets	31,337	24,975	29,407
	$ 1,993,655	$ 1,881,951	$ 1,796,640
Liabilities and Unfunded Liability			
Bank Indebtedness	$ 2,745	$ -	$ 8,692
Payables, accruals & lease liabilities	36,992	36,317	26,035
Post employment benefits	24,615	33,028	23,356
Benefits liabilities	2,081,583	2,021,247	2,042,348
	2,145,935	2,090,592	2,100,431
Deferred revenue	12,000	10,000	-
Unfunded liability	(164,280)	(218,641)	(303,791)
	$ 1,993,655	$ 1,881,951	$ 1,796,640

WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)

	THIRD QUARTER 2019 ($000s)	THIRD QUARTER 2018 ($000s)	YTD SEPTEMBER 30 2019 ($000s)	YTD SEPTEMBER 30 2018 ($000s)
Revenue				
Assessments	$ 78,645	$ 79,102	$ 234,410	$ 227,030
Investment income	21,828	(95)	185,828	41,646
	100,473	79,007	420,238	268,676
Expenses				
Claims costs incurred				
Short-term disability	11,026	10,180	33,078	29,822
Long-term disability	24,902	24,050	74,705	73,258
Survivor benefits	603	573	1,810	1,065
Health care	14,622	14,746	43,866	39,883
Rehabilitation	265	531	794	914
	51,418	50,080	154,253	144,942
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	23,018	24,224	69,054	68,201
Administration costs	12,633	14,025	43,358	43,649
System support	252	227	742	655
Legislated obligations	4,395	4,392	13,320	12,569
	91,716	92,948	280,727	270,016
Excess of revenues over expenses, (expenses over revenues) applied to reduce (increase) the unfunded liability	$ 8,757	$ (13,941)	$ 139,511	$ (1,340)

WCB NOVA SCOTIA
STATEMENT OF CHANGES IN UNFUNDED LIABILITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)

	THIRD QUARTER 2019 ($000s)	THIRD QUARTER 2018 ($000s)	YTD SEPTEMBER 30 2019 ($000s)	YTD SEPTEMBER 30 2018 ($000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	$ (173,037)	$ (204,700)	$ (301,084)	$ (209,185)
Excess of revenues over expenses, (expenses over revenues) applied to reduce (increase) the unfunded liability	8,757	(13,941)	139,511	(1,340)
	(164,280)	(218,641)	(161,573)	(210,525)
Accumulated other comprehensive income				
Balance, beginning of Year	-	-	(2,707)	(8,116)
No change in balance during period				
	-	-	(2,707)	(8,116)
Unfunded liability end of period	$ (164,280)	$ (218,641)	$ (164,280)	$ (218,641)

WCB NOVA SCOTIA
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)

	September 30 2019 ($000's)	September 30 2018 ($000's)
Operating Activities		
Cash received from:		
Employers, for assessments	$ 240,376	$ 239,183
Investment income	(1,547)	12,681
	238,829	251,864
Cash paid to:		
Claimants or third parties on their behalf	(182,487)	(175,140)
Suppliers, for administrative and other goods and services	(47,800)	(47,659)
	(230,287)	(222,799)
Net cash provided by operating activities	8,542	29,065
Investing Activities		
Increase in investments	1,980	(12,165)
Cash paid for:		
Purchase of equipment	(4,575)	(13,395)
Net cash (used in) investing activities	(2,595)	(25,560)
Net increase in cash and cash equivalents	5,947	3,505
(Bank indebtedness), Cash and cash equivalents, beginning of year	(8,692)	6,870
(Bank indebtedness), Cash and cash equivalents end of period	$ (2,745)	$ 10,375

Notes to Financial Statements

1. Basis of Presentation of Interim Financial Statements

Interim financial statements should be read in conjunction with the most recent annual audited Financial Statements (December 31, 2018) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at September 30, 2019, including 2018 comparative figures.

The interim financial statements are prepared on a basis consistent with annual financial statements with the exception of claims costs incurred and the growth in the present value of the benefits liabilities and actuarial experience adjustments. These figures were determined by an extrapolation of current and future years' claims' costs. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end. In addition, these interim financial statements do not include all the information required for annual financial statements.

2. Statement of Financial Position

Receivables include insured firms' premiums received up to the remittance due date of the 15th of the month following quarter end and an estimate for amounts due but not yet reported by employers, and self-insured employers receipts, and are net of the allowance for doubtful accounts and self-insured deposits.

Investments include the investment portfolio held to secure the payment of benefits in the future.

Property and equipment and intangible assets are stated at cost less accumulated depreciation.

Benefits liabilities represent an estimate based on assumptions used in the funding strategy for claims costs incurred and projected inflation. These figures are determined by estimation and the mid-end valuation for purposes of interim financial statements.

On January 1, 2019 the WCB adopted IFRS 16 "Leases" which required the recording of office space leases on the statement of financial position. The WCB applied the cumulative catch up approach when applying this standard. This resulted in the recording of a right to use asset and a liability to make lease payments equal to the present value of the future lease payments at January 1 with no comparatives or adjustment to opening retained earnings required.

3. Statement of Operations

Assessments

The WCB receives two types of assessment revenue. Most employers pay an insurance premium with rates established based on prior years' experience. Assessment revenue for insured firms is recognized based on the requirement for employers to report and pay premiums periodically throughout the year based on actual assessable payroll and includes classified employers' premiums received up to the remittance due date of the 15th of the month following quarter end and a provision for amounts due but not yet reported by employers.
The federal and provincial government agencies and departments are self-insured. Rather than paying an insurance premium, they reimburse the WCB for claims costs incurred on their behalf plus an administrative fee. The administration fee charged for the processing of these claims is included in Revenue.

Investment Income

Investment income consists of income from the long term investment portfolio (interest, dividends, gains and losses arising from foreign currency, realized and unrealized gains and losses). Unrealized gains and losses result from the change in fair value of an investment. Investment income is presented net of investment expenses.

Claims Costs Incurred

The estimates for short term disability, health care, rehabilitation, long term disability and survivor benefits were derived as follows:

- Estimates for insured firms' were determined by an actuarial valuation for purposes of the year end and through a mid-year valuation and extrapolation of current and future years' claims costs for purposes of this quarter's interim financial statements.

Growth in Present Value of Benefits Liability and Actuarial Experience Adjustments

Quarterly statements provide an estimate for the growth in present value based on the net interest rates of the prior year valuation and expected inflation for the quarter. There is an estimated provision for actuarial experience adjustments based on a mid- year valuation and the extrapolation of year to date claims costs for current and prior years. For the purpose of the interim financial results.

4. Cash Flow Statement

This statement summarizes cash receipts and disbursements from all sources.

5. Administration Expenses

Operating expenses are shown by Program Area (type of expenditure).