WCB Nova Scotia
Summary of Financial Results
Second Quarter 2017

- *Year-to-date revenues exceeded expenses for a comprehensive income of $62.7 million, decreasing the unfunded liability and resulting in a funded ratio of 87.3% compared to 84.1% at December 31, 2016.*
  -
    - *Investment markets – YTD return of 6.7%. The return exceeded the benchmark return of 5.0%. The estimated return for the year in the funding strategy is 6.0%.*
    - *Mid-year valuation indicates favorable actuarial adjustments YTD of $20.0 Million – with about $40 million estimated for the year. Ahead of target of $10 million with positive impact from Health Care, TERBs and EERBs as a result of claims volume steady decrease over past decade.*
  - ***It is mid-way through the year and investment returns and actuarial adjustments may be subject to significant change over the next six months.***

  - *The current funding strategy expectation is comprehensive income of $33.8 million for the year.*

  - *These results, while positive, are not necessarily a prediction of what will take place for the remainder of the year.*

Prepared By: Financial Services

Table of Contents

SUMMARY OF FINANCIAL RESULTS
SECOND QUARTER 2017

Statement of Financial Position

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at June 30, 2017 was $1,751.6 million, an increase of $147.2 million as compared to June 30, 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 June 30, 2017 includes public equity at 44.8%, fixed income at 34.6%, hedge funds at 10.0%, real estate at 10.0% and alternative investments at 0.6% 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 $1,936.4 million increased $14.1 million from June 30, 2016 to June 30, 2017. These liabilities have been estimated based on a mid-year valuation performed at June 30. 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 $62.7 million for the six months ended June 30, 2017, decreasing the unfunded liability. The current funding strategy, approved in June 2017, anticipated Comprehensive Income for 2017 of $33.8 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 six 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. 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 $158.2 million composed of insured firms' revenue of $137.8 million and self-insured revenue of $20.4 million. Assessment revenue increased $5.6 million (3.7%) versus the same period in 2016 and reflects an increase related to insured firms' assessment premium revenue of $4.7 million and self-insured revenue of $0.9 million. Insured firms' revenue is net of funds collected for rebate and refund programs of $1.6 million.

Investment income year-to-date is $84.3 million, an increase of $53.7 million over the same period in 2016. Investment income is the result of realized gains of $12.9 million, unrealized gains of $74.7, and miscellaneous investment income of $0.1 million less $3.4 million in management fees. The six month return was 6.7%, exceeding the benchmark return of 5%. 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 $108.2 million are an increase of $3.3 million (3.2%) over year-to-date 2016 and are estimated based on a mid-year valuation performed at June 30.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was $35.1 million. The growth component was $55.1, offset by estimated favourable actuarial experience adjustments of $20.0 million. Favourable actuarial experience adjustments are currently projected in long term disability, health care, and short term disability area and are estimated at $40 million for the year - a positive variance from the funding strategy estimate of $10 million. Favourable experience is starting to emerge in Health Care as payments on older claims are notably less than estimated in prior valuations. A decrease in claim volumes of 35 per cent over the last 12 years is the primary driver of this decrease. The liability for TERB is also showing a positive experience adjustment despite our continued struggle on durations. In addition, we continue to see positive experience with EERB volumes being less than the actuarial estimates along with gains on mortality, age, and in average EERB costs.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were $23.5 million with a $1.7 million favourable variance from the $25.2 million year-to-date budget, excluding projects. Including projects and capital, the total administrative variance was a favourable $2.2 million. Favourable operating variances primarily relate to salary and benefits, depreciation, professional fees, and projects. These accounts are expected to be slightly under budget throughout the year.

Legislated Obligations

Legislated Obligations expenditures were $8.0 million with a $1.2 million favourable variance from budget. The largest portion of this variance is in Occupational Health and Safety and the Workers' Advisors Program.

<u>Statement of Cash Flow</u>

The Statement of Cash Flows demonstrates the use of cash year-to-date, with Cash of $7.3 million at June 30, 2017. This was an increase of $11.3 million from June 30, 2016.

WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT

	JUNE 30 2017 (Unaudited) ($000s)	JUNE 30 2016 (Unaudited) ($000s)	DECEMBER 31 2016 (audited) ($000s)
Assets			
Cash & cash equivalents	$ 7,326	$ -	$ -
Receivables	26,117	22,769	29,890
Investments	1,709,791	1,576,390	1,645,712
Property and equipment	4,101	4,105	4,072
Intangible assets	4,243	1,085	4,726
	$ 1,751,578	$ 1,604,349	$ 1,684,400
Liabilities and Unfunded Liability			
Bank Indebtedness	$ -	$ 3,950	$ 8,865
Payables, accruals & Lease Liabilities	32,210	31,730	39,982
Post employment benefits	29,557	27,654	28,792
Benefits liabilities	1,936,433	1,922,357	1,924,386
	1,998,200	1,985,691	2,002,025
Deferred revenue	8,300	7,704	-
Unfunded liability	(254,922)	(389,046)	(317,625)
	$ 1,751,578	$ 1,604,349	$ 1,684,400

WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS MONTHS ENDED JUNE 30
(UNAUDITED)

	SECOND QUARTER 2017 ($000s)	SECOND QUARTER 2016 ($000s)	YTD JUNE 30 2017 ($000s)	YTD JUNE 30 2016 ($000s)
Revenue				
Assessments	$ 82,778	$ 79,427	$ 158,187	$ 152,605
Investment income	29,175	33,050	84,283	30,551
	111,953	112,477	242,470	183,156
Expenses				
Claims costs incurred				
Short-term disability	10,911	10,257	21,566	20,657
Long-term disability	27,608	26,127	54,267	51,252
Survivor benefits	1,246	1,015	2,491	2,113
Health care	14,985	16,634	29,453	30,388
Rehabilitation	212	255	392	434
	54,962	54,288	108,169	104,844
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	9,399	29,516	35,111	50,051
Administration costs	15,529	14,442	28,011	27,075
System support	214	249	453	484
Legislated obligations	3,963	3,944	8,023	7,882
	84,067	102,439	179,767	190,336
Excess of revenues over expenses (expenses over revenues) applied to reduce (increase) the unfunded liability	$ 27,886	$ 10,038	$ 62,703	$ (7,180)

WCB NOVA SCOTIA

STATEMENT OF CHANGES IN UNFUNDED LIABILITY

FOR THE SIX MONTHS MONTHS ENDED JUNE 30

(UNAUDITED)

	SECOND QUARTER 2017 ($000s)	SECOND QUARTER 2016 ($000s)	YTD JUNE 30 2017 ($000s)	YTD JUNE 30 2016 ($000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	$ (282,808)	$ (399,084)	$ (310,909)	$ (376,017)
Excess of revenues over expenses (expenses over revenues)	27,886	10,038	62,703	(7,180)
	(254,922)	(389,046)	(248,206)	(383,197)
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	$ (254,922)	$ (389,046)	$ (254,922)	$ (389,046)

WCB NOVA SCOTIA
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30
(UNAUDITED)

	June 30 2017 ($000's)	June 30 2016 ($000's)
Operating Activities		
Cash received from:		
Employers, for assessments	$ 168,541	$ 164,302
Investment income	9,558	(17,358)
	178,099	146,944
Cash paid to:		
Claimants or third parties on their behalf	(128,150)	(128,509)
Suppliers, for administrative and other goods and services	(43,976)	(41,420)
	(172,126)	(169,929)
Net cash provided by (used by) operating activities	5,973	(22,985)
Investing Activities		
Increase in investments	10,638	17,556
Cash paid for:		
Purchase of equipment	(420)	(326)
Net cash provided by investing activities	10,218	17,230
Financing Activities		
Change in bank indebtedness	-	-
Net cash provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	16,191	(5,755)
Bank indebtedness, cash and cash equivalents, beginning of year	(8,865)	1,805
Cash and cash equivalents (bank indebtedness) end of period	$ 7,326	$ (3,950)

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 June 30, 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 a mid-year valuation 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 a mid-year valuation for purposes of this quarter's 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 mid-year valuation 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).