WCB Nova Scotia
Summary of Financial Results
Third Quarter 2017

Year-to-date revenues exceeded expenses for a comprehensive income of $51.4 million, decreasing the unfunded liability, resulting in a funded ratio of 86.9 per cent compared to 84.1 per cent at December 31, 2016.

- Primarily due to:
  - Investment markets year-to-date return of 5.9 per cent exceeded the benchmark return of 5.6 per cent. The estimated return for the year in the funding strategy is 6.0 per cent.
  - Favorable actuarial adjustments year-to-date of $14.5 million – with about $20 million estimated for the year. Positive results from Healthcare and EERBs due to a steady decrease in claims volume over the past decade.

- The current funding strategy expectation is comprehensive income of $33.9 million for the year.

- These results, while positive, 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 2017

Statement of Financial Position

WCB Nova Scotia's (WCB) asset base at September 30, 2017 was $1,766.0 million, an increase of $101.4 million as compared to September 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 September 30, 2017 includes public equity at 45 per cent, fixed income at 34 per cent, hedge funds at 10 per cent, real estate at 10 per cent and alternative investments at 1 per cent 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 $1,955.7 million increased $21.8 million from September 30, 2016 to September 30, 2017. These liabilities have been estimated based on the mid-year 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 $51.4 million for the nine months ended September 30, 2017, decreasing the unfunded liability. The current funding strategy, approved in September 2017, anticipated Comprehensive Income for 2017 of $33.9 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. Although nine months into 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. 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 $245.2 million composed of insured firms' revenue of $214.7 million and self-insured revenue of $30.5 million. Assessment revenue increased $7.2 million (3.0 per cent) versus the same period in 2016 and reflects an increase related to insured firms' assessment premium revenue of $6.4 million and self-insured revenue of $0.8 million. Insured firms' revenue includes funds collected for rebate and refund programs of $2.6 million.

Investment income year-to-date is $91.5 million, an increase of $0.5 million over the same period in 2016. Investment income is the result of realized gains of $28.3 million, unrealized gains of $68.3 and miscellaneous investment income of $0.1 million less $5.2 million in management fees. The nine month return was 5.9 per cent, exceeding the benchmark return of 5.6 per cent. 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 $158.9 million are an increase of $1.2 million (0.8 per cent) over year-to-date 2016 and are estimated based on an extrapolation of current and future year's costs.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was $68.3 million. The growth component was $82.8 million, offset by estimated favourable actuarial experience adjustments of $14.5 million. Favourable actuarial experience adjustments are currently projected in long term disability, health care, short term disability, and rehabilitation areas and are estimated at $20 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. The liability for Temporary Earnings Replacement Benefits is also showing a positive experience adjustment despite continued challenges with claim durations. In addition, we continue to see positive experience with Extended Earnings Replacement Benefits (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 $35.4 million with a $2.6 million favourable variance from the $38.0 million year-to-date budget, excluding projects. Including projects and capital, the total administrative variance was a favourable $4.3 million. Favourable operating variances primarily relate to projects, salary and benefits, depreciation, professional fees, and smaller variances in other areas. These accounts are expected to be slightly under budget throughout the year.

Legislated Obligations

Legislated Obligations expenditures were $12.0 million with a $1.8 million favourable variance from budget. The largest portion of this variance is in Occupational Health and Safety followed by the Workers' Advisors Program and the Workers Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates the use of cash year-to-date, with Cash of $17.2 million at September 30, 2017. This was an increase of $16.9 million from September 30, 2016.

WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT

	SEPTEMBER 30 2017 (Unaudited) ($000s)	SEPTEMBER 30 2016 (Unaudited) ($000s)	DECEMBER 31 2016 (audited) ($000s)
Assets			
Cash & cash equivalents	$ 17,183	$ 259	$ -
Receivables	23,623	22,718	29,890
Investments	1,716,907	1,636,742	1,645,712
Property and equipment	4,317	3,910	4,072
Intangible assets	4,011	1,039	4,726
	$ 1,766,041	$ 1,664,668	$ 1,684,400
Liabilities and Unfunded Liability			
Bank indebtedness	$ -	$ -	$ 8,865
Payables, accruals & lease liabilities	40,048	36,048	39,982
Post employment benefits	29,992	28,112	28,792
Benefits liabilities	1,955,711	1,933,944	1,924,386
	2,025,751	1,998,104	2,002,025
Deferred revenue	6,495	6,100	-
Unfunded liability	(266,205)	(339,536)	(317,625)
	$ 1,766,041	$ 1,664,668	$ 1,684,400

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

	THIRD QUARTER 2017 ($000s)	THIRD QUARTER 2016 ($000s)	YTD SEPTEMBER 30 2017 ($000s)	YTD SEPTEMBER 30 2016 ($000s)
Revenue				
Assessments	$ 87,031	$ 85,261	$ 245,219	$ 237,866
Investment income	7,244	60,455	91,527	91,006
	94,275	145,716	336,746	328,872
Expenses				
Claims costs incurred				
Short-term disability	10,238	10,636	31,804	31,294
Long-term disability	25,620	25,839	79,887	77,090
Survivor benefits	1,318	1,142	3,810	3,255
Health care	13,354	15,046	42,806	45,434
Rehabilitation	206	211	599	646
	50,736	52,874	158,906	157,719
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	33,291	25,026	68,402	75,076
Administration costs	17,351	14,274	45,362	41,349
System support	221	222	674	706
Legislated obligations	3,959	3,810	11,982	11,692
	105,558	96,206	285,326	286,542
Excess of (expenses over revenues) revenues over expenses applied to (increase) reduce the unfunded liability	$ (11,283)	$ 49,510	$ 51,420	$ 42,330

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

	THIRD QUARTER 2017 ($000s)	THIRD QUARTER 2016 ($000s)	YTD SEPTEMBER 30 2017 ($000s)	YTD SEPTEMBER 30 2016 ($000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	$ (254,922)	$ (389,046)	$ (310,909)	$ (376,017)
Excess of (expenses over revenues) revenues over expenses	(11,283)	49,510	51,420	42,330
	(266,205)	(339,536)	(259,489)	(333,687)
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	$ (266,205)	$ (339,536)	$ (266,205)	$ (339,536)

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

		September 30 2017 ($000's)		September 30 2016 ($000's)
Operating Activities				
Cash received from:				
Employers, for assessments	$	255,247	$	246,221
Investment income		23,222		(12,850)
		278,469		233,371
Cash paid to:				
Claimants or third parties on their behalf		(191,184)		(193,006)
Suppliers, for administrative and other goods and services		(57,543)		(54,655)
		(248,727)		(247,661)
Net cash provided by (used by) operating activities		29,742		(14,290)
Investing Activities				
Increase in investments		(2,911)		13,155
Cash paid for:				
Purchase of equipment		(783)		(411)
Net cash (used in) provided by investing activities		(3,694)		12,744
Net increase (decrease) in cash and cash equivalents		26,048		(1,546)
Bank indebtedness, cash and cash equivalents, beginning of year		(8,865)		1,805
Cash and cash equivalents end of period	$	17,183	$	259

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 September 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 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 midyear 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 mid-year 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. <u>Cash Flow Statement</u>

This statement summarizes cash receipts and disbursements from all sources.

5. <u>Administration Expenses</u>

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

Glossary of Benefit Categories

Short Term Disability Benefits

All income benefits during the initial period after the injury, before the injury has stabilized, reached a plateau, or consolidated. The time at which an injury stabilizes depends on the type of injury and the workers' condition. Short-term disability benefits include income benefits during a rehabilitation period.

Long Term Disability Benefits

All income benefits after the short-term disability benefits have ceased and after the injury is deemed by the Board to be sufficiently stabilized, to have reached a plateau, or to have consolidated. Long-term disability benefits include lifetime pension awards, lump sum functional impairment awards, interim earnings replacement awards, and extended earnings replacement benefits.

Survivor Benefits

All benefits after the death of the worker provided to the surviving spouse, children, other dependents or the workers' estate, including income benefits, lump sum benefits, education benefits, and funeral costs.

Health Care Benefits

All benefits related to providing medical aid or health care to the injured worker, including items such as hospital charges, physician fees, drugs, and physical therapy.

Rehabilitation Benefits

All amounts related to the rehabilitation of an injured worker, including vocational and psychological rehabilitation costs. Rehabilitation benefits exclude income benefits to the injured worker during the rehabilitation period.

Glossary of Administration Expenses by Program Area

Salaries & Staff Expense:

Salaries, vacation pay, overtime, group insurance, hospital/medical benefits, CPP, employment insurance, superannuation, sitting fees, long term disability, post-employment benefits, standby pay, voluntary retirement, recruitment, recognition, arrangements and relocation costs

Professional Fees:

Audit fees, consultants, and legal fees

Depreciation:

Depreciation of the fixed assets and intangible assets over their useful life

Projects:

General projects

Supplies:

Photocopying, postage and courier, computer supplies, office supplies, records and periodicals

Building Operations:

Repairs and maintenance, rent, supplies, cleaning, utilities, taxes, insurance, rental of equipment, equipment leases and miscellaneous

Communications:

Advertising, art services, printing, telephone services, smart phones and data line communications

Services Contracted:

Maintenance and services of equipment, services contracted for temporary backfill of vacant staff positions

Travel and Accommodations:

Accommodations, meals, travel, room rentals, workers and witnesses travel expenses

Training and Development:

Supply costs for training aids, course fees, books, training related accommodations, training related travel, training related meals and corporate and staff membership dues