

WCB Nova Scotia Summary of Financial Results First Quarter 2017

- *Year-to-date revenues exceeded expenses for a comprehensive income of \$34.8 million, decreasing the unfunded liability and resulting in a funded ratio of 85.8% compared to 84.1% at the prior quarter, December 31, 2016.*
 - *Primarily due to:*
 - *Investment markets – YTD return of 3.5%. The return matched the benchmark return of 3.5%. The estimated return for the year in the funding strategy is 6.0%.*
 - *Favorable actuarial adjustments YTD of \$2.5 Million – on target with plan of \$10 million.*
 - ***It is early in the year and investment returns and actuarial adjustments may be subject to significant change over the next nine months.***
- *The current funding strategy expectation is comprehensive income of \$34.3 million for the year.*
- *These results, while positive, are not necessarily a prediction of what will take place for the remainder of the year.*

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SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2017

Statement of Financial Position

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at March 31, 2017 was \$1,716.6 million, an increase of \$138.5 million as compared to March 31, 2016. This was primarily due to an increase in the market value of investments.

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 March 31, 2017 includes public equity at 45%, fixed income at 35%, hedge funds at 10% and real estate at 10% and reflects the fund's long-term risk tolerance. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$1,940 million increased \$32.6 million from March 31, 2016 to March 31, 2017. These liabilities have been estimated based on the yearend valuation and an extrapolation of current and future years' costs. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

Statement of Operations and Unfunded Liability

There was Comprehensive Income of \$34.8 million for the three months ended March 31, 2017, decreasing the unfunded liability. The current funding strategy, approved in June 2016, anticipated Comprehensive Income for 2017 of \$34.3 million. The year-to-date Comprehensive Income is primarily driven by investment returns and favourable actuarial experience adjustments. The impact on the funding strategy will be measured as the variance of the 2017 Comprehensive Income to the funding strategy estimate.

These results, while positive, are not necessarily a prediction of what will take place for the remainder of the year. It is early in the year and investment returns and actuarial adjustments may be subject to significant change over the next nine months. As the full funding date approaches, the sensitivity to changes will be more relevant with any negative impacts representing a challenge as there will be limited market cycles over which to recover. Positive results are a step in the right direction and the focus will be to maintain momentum forward.

Revenue

Assessment revenue year-to-date is \$75.4 million composed of insured firms' revenue of \$65.6 million and self-insured revenue of \$9.8 million. Revenue increased \$2.2 million (3.0%) versus the same period in 2016 and reflects an increase related to insured firms' assessment premium revenue of \$1.5 million and self-insured revenue of

\$0.7 million. Insured firms' revenue is net of funds collected for rebate and refund programs of \$0.6 million.

Investment income year-to-date is \$55.1 million, an increase of \$57.6 million over the same period in 2016. Investment income is the result of realized gains of \$10.8 million and unrealized gains of \$45.9 million less \$1.6 million in management fees. The three month return was 3.5%, matching the benchmark return. The benchmark is useful for assessing performance of the fund. 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

Claims costs incurred of \$53.2 million are an increase of \$2.6 million (5.2%) over year-to-date 2016 and are estimated 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 \$25.7 million. The growth component was \$27.6 million plus an additional \$0.6 million growth amount for latent occupational disease, partially offset by estimated favourable actuarial experience adjustments of \$2.5 million, projected at \$10.0 million for the year in the funding strategy. Favourable actuarial experience adjustments are currently projected in long term disability.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were \$11.8 million with a \$0.8 million favourable variance from the \$12.6 million year-to-date budget, excluding projects. Including projects and capital, the total administrative variance was a favourable \$0.9 million. Favourable operating variances primarily relate to salary and benefits and depreciation. Variances are expected to be utilized by year end.

Legislated Obligations

Legislated Obligations expenditures were \$4.1 million with a \$0.5 million favourable variance from budget. The largest portion of this variance is in Occupational Health and Safety and the Workers' Advisors Program.

Statement of Cash Flow

The Statement of Cash Flows demonstrates the use of cash year-to-date, with Cash of \$5.6 million at March 31, 2017. This was a decrease of \$1.4 million from March 31, 2016.

**WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT**

	MARCH 31 2017 (Unaudited) (\$000s)	MARCH 31 2016 (Unaudited) (\$000s)	DECEMBER 31 2016 (audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 5,552	\$ 6,967	\$ -
Receivables	21,869	22,293	29,890
Investments	1,680,715	1,543,499	1,645,712
Property and equipment	3,990	4,228	4,072
Intangible assets	<u>4,483</u>	<u>1,135</u>	<u>4,726</u>
	<u>\$ 1,716,609</u>	<u>\$ 1,578,122</u>	<u>\$ 1,684,400</u>
Liabilities and Unfunded Liability			
Bank Indebtedness	\$ -	\$ -	\$ 8,865
Payables, accruals & Lease Liabilities	28,370	40,808	39,982
Post employment benefits	29,096	27,296	28,792
Benefits liabilities	<u>1,940,074</u>	<u>1,907,426</u>	<u>1,924,386</u>
	1,997,540	1,975,530	2,002,025
Deferred revenue	1,877	1,676	-
Unfunded liability	<u>(282,808)</u>	<u>(399,084)</u>	<u>(317,625)</u>
	<u>\$ 1,716,609</u>	<u>\$ 1,578,122</u>	<u>\$ 1,684,400</u>

**WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS MONTHS ENDED MARCH 31
(UNAUDITED)**

	FIRST QUARTER 2017 (\$000s)	FIRST QUARTER 2016 (\$000s)
Revenue		
Assessments	\$ 75,410	\$ 73,178
Investment income	55,107	(2,499)
	<u>130,517</u>	<u>70,679</u>
Expenses		
Claims costs incurred		
Short-term disability	10,655	10,400
Long-term disability	26,659	25,125
Survivor benefits	1,246	1,098
Health care	14,468	13,754
Rehabilitation	180	180
	<u>53,208</u>	<u>50,557</u>
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	25,712	20,535
Administration costs	12,482	12,632
System support	238	235
Legislated obligations	4,060	3,938
	<u>95,700</u>	<u>87,897</u>
Excess of revenues over expenses (expenses over revenues) applied to reduce (increase) the unfunded liability	<u>\$ 34,817</u>	<u>\$ (17,218)</u>

WCB NOVA SCOTIA
STATEMENT OF CHANGES IN UNFUNDED LIABILITY
FOR THE THREE MONTHS MONTHS ENDED MARCH 31
(UNAUDITED)

	FIRST QUARTER 2017 (\$000s)	FIRST QUARTER 2016 (\$000s)
<hr/>		
Unfunded liability excluding accumulated other comprehensive income		
Balance, beginning of period	\$ (310,909)	\$ (376,017)
Excess of revenues over expenses (expenses over revenues)	34,817	(17,218)
	(276,092)	(393,235)
 Accumulated other comprehensive income		
Balance, beginning of Year	(6,716)	(5,849)
No change in balance during period		
	(6,716)	(5,849)
 Unfunded liability end of period	\$ (282,808)	\$ (399,084)

**WCB NOVA SCOTIA
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED)**

	March 31 2017 (\$000's)	March 31 2016 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 84,540	\$ 79,675
Investment income	<u>9,173</u>	<u>(23,339)</u>
	93,713	56,336
Cash paid to:		
Claimants or third parties on their behalf	(61,811)	(61,265)
Suppliers, for administrative and other goods and services	<u>(28,262)</u>	<u>(13,102)</u>
	(90,073)	(74,367)
Net cash provided by (used by) operating activities	<u>3,640</u>	<u>(18,031)</u>
Investing Activities		
Increase in investments	10,924	23,377
Cash paid for:		
Purchase of equipment	<u>(147)</u>	<u>(184)</u>
Net cash provided by investing activities	<u>10,777</u>	<u>23,193</u>
Net increase in cash and cash equivalents	<u>14,417</u>	<u>5,162</u>
Bank indebtedness, cash and cash equivalents, beginning of year	<u>(8,865)</u>	<u>1,805</u>
Cash and cash equivalents, end of period	<u>\$ 5,552</u>	<u>\$ 6,967</u>

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, 2016) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 31, 2017, including 2016 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 year-end valuation for purposes of interim financial statements.

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. Self-insured revenue relates to amounts billed for the year-to-date of the calendar year.

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 estimation and extrapolation of current results for purposes of interim financial statements.
- Actual invoiced payments for self-insured firms were added to these estimates.

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 year end actuarial valuation for the purpose of the interim financial results and the extrapolation of year-to-date claims costs for current and prior years.

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).