NS HOPA

Nova Scotia Health Organizations Protective Association

Annual Report

2016

Nova Scotia Health Organizations Protective Association

Mission

To provide sustainable comprehensive risk management products and services to support our members in achieving their quality and safety aims

Vision

Growing in strength as the preferred provider of strategic risk management solutions

Values

In carrying out our mission, HOPA's Board, staff and volunteers will strive to be:

Member-focused with programs and services that proactively support and add value to our members' risk management efforts

Solution-oriented with innovative and practical tools and approaches that are affordable and responsive to the changing risk management needs of our members

Informed with an emphasis on best practice and evidence-based decision-making

Accountable with member communication and engagement practices that foster trust and confidence in our organization and its direction

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Table of Contents

Subscribers

Emergency Health Services

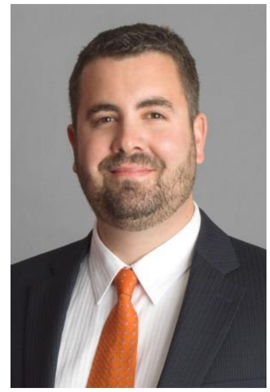
Health Association Nova Scotia

IWK Health Centre

Nova Scotia Health Authority

St Anne Community & Nursing Care Centre

Message from the Board



Chris Madill
Acting Chair,
Board of Directors

On behalf of the Board of Directors of the Nova Scotia Health Organizations Protective Association (HOPA), I am pleased to present the 2016 Annual Report.

In November of 2016 HOPA met with Subscribers to share the results of our Subscriber consultation and plans to incorporate the information received into HOPA's strategic plan. The consultation with Subscribers confirmed a high level of satisfaction with HOPA services, and also confirmed that Subscribers want HOPA to provide an expanded range of products and services.

The Board is pursuing opportunities to add services and to expand operations in a manner consistent with the needs and interests of our Subscribers. As we move through 2017, the Board will finalize an evaluation of strategic opportunities and consult with Subscribers to ensure alignment with Subscribers' needs.

In response to the creation of a provincial health authority, the Board reviewed the framework for proportional Subscriber voting under the Exchange Agreement and recommended amendments to ensure that decisions affecting HOPA required the support of more than one Subscriber. Subscribers supported the recommendation and approved amendments to the Exchange Agreement in August 2016.

The Board approved a policy of term limits for directors to ensure continuity of knowledge and to facilitate succession planning. Also, the Board began a review of board composition to ensure that the Board as a whole has the knowledge, skills and experience to provide strategic oversight and risk management for HOPA.

I would like to thank the members of the Board for their work and dedication and, on behalf of the Board, to extend our appreciation to retiring directors Catherine Gaulton and Steve Ashton. Catherine joined the Board in 2009 and has played an invaluable role in the governance and strategic growth of HOPA, serving as Vice Chair, Chair and Past Chair, as well as on the Governance, Executive, Nominating, Finance, Audit and LPAC committees until her retirement from the Board in August 2016. Steve Ashton joined the Board in 2013 and made a significant contribution while serving on the Finance and Audit committees, as well as the Strategic Initiatives Working Group. Steve retired from the Board at the end of 2016.

On behalf of the Board, I would like to acknowledge and thank HOPA's staff for their contribution to our success over the past year.

Report of the CEO

Deborah Rozee
Chief Executive Officer

In 2016 the Nova Scotia Health Organizations Protective Association (HOPA) expanded operations with the introduction of a property insurance program effective March 31st 2016. As the program matures and participation increases, the addition of property insurance will contribute to the overall program stability and future growth opportunities.

During the year risk management seminars on current issues were delivered to Subscribers. As requests from Subscribers for risk information increases we will be expanding our use of technology to facilitate assess to this information by Subscribers.

The liability program, a stable program in existence since 1992, was renewed for 2016 with no increase in premium over 2015.

FINANCIAL POSITION

As at December 31, 2016, subscribers' equity increased by $281,209 from $5,287,069 at December 31, 2015 to $5,568,278 at December 31, 2016. The Statement of Financial Position can be found at page 13.

Assets increased by $2,505,373 primarily due to an increase in cash from $6,359,800 to $8,516,848. The increase in cash arose from two sources; premium revenue from the newly added property insurance program and a 7% increase in the fair market value of investments.

There was an increase of $2,224,164 in liabilities as a result of an increase of $1,965,466 in the provision for unpaid claims and expenses from $7,168,000 (2015) to $9,133,466 (2016). The unpaid claims and expenses provision is the net discounted value of liabilities, including a provision for adverse deviation, required to fund future claim payments arising out of insurance policies in force to December 31, 2016.

The valuation of the provision for unpaid claims and expenses carried on the Statement of Financial Position is calculated by the appointed actuary, Axxima Inc. The provision increased by approximately $2M over last year from $7,168,000 to $9,133,466. The Report of the Actuary is found on page 6. Also Note 7 to the audited financial statements provides additional disclosure relevant to the assessment of the provision for unpaid claims and expenses.

The provision for unpaid claims and expenses includes an estimate of future ultimate liabilities, and is therefore subject to volatility. HOPA manages this volatility by setting an annual aggregate limit that caps the maximum amount payable for all claims arising out of a policy year. For 2016 the total annual aggregate exposure was $4.5M; $3.5M for the liability underwriting group and $1M for the property underwriting group. Excess coverage is purchased on both a per-claim and an annual aggregate basis.

The Statement of Operations and Comprehensive Income is at page 11. The 2015 figures for prior period comparison are for a 10 month period as HOPA was reorganized and commenced operations effective March 1, 2015. Operating expenses for the current year remained level; $577,887 for 2016 and $479,503 for 2015 ($575,404 annualized).

Expenses for 2016 include a $60,000 premium deficiency. This deficiency arose in part because the term of the property insurance is April 1 to March 31, and as a new program in 2016 only nine months of the premium was recognized in the 2016 fiscal year. We are advised by our actuary that premium deficiency for new insurance offerings is not uncommon and is not a cause for concern. HOPA's exposure on the property program is also capped with an annual aggregate limit.

HOPA does not build a profit margin into the annual assessment to Subscribers. In 2016 the operating costs for the insurance program were approximately 16% of the total HOPA premium gross for the year.

CLAIMS and RISK MANAGEMENT

The number of open claims remains is stable at 277 (*Figure 1*). Between January 1 and December 31, 2016, 184 new claims were opened and 223 claims were closed, keeping the total number of open claims stable – 277 at year end.

FIGURE 1

CLAIMS VOLUME
Comparison of All Years

All Policy Years	**At Dec 31/16**	At Dec 31/15	% +/-
# Open Claim Files	**277**	310	- 11%
# Closed Claim Files	**3,005**	2,788	+ 8%
# Total Claim Files	**3,282**	3,098	+ 6%

FIGURE 2

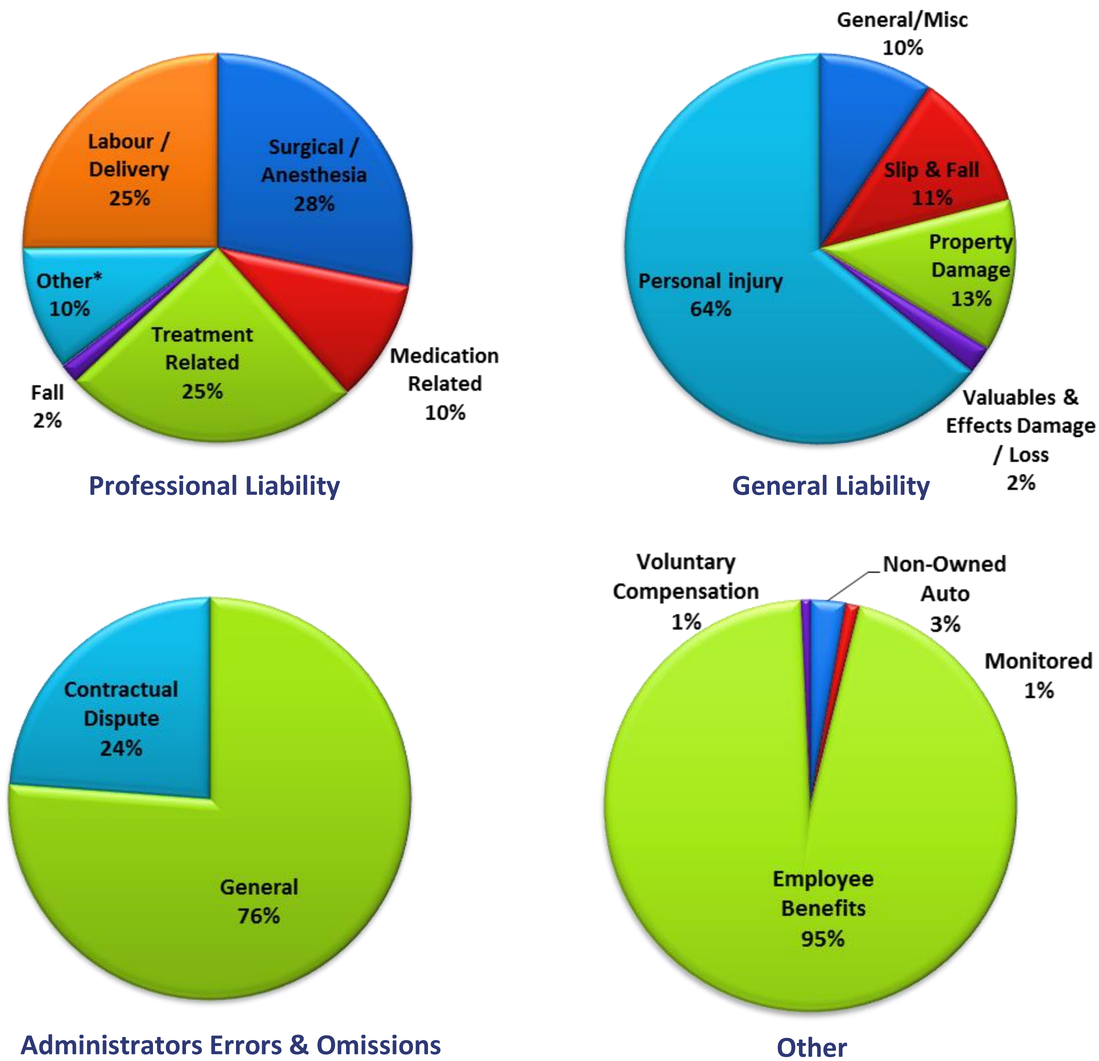
FIVE YEAR HISTORY BY COVERAGE
As a % of Total Claim Cost

Liability Coverage	**2012-2016 At Dec 31/16**	**2011-2015 At Dec 31/15**
Professional Liability	77%	78%
General Liability	9%	9%
Admin E&O	8%	7%
Other*	6%	6%

**Employee Benefits, Non-Owned Auto, Voluntary Compensation*

As is expected, professional liability claims remain the highest category of claims by both frequency and cost (*Figure 2*).

FIGURE 3 **FIVE YEAR HISTORY OF COVERAGE BY CAUSALITY**
As a % of Total Claim Costs



Over the course of the past year, HOPA provided presentations of topics of interest to Subscribers, including:

- Cyber Risk Insurance
- Preventing and Responding to Slip and Fall Events, and
- Automobile Insurance Coverage and Travel Policies.

Upcoming sessions include Aircraft Landing Area Coverage, and Construction Insurance.

HOPA also responded to individual Subscriber requests for risk management information and is always available to discuss risk management issues on a one-on-one basis, or to address a group on topics of interest.

Report of the Actuary

Axxima
Actuaries and Insurance Management Advisors

REPORT OF THE ACTUARY

Role of Actuary

The actuary is appointed by the Board of the Nova Scotia Health Organizations Protective Association (the "Association"). The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Association. Examination of supporting data for accuracy and completeness and consideration of the Association's assets are important elements of the work required to form this opinion.

Policy liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments.. The actuary uses the work of the external and internal auditors in verifying data used for valuation purposes.

Appointed Actuary's Report

To the Subscribers of the
Nova Scotia Health Organizations Protective Association

I have valued the policy liabilities of the Nova Scotia Health Organizations Protective Association for its statement of financial position at December 31, 2016 and their changes in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Longueuil, Québec
January 30, 2017

Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries

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Report of the Auditor

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
INDEX
DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Subscribers of:
Nova Scotia Health Organizations Protective Association

We have audited the accompanying financial statements of **Nova Scotia Health Organizations Protective Association**, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and comprehensive income, changes in subscribers' equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Nova Scotia Health Organizations Protective Association** as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Collins Barrow SNS Inc.

Dartmouth, Nova Scotia
March 22, 2017

Chartered Professional Accountants
Licensed Public Accountants

COLLINS BARROW

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	(Note 1) 2015
	$	$
INSURANCE PREMIUMS (Note 5)	3,570,555	2,477,810
EXPENSES		
Brokerage fees	39,250	23,475
Change in provision for unpaid claims and expenses	1,965,466	(139,000)
Damages	111,352	329,743
Insurance premium taxes	142,822	99,112
Legal	858,400	905,916
Premium deficiency adjustment	60,000	-
	3,177,290	1,219,246
NET UNDERWRITING INCOME	393,265	1,258,564
OPERATING EXPENSES		
Actuarial fees	28,290	22,482
Administrative - salaries and benefits	360,064	298,872
Advertising	-	677
Amortization	2,161	1,723
Audit fees	24,725	24,450
Board expenses	16,685	19,333
Contracted services	14,509	12,114
Dues and fees	18,893	17,239
Insurance	11,515	12,029
Interest and bank charges	1,553	1,230
Licenses and registration	618	515
Office	8,015	7,309
Other professional fees	46,554	18,595
Premises	27,318	21,882
Professional development	3,486	5,216
Risk management	-	12,184
Telephone and internet	1,465	1,493
Travel and meetings	12,036	2,160
	577,887	479,503
EARNINGS FROM OPERATIONS	(184,622)	779,061
Investment income	176,265	(10,165)
Recovery of expenses	169	104,451
NET EARNINGS	(8,188)	873,347
Unrealized gain (loss) on investments	289,397	(45,769)
COMPREHENSIVE INCOME	281,209	827,578

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF CHANGES IN SUBSCRIBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Restricted reserve fund (Note 9)	Restricted guarantee fund (Note 9)	Accumulated other comprehensive income (loss)	Unrestricted	**Total 2016**
	$	$	$	$	**$**
Balance - beginning of period	1,238,904	50,000	(45,769)	4,043,934	**5,287,069**
Net earnings	-	-	-	(8,188)	**(8,188)**
Change in unrealized gain on investments	-	-	289,397	-	**289,397**
Transfers to restricted funds	648,876	-	-	(648,876)	**-**
Balance - end of period*	1,887,780	50,000	243,628	3,386,870	**5,568,278**

**During the year, the Association established a property underwriting group and underwrote property insurance as described in Note 5. Total Subscribers' Equity of $5,568,278 includes $4,886,079 attributable to the liability underwriting group and $682,199 attributable to the property underwriting group.*

	Restricted reserve fund (Note 9)	Restricted guarantee fund (Note 9)	Accumulated other comprehensive loss	Unrestricted	*(Note 1)* Total 2015
	$	$	$	$	$
Balance - beginning of period	-	-	-	-	-
Net earnings	-	-	-	873,347	873,347
Change in unrealized loss on investments	-	-	(45,769)	-	(45,769)
Contributions from subscribers	-	-	-	4,459,491	4,459,491
Transfers to restricted funds	1,238,904	50,000	-	(1,288,904)	-
Balance - end of period	1,238,904	50,000	(45,769)	4,043,934	5,287,069

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	2016	2015
	$	$
ASSETS		
Cash	**8,516,848**	6,359,800
Investments (Note 6)	**6,471,885**	6,047,896
Due from related party	**-**	77,278
Prepaids	**3,905**	773
Office and computer equipment	**5,632**	7,150
	14,998,270	12,492,897
LIABILITIES		
Accounts payable and accrued liabilities	**31,526**	37,828
Provision for unpaid claims and expenses (Note 7)	**9,133,466**	7,168,000
Deferred revenue	**205,000**	-
Premium deficiency	**60,000**	-
	9,429,992	7,205,828
SUBSCRIBERS' EQUITY		
Restricted reserve fund (Note 9)	**1,887,780**	1,238,904
Restricted guarantee fund (Note 9)	**50,000**	50,000
Accumulated other comprehensive income (loss)	**243,628**	(45,769)
Unrestricted	**3,386,870**	4,043,934
	5,568,278	5,287,069
	14,998,270	12,492,897

Approved by the Board

________________________ **Director**

________________________ **Director**

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

6

	2016	(Note 1) 2015
	$	$
CASH PROVIDED BY (USED FOR):		
OPERATING		
Comprehensive income	**281,209**	827,578
Items not affecting cash		
Amortization	**2,161**	1,723
Unrealized (gain) loss on investments	**(289,397)**	45,769
Re-invested investment income	**(185,577)**	-
Change in provision for unpaid claims and expenses	**1,965,466**	(139,000)
Premium deficiency adjustment	**60,000**	-
	1,833,862	736,070
Changes in non-cash working capital items		
Due to related parties	**77,278**	(77,278)
Prepaids	**(3,132)**	(773)
Accounts payable and accrued liabilities	**(6,302)**	37,828
Deferred revenue	**205,000**	-
	2,106,706	695,847
FINANCING		
Contributions from subscribers	**-**	2,816,576
Acquisition of book of business	**-**	2,814,013
	-	5,630,589
INVESTING		
Acquisition of office and computer equipment	**(643)**	(8,873)
Proceeds on disposal of investments	**50,985**	42,237
	50,342	33,364
CHANGE IN CASH	**2,157,048**	6,359,800
CASH - beginning of year	**6,359,800**	-
CASH - end of year	**8,516,848**	6,359,800

1. REPORTING ENTITY

Nova Scotia Health Organizations Protective Association ("the Association") is a reciprocal insurance exchange formed in February 2015 by an agreement among its subscribers. The Association is domiciled in Canada. The address of the registered office of the Association is 2 Dartmouth Road, Bedford, Nova Scotia, B4A 2K7. The Association is licensed to write liability and property insurance in the province of Nova Scotia.

The Association commenced underwriting March 1, 2015, thus the operations of the comparative period represent the 10 months ended December 31, 2015.

2. BASIS OF PRESENTATION

Basis of accounting

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

The presentation and functional currency are in Canadian dollars. The financial statements have been prepared on the historical cost basis, except for available-for-sale assets that are measured at fair value at the end of each reporting period as discussed further under Note 3 "Significant Accounting Policies - Financial instruments".

These financial statements were authorized for issuance by the Association's Board on March 22, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods mentioned in these financial statements.

Recognition and measurement of insurance contracts

(a) Classification of insurance contracts

Insurance contracts are contracts under which the Association accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the “insured event”) adversely affects the policyholder or other beneficiaries. Insurance risk is significant, if and only if, an insured event could cause the Association to pay a significant claim. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and measurement of insurance contracts (Continued)

(b) Insurance premiums

Insurance premiums are recognized as revenue over the insurance policy period. The policy period for liability claims is December 31 and the policy period for property claims is April 30.

(c) Policy acquisition expenses

The Association defers brokers' commissions and premium taxes relating to premiums written. The costs are expensed as the related premiums are earned. The policy period for the expenses noted above is December 31 for liability insurance expenses and April 30 for property insurance expenses.

(d) Provision for unpaid claims and expenses

The provision for unpaid claims represents the Association's estimated ultimate cost to settle claims incurred but not paid, whether or not reported, at the date of financial position reporting. The provision for adjustment expenses represents the estimated ultimate cost of investigating, resolving and processing these claims. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

These estimates of loss activity are necessarily subject to uncertainty and are selected from a wide range of outcomes. All provisions are periodically reviewed and evaluated in light of changing circumstances and emerging claims trends. Resulting changes in the estimated provisions are recorded as incurred claims in the year in which the adjustment is made.

Investment income

Investment income includes interest income and realized gains and losses, net of investment expenses. Gains and losses are determined on an average cost basis. Other investment income is recognized as revenue when earned. The investments held are highly liquid.

Cash

Cash consists of cash on hand and a bank balance held with a financial institution.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Association's designation of such instruments.

Asset/Liability	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Due from related party	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Provision for unpaid claims and expenses	Other financial liabilities	Amortized cost

(a) Fair value through profit or loss ("FVTPL")

Financial instruments in this category are recognized initially and subsequently at fair value. Upon initial recognition of financial assets or financial liabilities in this category, attributable transactions costs are recognized in profit or loss as incurred. Gains or losses arising from changes in fair value are presented in income in the period in which they arise. The Association derecognizes a financial liability in this category when its contractual obligation is discharged or cancelled or expired. Financial liabilities at FVTPL are classified as current.

(b) Available-for-sale financial assets ("AFS financial assets")

AFS financial assets are traded in an active market and are stated at fair value at the end of each reporting period. Changes in the carrying value of AFS financial assets are recognized and accumulated in other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

(c) Loans and receivables

Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(d) Other liabilities

Other liabilities are subsequently measured at amortized cost using the effective interest method and include all financial liabilities.

(e) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Impairment losses on AFS investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in accumulated other comprehensive income, to net earnings. The amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the financial asset's original effective interest rate.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount of does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Income taxes

No provision has been made in the financial statements for income taxes as the Association is not subject to income taxes.

Capital management

The Association views capital as the subscribers' equity which as at December 31, 2016 was $5,568,278 (2015 - $5,287,069). The Association's objective for the management of net assets is the prudent operation of the reciprocal and to provide for stability of the premium charged to subscribers over the long-term. The Association is developing a surplus management policy.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital management (Continued)

The Association is regulated by the Superintendent of Insurance of Nova Scotia. Pursuant to the Insurance Act of Nova Scotia, the regulated minimum reserve is $1,937,780, which is comprised of a Restricted Reserve Fund of $1,887,780 plus a Restricted Guarantee Fund of $50,000. The Restricted Reserve Fund is calculated at 50% of the gross premium receipts.

The Association's surplus adequacy is evaluated regularly by the appointed actuary.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2016, and have not been applied in preparing these financial statements. None of the new standards are expected to have a significant effect on the financial statements of the Association except for the following;

- IFRS 4, *Insurance Contracts* ("IFRS 4"), changes the basis for measuring insurance contracts. A revised exposure draft for amendments to the existing IFRS 4 was issued in December 2015, with a final standard not expected to affect the Association until 2019 at the earliest.
- IFRS 9, *Financial Instruments* ("IFRS 9"), may impact the classification and measurement of the Association's financial assets. IFRS 9 becomes effective for the Association's 2018 fiscal year, but early adoption is permitted.

The extent of the impact of these new standards has not yet been determined.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS (Continued)

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in the financial statements.

The estimation of the provisions for unpaid claims is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered by the Association in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Association's historical experience and industry experience.

5. INSURANCE PREMIUMS

During 2016, the Association issued insurance policies under two separate underwriting groups, liability and property. The insurance written for the liability underwriting group has a per claim limit of $750,000 and an annual aggregate limit of $3,500,000, subject to sub-limits. The Association arranged for excess insurance for subscribers over the Association's per claim and annual aggregate retention to a per claim limit of $15,000,000. The insurance written for the property underwriting group has varying per claim limits to a maximum of $500,000 per claim and an annual aggregate of $1,000,000. Subscribers purchased property excess insurance above the Association's retention.

Insurance premiums include only those premiums earned on insurance contracts between the Association and subscribers. Subscribers also purchase excess insurance for losses over and above the Association's per claim and annual aggregate retention, to the limit of insurance set by the Association. The excess premium is not recorded by the Association as premium income and ceded premium expense as the Association only provides administrative services to arrange the excess insurance on behalf of subscribers. The excess insurance contract is direct between the subscribers and the excess insurers. Payment of excess premiums are remitted by subscribers to the excess insurers through the excess insurers' broker.

5. INSURANCE PREMIUMS (Continued)

For the year ended December 31, 2016, subscribers of the Association paid total premiums of $3,728,232 (2015 - $1,866,920) to excess insurers which are not recorded in the financial statements of the Association.

6. FINANCIAL INSTRUMENTS

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in the active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Association's financial instruments fall under Level 2. There have been no classifications into or out of Level 1 or Level 3.

	Cost 2016 $	**Fair value 2016 $**	Cost 2015 $	Fair value 2015 $
Manulife Financial Balanced Fund	**6,228,257**	**6,471,885**	6,093,665	6,047,896

The unrealized gain on investments at December 31, 2016 is $243,628 (2015 - $(45,769)) and is included in accumulated other comprehensive income (loss).

7. PROVISION FOR UNPAID CLAIMS AND EXPENSES

The liability recorded as a provision for unpaid claims and expenses is determined by the independent actuary based on an actuarial valuation prepared as of December 31 of each year. It represents estimates of the ultimate cost of all reported and unreported losses incurred to December 31.

7. PROVISION FOR UNPAID CLAIMS AND EXPENSES (Continued)

In the Association's actuarial report as at December 31, 2016, the actuarial policy liability was projected at $9,133,466 on a net discounted basis, including a provision for adverse deviation. Without a provision for adverse deviation, the actuarial policy liabilities would be $8,313,286 on a net discounted basis and $8,608,315 on an undiscounted basis.

Claim liabilities are estimates subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place for some time. Variability can be caused by receipt of additional claim information or significant change in the severity of the claim.

Since the claims liabilities are based on estimates of future trends in claim severity and other factors which could vary as the claims are settled, the ultimate liability may be more or less than the estimated amounts. As adjustments to these estimates become necessary, they are reflected in the statement of operation in the year determined.

	2016	2015
	$	$
Provision for unpaid claims and expenses - beginning of period	**7,168,000**	-
Unpaid claims and liabilities acquired	**-**	7,307,000
Current year's policy liabilities incurred	**2,935,218**	1,096,659
Claim and expense payments made during the year	**(969,752)**	(1,235,659)
Provision for unpaid claims and expenses - end of period	**9,133,466**	7,168,000

The actuarial assumptions used have been selected based on the experience of each underwriting group to date. The provision for claims liabilities is discounted using rates based on the projected investment income from the assets supporting the provision, and reflecting the estimated timing of payments and recoveries. The discount rate used in the December 31, 2016 valuation was 1.5% (2015 - 1.9%). As at December 31, 2016, had the discount rate increased or decreased by 1%, the provision for unpaid claims and adjustment expenses would have decreased by $205,000 or increased by $216,000 respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

7. PROVISION FOR UNPAID CLAIMS AND EXPENSES (Continued)

Claims development tables

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Association's claim handling procedures, the amount of information available, and historical delays in reporting claims.

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2008 to 2016. Only information from periods beginning on or after April 1, 2007 is required to be disclosed. This is increased in each succeeding year, until ten years of information is included.

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015	2016	Total as at Dec. 31, 2016
Estimate of net ultimate claims and adjustment expenses as at:											
Dec. 31, 2008	800,000	750,000	-	-	-	-	-	-	-	-	-
Dec. 31, 2009	800,000	1,000,000	750,000	-	-	-	-	-	-	-	-
Dec. 31, 2010	800,000	1,000,000	1,000,000	1,500,000	-	-	-	-	-	-	-
Dec. 31, 2011	800,000	1,000,000	1,000,000	1,589,020	1,500,000	-	-	-	-	-	-
Dec. 31, 2012	800,000	1,000,000	1,000,000	1,391,001	1,761,697	1,500,000	-	-	-	-	-
Dec. 31, 2013	800,000	1,000,000	1,000,000	1,589,201	1,689,948	1,613,001	1,500,000	-	-	-	-
Mar. 31, 2014	800,000	1,000,000	1,000,000	1,584,345	1,655,079	1,552,509	1,905,392	-	-	-	-
Feb. 28, 2015	800,000	1,000,000	1,000,000	1,851,191	1,723,784	1,633,204	2,000,000	1,756,553	-	-	-
Dec. 31, 2015	800,000	1,000,000	1,000,000	1,914,039	1,809,427	1,652,831	2,000,000	1,232,411	1,448,202	-	-
Dec. 31, 2016	800,000	1,000,000	1,000,000	1,921,412	2,000,000	1,586,081	2,000,000	1,687,388	1,228,799	2,706,164	15,929,844
Direct cumulative claims and adjustment expense payments as at:											
Dec. 31, 2008	259,229	51,232	-	-	-	-	-	-	-	-	-
Dec. 31, 2009	526,706	280,371	117,758	-	-	-	-	-	-	-	-
Dec. 31, 2010	623,182	555,595	333,536	93,872	-	-	-	-	-	-	-
Dec. 31, 2011	672,357	689,760	545,962	277,193	89,269	-	-	-	-	-	-
Dec. 31, 2012	719,456	784,390	584,525	481,641	318,395	31,816	-	-	-	-	-
Dec. 31, 2013	738,520	908,789	639,700	644,151	505,149	174,713	63,515	-	-	-	-
Mar. 31, 2014	759,668	989,238	645,031	680,437	542,053	192,690	126,169	-	-	-	-
Feb. 28, 2015	759,923	1,000,000	703,230	784,456	918,445	416,964	730,706	2,265	-	-	-
Dec. 31, 2015	764,592	1,000,000	848,993	981,866	1,004,177	595,364	1,170,318	100,691	57,321	-	-
Dec. 31, 2016	782,249	1,000,000	872,947	1,119,237	1,130,790	731,101	1,346,707	252,418	172,609	72,533	7,480,591
Net provision for policy years 2007-2008 through 2016											8,449,253
Net provision for policy years prior to 2007-2008											(223,437)
Undiscounted unpaid claims and expenses, net of recoveries											8,225,816
Unallocated loss adjustment expenses											382,500
Effect of discounting											(295,030)
Effect of provisions for adverse deviation											820,180
Provision for unpaid claims and expenses											9,133,466

8. RISK MANAGEMENT

Overview

The Association has exposure to the following risks from its use of financial instruments:

- insurance risk;
- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Association's exposure to each of the above risks, the Association's objectives, policies, and processes for measuring and managing risk, and the Association's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Association's primary long-term risk is that the Association's assets will fall short of its future liabilities (including claims of insured). The main objective of financial risk management is to maintain assets, primarily through a diversified portfolio of investments to ensure sufficient liquidity and value to meet obligations when they fall due.

Insurance risk

The principal risk the Association faces under the insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the Association's objective is to ensure there are sufficient reserves to cover these liabilities.

Pricing of the policy is based on assumptions in regards to trends and past experience, in an attempt to correctly match premium revenue with risk exposure. There is an inherent concentration risk as the Association's mandate is to provide self-insurance for claims against its subscribers which are all part of the same geographical region of Nova Scotia and all in the same industry.

The Association mitigates the above noted risk exposure by engaging another primary issuer to cover losses in excess of the maximum retention amount outlined in Note 5. The Association's exposure is also alleviated due to the nature of the reciprocal, and that the subscribers share in the losses. This is enforced through the Exchange Agreement which allows the Association to levy premiums on prior years if it is subsequently determined that the Association is underfunded on those years.

8. RISK MANAGEMENT (Continued)

Insurance risk (Continued)

The Association's subscribers' equity is not subject to a great degree of sensitivity from the risks associated with insurance contracts, as the Association engages another primary insurer to cover the losses above the active layer. Therefore, the Association collects premiums only on what it expects to pay.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Association has exposure to credit risk from the potential that a subscriber will fail to perform its obligation. In order to reduce its credit risk, the Association considers a review of the creditworthiness of all subscribers. Management considers there to be no significant credit risk as at December 31, 2016.

The Association has no direct exposure to credit risk with its investments. The Association is indirectly exposed to the risk that the value of fixed income financial instruments held by the underlying investment funds will fluctuate due to changes in the credit ratings of and yields required on debt issued by the counterparty. The fair value of debt securities includes consideration of credit worthiness of the debt issuer. Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or obey similar variations relating to economic or political conditions.

The Association limits credit risk by investing in a balanced fund that holds strategically diversified investments, on a long-term basis, and which deals primarily with investees that are considered to be of high quality.

Liquidity risk

Liquidity risk is the risk that the Association will not be able to meet its financial obligations as they become due. The Association is exposed to liquidity risk in its ability to finance its working capital requirements, meet its cash flow needs including payments for claims and payments for administrative expenditures. Liquidity requirements are met primarily through funds generated from operations.

To meet cash requirements, the Association hires actuaries to estimate the future claims and expenses to be paid as well as make recommendations on the premiums that should be charged in order to make its cash requirements. Given the Association's currently available liquid resources as compared to its contractual obligations, management assesses the Association's liquidity risk to be low.

8. RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

The following table shows the expected payout pattern of the Association's provision for unpaid claims and expenses as at December 31, 2016:

	Less than one year	2018	2019	2020 and thereafter	Total
	$	$	$	$	$
Provision for unpaid claims and expenses	2,835,953	2,029,471	1,466,582	2,801,460	9,133,466

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and equity market fluctuation risk. The primary market risk exposures are discussed below:

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. This risk arises from interest sensitive investments such as bonds and other fixed income investments. The Association does not directly hold any interest-bearing financial instruments. The Association is indirectly exposed to the risk that the value of interest bearing financial instruments held by the underlying mutual funds will fluctuate due to changes in the prevailing levels of interest rates.

To manage the interest rate risk, the Association invests in a conservative investment fund which holds strategically diversified investments, on a long-term basis, to reduce exposure to interest volatility.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates and the degree of volatility of those rates. The Association does not directly hold any investments denominated in foreign currencies. The Association is indirectly exposed to foreign currency risk to the extent that the Association's investments hold some securities that are denominated or traded in foreign currencies.

8. RISK MANAGEMENT (Continued)

Currency risk (Continued)

The underlying mutual funds may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollars, of any foreign securities or foreign currencies in a fund. Investments may distribute income in internationally denominated currency. If the Canadian dollar rises relative to the international currency, the value of the investment or income distribution may decline. Foreign currency exposure may increase the volatility of foreign investments relative to Canadian investments.

To manage the foreign currency risk, the Association invests in a conservative investment fund which limits its exposure to securities in foreign markets to approximately 20% (2015 - 20%) of its total holdings. The Association does not use derivative instruments to reduce its exposure to foreign currency risk.

Equity market fluctuation risk

Equity market fluctuation risk refers to the risk that a change in the level of one or more of market prices, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. The Association's exposure to equity market fluctuation risk results primarily from its holdings of investments. As investments are recognized at fair value, these changes affect other comprehensive income ("OCI") as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

To manage the equity market fluctuation risk, the Association closely monitors its investments and invests in a fund that is managed by professional investment advisors.

As at December 31, 2016, management estimates that a 10% increase in equity markets, with all other variables held constant, would impact OCI by approximately $647,189 (2015 - $604,790). A 10% decrease in equity prices would have the corresponding opposite effect, impacting OCI by the same amounts.

9. RESTRICTED RESERVE FUND AND GUARANTEE FUND

The Nova Scotia Insurance Act requires that 50% of the gross premium minus the cost of excess insurance be maintained as a Restricted Reserve Fund in cash or approved securities. During the year $648,876 was transferred to the fund (2015 - $1,238,904).

The Nova Scotia Insurance Act requires that $50,000 be maintained as a Restricted Guarantee Fund in cash or approved securities.

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