HOPA

Annual Report

2018

HOPA

Growing in Strength
the Reciprocal Advantage

- ✓ Easy access to expert resources with a good understanding of the local context
- ✓ Personalized service to a defined pool of Subscribers who share a community of interest
- ✓ Responsiveness to Subscriber needs for additional insurance products
- ✓ Pooling of risks with other Nova Scotia health organizations where experience ratings are consistently lower than in other parts of the country
- ✓ More input into the governance and strategic direction of the reciprocal
- ✓ Enabling Nova Scotia tax dollars to remain in Nova Scotia through member equity in the reciprocal

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HOPA
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

To be the preferred provider of strategic insurance and risk management solutions for public and private health care organizations in Atlantic Canada.

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; and

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

Subscribing Members

BOARD OF DIRECTORS

Chris Madill, *Chair*
Partner, Stewart McKelvey

Cecil Snow, *Vice Chair* (retired June 2018)
Senior Director Finance, Nova Scotia Health Authority

Stefan Cowell, *Vice Chair*
Chief Executive Officer, Nova Scotia Health Employees' Pension Plan

Marlene Kemp, *Treasurer*
Chief Comptroller, Health Association Nova Scotia

Greg Arsenault
Risk Manager, Nova Scotia Health Authority

Paul Conrad
President, Actuarial Experts Consulting Limited

Annette Fougere
Chief Executive Officer, St Anne Centre

Angela LeBlanc
Director Enterprise Risk Management & Emergency Preparedness, Nova Scotia Health Authority

Rob McCormick
Director Corporate Accounting, Nova Scotia Health Authority

Christena McIsaac
Deputy Tax Commissioner, Provincial Tax Commission

Martina Munden
General Counsel, Nova Scotia Health Authority

Cheryl Purcell-Cotnam
Director Contract Management, Nova Scotia Department of Health & Wellness

Deborah Rozee
Chief Executive Officer & Attorney-in-Fact, Nova Scotia Health Organizations Protective Association

COMMITTEES

Governance Committee

Chris Madill, *Chair*
Cecil Snow, *Vice Chair (ret'd June)*
Stefan Cowell, *Vice Chair*
Marlene Kemp, *Treasurer*
Martina Munden
Deborah Rozee

Enterprise Risk Management Committee

Angela LeBlanc, *Chair*
Greg Arsenault
Annette Fougere
Cheryl Purcell-Cotnam
Deborah Rozee

Finance & Audit Committee

Greg Arsenault, *Chair*
Paul Conrad
Marlene Kemp
Rob McCormick
Christena McIsaac
Deborah Rozee

RFP Committee

Chris Madill, *Chair*
Paul Conrad
Stefan Cowell
Marlene Kemp
Rob McCormick
Deborah Rozee

MESSAGE FROM THE BOARD

Chris Madill, Chair

It is my pleasure to provide the 2018 Annual Report on behalf of the Board of Directors of the Nova Scotia Health Organizations Protective Association (HOPA).

Baker Tilly Nova Scotia Inc., formerly Collins Barrow Inc., was appointed as HOPA's auditor for the fiscal year ended December 31, 2018. I am pleased to confirm that Baker Tilly issued an unqualified opinion. The audited financial statements begin on page 9.

The Board is implementing an enterprise risk management framework to support the achievement of strategic objectives and protection of subscriber value. The Board has approved an enterprise risk management policy and framework. Committee composition and mandates have been revised to ensure effective integration of enterprise risk management into governance and operational decision-making processes.

An ad hoc committee of the Board has been appointed to review strategic partnership opportunities to build on HOPA's reciprocal advantages for subscribers.

The Board has begun a review of the governance and operational changes required to comply with International Financial Reporting Standard (IFRS) 17, Insurance Contracts. The Board has approved a change in investment policy, and a review of the investment management services was completed during the year.

On behalf of the Board, I extend our appreciation to Cecil Snow who retired from the Board in 2018. Cecil was appointed Treasurer and Vice Chair of the Board and served on a number of committees during his seven years on the Board.

I want to take this opportunity to thank the members of the Board for their leadership and dedication.

On behalf of the Board, I extend our appreciation to the staff of HOPA for their dedicated work and congratulate Deborah Rozee on her successful completion of the Institute of Corporate Directors' Directors Education Program.

REPORT OF THE CEO

Deborah Rozee

As at December 31, 2018, there was an $880,000 decrease in subscribers' equity due primarily to low investment returns at year end and a significant increase in the provision for unpaid claims and expenses. The provision for unpaid claims and expenses is the actuarially determined future cost to resolve all outstanding claims. The report of the appointed actuary, Axxima, is on page 8 and the audited financial statements start at page 9.

Despite the strong financial performance of the global insurance industry through 2018 and into 2019, there has been upward pressure on professional liability and property insurance rates. Higher court awards, emerging exposures such as breach of privacy and the increasing threat of cyber breaches are some impacts on liability insurance rates. Globally, the threat of extreme weather events and aging infrastructure are factors contributing to an increase in property insurance rates. Within the confines of emerging loss experience, HOPA strives to provide premium stability over the long term.

Over the coming year, we will be engaging with our members to better understand their strategic goals and how HOPA can best support them in achieving those goals.

We continue to focus on expanding our risk initiatives tailored to our members' needs. In 2018 we hosted a two-day insurance and risk management seminar. Cyber insurance continued to be a topic of interest to our members.

HOPA published the following Risk Management Bulletins:

- When to Report to HOPA
- Public Comments by Regulated Professionals
- Insurance Coverage for Drones

HOPA Risk Management Bulletins are available on our website.

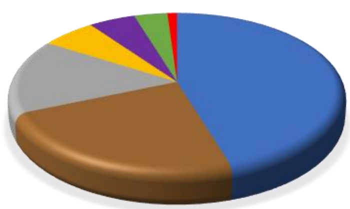
We welcome requests from our members for information on specific loss prevention and risk management topics of interest.

HOPA is acquiring a customized claims management and information software program that will support efficient reporting of claims and improved data analysis. We are currently working with the software provider to customize the program's capabilities.

The breakdown of liability claims by causation remains largely stable from year to year. (Table below.)

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

PROFESSIONAL LIABILITY

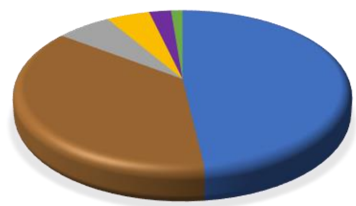


Total 5 Yr Cost: $4,7M

- Labour / Delivery 45%
- Surgical / Anesthesia 24%
- Treatment 15%
- Medication 6%
- Fall 5%
- Other* 4%
- Blood Transfusion 1%

**Other: Aggression, Equipment Failure, General, Patient Transport*

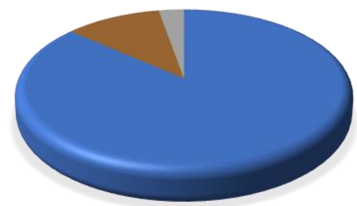
GENERAL LIABILITY



Total 5 Yr Cost: $500K

- Personal Injury 48%
- Slip and Fall 37%
- General 6%
- Property Damage / Loss 5%
- Valuables and Effects 3%
- Vehicle Damage / Loss 1%

OTHER



Total 5 Yr Cost: $150K

- Employee Benefits 86%
- Non-Owned Auto 11%
- Voluntary Compensation 3%

The property insurance program, established in 2016, has had favourable loss experience to date.

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, 2018 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, Quebec
February 19, 2019

Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries

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Tel. 1.450.646.2500 | Fax. 1.855.529.9462 | Web. www.axxima.ca

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
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DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Subscribers of:
Nova Scotia Health Organizations Protective Association

Opinion

We have audited the financial statements of **Nova Scotia Health Organizations Protective Association** ("the Association"), which comprise the statement of financial position as at December 31, 2018 and the statements of operations and comprehensive income, changes in subscribers' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018, and results of its operations and its cash flows for the year then ended in accordance with international financial reporting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Nova Scotia Inc

Dartmouth, Nova Scotia
March 20, 2019

Chartered Professional Accountants
Licensed Public Accountants

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NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

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	2018	2017
	$	$
INSURANCE PREMIUMS (Note 5)	**3,767,383**	3,928,805
EXPENSES		
Brokerage fees	**33,605**	39,250
Change in provision for unpaid claims and expenses	**2,134,464**	(1,001,515)
Damages	**1,103,261**	2,033,973
Insurance premium taxes	**150,695**	157,152
Legal	**544,175**	882,306
	3,966,200	2,111,166
NET UNDERWRITING INCOME (LOSS)	**(198,817)**	1,817,639
OPERATING EXPENSES		
Actuarial fees	**34,198**	25,990
Administrative - salaries and benefits	**348,719**	359,773
Amortization	**1,183**	1,689
Audit fees	**32,175**	25,300
Board	**25,782**	28,849
Contracted services	**46,203**	14,497
Dues and fees	**19,124**	19,918
Insurance	**12,101**	10,915
Interest and bank charges	**4,513**	1,912
Licenses and registration	**1,327**	1,150
Office	**12,044**	8,042
Other professional fees	**39,240**	93,860
Premises	**26,853**	27,115
Professional development	**24,473**	4,584
Telephone and internet	**1,561**	2,622
Travel and meetings	**20,153**	11,522
	649,649	637,738
EARNINGS FROM OPERATIONS	**(848,466)**	1,179,901
Investment income	**267,076**	177,125
NET EARNINGS (LOSS)	**(581,390)**	1,357,026
Unrealized gain (loss) on investments	**(298,806)**	307,059
COMPREHENSIVE INCOME (LOSS)	**(880,196)**	1,664,085

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NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF CHANGES IN SUBSCRIBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Restricted reserve fund (Note 9)	Restricted guarantee fund (Note 9)	Accumulated other comprehensive income (loss)	Unrestricted	**2018**
	$	$	$	$	**$**
Balance - beginning of year	1,995,778	50,000	550,687	4,635,898	**7,232,363**
Net earnings	-	-	-	(581,390)	**(581,390)**
Change in unrealized loss on investments	-	-	(298,806)	-	**(298,806)**
Transfers from restricted funds	(113,586)	-	-	113,586	**-**
Balance - end of year	1,882,192	50,000	251,881	4,168,094	**6,352,167**

Total Subscribers' Equity of $6,352,167 includes $5,740,997 attributable to the liability underwriting group and $611,170 attributable to the property underwriting group.

	Restricted reserve fund (Note 9)	Restricted guarantee fund (Note 9)	Accumulated other comprehensive income	Unrestricted	2017
	$	$	$	$	$
Balance - beginning of year	1,887,780	50,000	243,628	3,386,870	5,568,278
Net earnings	-	-	-	1,357,026	1,357,026
Change in unrealized gain on investments	-	-	307,059	-	307,059
Transfers to restricted funds	107,998	-	-	(107,998)	-
Balance - end of year	1,995,778	50,000	550,687	4,635,898	7,232,363

Total Subscribers' Equity of $7,232,363 includes $6,325,839 attributable to the liability underwriting group and $906,524 attributable to the property underwriting group.

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NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
	$	$
ASSETS		
Cash	10,232,333	8,813,439
Investments (Note 6)	6,754,997	6,910,093
Prepaids	4,159	5,485
Office and computer equipment	2,760	3,943
	16,994,249	15,732,960
LIABILITIES		
Accounts payable and accrued liabilities	50,917	40,896
Provision for unpaid claims and expenses (Note 7)	10,326,415	8,191,951
Deferred revenue	264,750	267,750
	10,642,082	8,500,597
SUBSCRIBERS' EQUITY		
Restricted reserve fund (Note 9)	1,882,192	1,995,778
Restricted guarantee fund (Note 9)	50,000	50,000
Accumulated other comprehensive income	251,881	550,687
Unrestricted	4,168,094	4,635,898
	6,352,167	7,232,363
	16,994,249	15,732,960

Approved by the Board

Marlene Kemp Director

Director

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NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 $	2017 $
CASH PROVIDED BY (USED FOR):		
OPERATING		
Comprehensive income	(880,196)	1,664,085
Items not affecting cash		
Amortization	1,183	1,689
Unrealized gain (loss) on investments	298,806	(307,059)
Re-invested investment income	(196,041)	(182,486)
Change in provision for unpaid claims and expenses	2,134,464	(1,001,515)
	1,358,216	174,714
Changes in non-cash working capital items		
Prepaids	1,326	(1,580)
Accounts payable and accrued liabilities	10,021	9,370
Deferred revenue	(3,000)	62,750
	1,366,563	245,254
INVESTING		
Proceeds on disposal of investments	52,331	51,337
CHANGE IN CASH	1,418,894	296,591
CASH - beginning of year	8,813,439	8,516,848
CASH - end of year	10,232,333	8,813,439

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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.

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 20, 2019.

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.

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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
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 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, 2018 was $6,352,167 (2017 - $7,232,363). 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 has adopted an equity management policy consistent with the objective for the management of net assets.

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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 $1,932,192, which is comprised of a Restricted Reserve Fund of $1,882,192 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, 2018, 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 16, *Leases* ("IFRS 16"), may impact how and when the Association recognizes its lease obligations. IFRS 16 becomes effective for the Association's 2019 fiscal year.
- IFRS 17, *Insurance Contracts* ("IFRS 17"), was issued by the IASB in May 2017. This new standard replaces IFRS 4 Insurance Contracts, which was an interim standard allowing companies to carry on accounting for instances contracts using national accounting standards resulting in different approaches. IFRS 17 becomes effective for periods beginning on or after January 1, 2022 and will be adopted by the Association for the year ending December 31, 2022.
- IFRS 9, *Financial Instruments* ("IFRS 9"), may impact the classification and measurement of the Association's financial assets. Consistent with the transition guidance issued by the International Accounting Standards Board, the Association is deferring the adoption of IFRS 9 to align with the implementation of IFRS 17.

The extent of the impact of these new standards have 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.

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 the year, 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 $3,100,000, 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 Coverage A and Coverage B have varying per claim and annual aggregate limits. Coverage A has varying per claim limits and is subject to an annual aggregate of $500,000. Coverage B is subject to a per claim and annual aggregate of $1,500,000. Subscribers purchased property excess insurance above the Association's retention.

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5. INSURANCE PREMIUMS (Continued)

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.

During the year, subscribers of the Association paid total premiums of $3,034,124 (2017 - $3,533,369) 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 2018 $	**Fair value 2018 $**	Cost 2017 $	Fair value 2017 $
Manulife Financial Balanced Fund	**6,503,116**	**6,754,997**	6,359,406	6,910,093

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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.

In the Association's actuarial report as at December 31, 2018, the actuarial policy liability was projected at $10,326,415 on a net discounted basis, including a provision for adverse deviation. Without a provision for adverse deviation, the actuarial policy liabilities would be $9,242,000 on a net discounted basis and $9,608,000 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.

	2018 **$**	2017 $
Provision for unpaid claims and expenses - beginning of period	**8,191,951**	9,133,466
Current year's policy liabilities incurred	**3,781,900**	1,974,764
Claim and expense payments made during the year	**(1,647,436)**	(2,916,279)
Provision for unpaid claims and expenses - end of period	**10,326,415**	8,191,951

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7. PROVISION FOR UNPAID CLAIMS AND EXPENSES (Continued)

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, 2018 valuation was 1.6% (2017 - 1.8%). As at December 31, 2018, had the discount rate increased or decreased by 1%, the provision for unpaid claims and adjustment expenses would have decreased by $242,000 or increased by $256,000 respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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 following table presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2009 to 2018:

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015	2016	2017	2018	Total as at Dec. 31, 2018
Estimate of net ultimate claims and adjustment expenses as at:											
Dec. 31, 2010	1,000,000	1,500,000	-	-	-	-	-	-	-	-	-
Dec. 31, 2011	1,000,000	1,589,020	1,500,000	-	-	-	-	-	-	-	-
Dec. 31, 2012	1,000,000	1,391,001	1,761,697	1,500,000	-	-	-	-	-	-	-
Dec. 31, 2013	1,000,000	1,589,201	1,689,948	1,613,001	1,500,000	-	-	-	-	-	-
Mar. 31, 2014	1,000,000	1,584,345	1,655,079	1,552,509	1,905,392	-	-	-	-	-	-
Feb 28, 2015	1,000,000	1,851,191	1,723,784	1,633,204	2,000,000	1,756,553	-	-	-	-	-
Dec. 31, 2015	1,000,000	1,914,039	1,809,427	1,652,831	2,000,000	1,232,411	1,488,202	-	-	-	-
Dec. 31, 2016	1,000,000	1,921,412	2,000,000	1,586,081	2,000,000	1,687,388	1,288,799	2,706,164	-	-	-
Dec. 31, 2017	1,000,000	2,000,000	2,000,000	1,580,201	2,000,000	1,749,673	886,423	2,289,378	2,596,883	-	-
Dec. 31, 2018	1,000,000	2,000,000	2,000,000	1,891,236	2,000,000	1,988,068	805,333	2,336,965	2,823,886	2,801,850	19,647,338
Direct cumulative claims and adjustment expense payments as at:											
Dec. 31, 2010	333,536	93,872	-	-	-	-	-	-	-	-	-
Dec. 31, 2011	545,962	277,193	89,269	-	-	-	-	-	-	-	-
Dec. 31, 2012	584,525	481,641	318,395	31,816	-	-	-	-	-	-	-
Dec. 31, 2013	639,700	644,151	505,149	174,713	63,515	-	-	-	-	-	-
Mar. 31, 2014	645,031	380,437	542,053	192,690	126,169	-	-	-	-	-	-
Feb 28, 2015	703,230	784,456	918,445	416,964	730,706	2,265	-	-	-	-	-
Dec. 31, 2015	848,993	981,866	1,004,177	595,364	1,170,318	100,691	57,321	-	-	-	-
Dec. 31, 2016	872,947	1,119,237	1,130,790	731,101	1,346,707	252,418	172,609	72,533	-	-	-
Dec. 31, 2017	1,000,000	1,693,300	1,733,888	862,877	2,000,000	376,298	279,309	541,656	90,379	-	-
Dec. 31, 2018	1,000,000	2,000,000	1,829,210	1,473,956	2,000,000	496,767	325,530	681,667	352,259	58,997	10,218,386
Net provision for policy years 2009-2010 through 2018											9,428,952
Net provision for policy years prior to 2009-2010											(237,083)
Undiscounted unpaid claims and expenses, net of recoveries											9,191,869
Unallocated loss adjustment expenses											417,040
Effect of discounting and provisions for adverse deviation											717,506
Provision for unpaid claims and expenses											10,326,415

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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, 2018.

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, 2018:

	Less than one year $	2020 $	2021 $	2022 and thereafter $	Total $
Provision for unpaid claims and expenses	3,029,805	2,141,660	1,584,555	3,570,395	10,326,415

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% (2017 - 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, 2018, management estimates that a 10% increase in equity markets, with all other variables held constant, would impact OCI by approximately $675,500 (2017 - $691,009). 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 $(113,586) was transferred to (from) the fund (2017 - $107,998).

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

THREE YEAR STRATEGIC PRIORITIES

As a foundation for moving towards its long-term vision, the immediate focus for HOPA is to pursue the following strategic priorities:

- Expand lines of insurance and risk management services
- Invest in human resources and information technology
- Expand the Atlantic Canada Subscriber base
- Expand our capacity for direct services to our Subscribers

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