Annual Report

2015

NS HOPA

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Mission

Our mission is 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, NS 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

Message from the Chair

As Chair of Nova Scotia Health Organizations Protective Association (NS HOPA), I am pleased to present the 2015 Annual Report on behalf of the Board of Directors.

NS HOPA, the not-for-profit organization, sold its insurance program to NS HOPA the reciprocal exchange on March 1st, 2015. The reciprocal exchange's (Association) Professional and General Liability insurance program came into effect March 1, 2015. As anticipated, Subscribing Members saw no outward change with the move to the new reciprocal. NS HOPA transitioned seamlessly and at minimal operational cost as premises and staff remained the same and regulators allowed the new reciprocal to use the same name.

In the Association's first year our Board focused its efforts on establishing its governance and operating structure.

GOVERNANCE

The Exchange Agreement provided for the initial Board of Directors. Directors from the former NS HOPA have accepted appointments providing continuity and knowledge transfer. The Association held its first Board meeting on February 4, 2015 and at an Extraordinary General Meeting of the Association held September 24, 2015 to approve the 2015-16 Slate of Directors, Marlene Kemp (HANS) and Martina Munden (NSHA) joined the Board.

As a new organization it was important for the Board to chart its course for the future and ensure it is responsive to our Subscribing Members. To meet our collective objectives, we interviewed Subscribing and Board Members as well as external stakeholders. As a result, we have acknowledged our organizational threats and opportunities and defined our strengths and opportunities for development, which together will inform our new Strategic Plan.

Wanda Matthews
Chair, Board of Directors

OPERATING

The Board embarked on the development of an Enterprise Risk Management framework that will define our risks as well as our strategies to mitigate these risks. Growth became a priority as a result of our strategic planning and enterprise risk work. The Board expanded the insurance program into property insurance and is pursuing other sectors and insurance products/programs to better serve our current and future membership.

Collins and Barrow were appointed auditors for the Association for the fiscal year ended December 31, 2015. I am pleased to report that an unqualified opinion was issued for the audited financial statements, which start at page 8 of this Report.

Thank you to the members of the Board for their work and commitment, in particular for continuing to contribute to the stabilization and growth of NS HOPA. On behalf of the Board, I extend our appreciation to the staff of NS HOPA for their dedicated work.

Report of the CEO

The Nova Scotia Health Organizations Protective Association reciprocal exchange (Association) commenced operation of the insurance program effective March 1, 2015 with the acquisition of the outstanding liabilities of the incorporated society (NS HOPA) under the insurance contracts issued from 1992 to February 28,2015 and the issuance of the 2015 insurance contracts to Subscribers.

There has been a smooth transition of the insurance program to the Association, and the Association's financial position is strong at the end of ten months of operation.

FINANCIAL POSITION

As at December 31, 2015 the Association has assets of $12,492,897, liabilities of $7,205,828, and Subscribers' Equity of $5,287,069. The continued financial strength of the insurance program is evident from a comparison of the Association's results with the financial position of NS HOPA at February 28, 2015 (just prior to the sale of the insurance liabilities): assets of $9,106,319, liabilities of $7,344,138, and Subscribers' Equity of $1,762,181.

The audited Financial Statements begin at page 8 of this Report. Of note are two transactions relating to the start-up of the Association; the purchase of the contracts of insurance (book of business) from NS HOPA and the Subscribers' initial contribution to the Association. For sale purposes, NS HOPA's contracts of insurance were valued at $8,949,915 and assets equal to the valuation were transferred to the Association as part of the purchase of the book of business. This transaction is described in Note 11 of the audited Financial Statements.

Deborah Rozee
Chief Executive Officer

The substantial increase in Subscriber Equity to $5,287,069 arises from two sources; Subscribers to the Association made an initial contribution to surplus of $2,816,576, and a contribution of $1,642,915 arose from the acquisition of the book of business. The Statement of Changes in Subscribers' Equity is on page 4 of the audited Financial Statements and details the year-end Subscriber Equity position.

The appointed actuary, Axxima Inc., recommends annually the amount of the provision for unpaid claims and expenses to be carried on the Statement of Financial Position and the funding required to maintain reserves adequate to meet future policy liabilities and regulatory reserve requirements. Axxima's Report confirming the provision for unpaid claims and expenses of $7,168,000 as at December 31, 2015 is at page 7 of this Report.

The estimate of future liabilities is subject to uncertainty; unanticipated increase in claims costs and investment performance are two key drivers of future liabilities. In addition to the actuarial review and recommendations, the Association manages the exposure to unanticipated claim liabilities by setting an annual aggregate limit on the amount of the claims expense paid by the Association. Currently the annual aggregate limit, the maximum the Association will pay in any one year for all claims, is $3,500,000. Amounts in excess of $3,500,000 annual aggregate up to the program limit of liability are insured by the excess insurer, Aviva Canada.

The annual aggregate has increased over time from $800,000 in 1992 to the present annual aggregate of $3,500,000 to gain the benefit of the Association's cost effective insurance pricing. However, it remains an important mechanism through which the Association mitigates financial risk by controlling exposure to claims volatility.

The Association operates on a non-profit basis, with no profit margin built into the Association's annual assessment to Subscribers. Over the past ten years the operating costs for the insurance program have been constant at approximately 10% of annual premium. The operating cost for 2015, annualized for comparison, was approximately 9.7% of the annual premium.

Effective March 1st, 2015 the Association is licensed in Nova Scotia to underwrite property insurance for Subscribers to the Association.

CLAIMS and RISK MANAGEMENT

Claims volume remains stable. Between March 1, 2015 and December 31, 2015, 190 new claim files were opened and 231 claim files closed. The total number of open claim files at year end is 305. Professional liability errors and omissions claims remain the highest category of claims by both frequency and cost.

History by Type of Claim as a % of Total Claim Cost

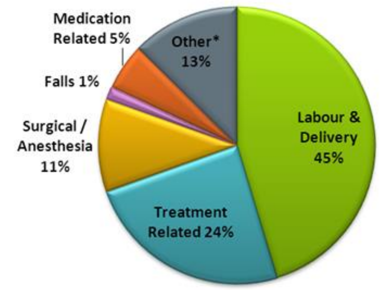
Coverage	2011-2015 (5 Years)
Professional Liability	78%
General Liability	9%
Admin E&O	7%
Other*	6%

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

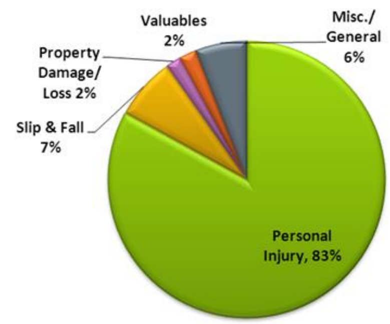
The charts that follow show the breakdown of claim costs by causality.

Five Year History Causality as a % of Total Claim Cost

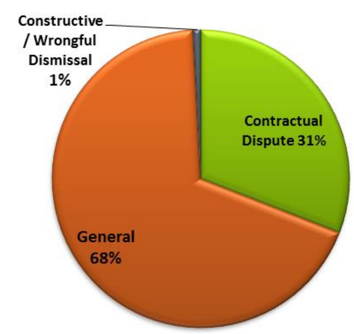
Professional Liability



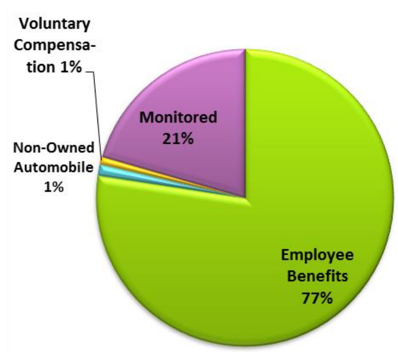
General Liablity



Admin Errors & Omissions



Other



The Association hosted a full day Risk Management Seminar for Subscribers in September 2015. The seminar opened with a discussion of the healthcare claims' trends within the Association program, and Aviva's broader Canadian claims experience. Risk Managers also received the comparable statistical breakdown for claims reported by their Subscriber.

The seminar also included presentations on:

- NS HOPA insurance policy overview – coverage, conditions and exclusions;
- Developments in the law – breach of privacy claims including class actions; developments in health law including recent Nova Scotia cases on professional liability and Personal Directives; and an explanation of Nova Scotia's new *Limitation of Actions Act*;
- Practical tips for responding to requests from outside agencies;
- Responding to adverse events, including a panel discussion and mock disclosure meetings;
- Discussion of the *Quality Improvement Information Protection Act*, in force May of 2015; and
- A perspective on cyber safety from Chad White, the Director of Risk & Assurance for the Atlantic Lottery Corporation.

The Association is committed to providing risk management tools that are of assistance to Subscribers and, to this end, most of the seminar sessions are recorded and provided on USB to Subscribers for future use in their in-house risk management initiatives.

In addition to the formal seminar, the Association issues loss prevention bulletins and responds to individual Subscriber requests for risk management information.

NS HOPA is always available to discuss risk management issues on a one-on-one basis, or to address a group on topics of interest. To request any assistance in your risk management activities, please call Connie Morrissey, Claims Counsel, at (902) 832-8542.

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, 2015 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
February 22, 2016

Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries

192 St Jean Road, Suite 202, Longueuil, Quebec J4H 2X5
Tel. 1.450.646.2500 | Fax. 1.855.529.9462 | Web. www.axxima.ca

Report of the Auditor

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION

FINANCIAL STATEMENTS

10 MONTH PERIOD ENDED DECEMBER 31, 2015

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION INDEX DECEMBER 31, 2015

Collins Barrow

Collins Barrow Nova Scotia Inc.
101-120 Eileen Stubbs Avenue
City of Lakes Business Park
Dartmouth, Nova Scotia
Canada B3B 1Y1

T: 902.404.4000
F: 902.404.3099

www.collinsbarrow.com

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, 2015 and the statements of operations and comprehensive income, changes in subscribers' equity and cash flows for the 10 month period 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, 2015, and the results of its operations and its cash flows for the 10 month period then ended in accordance with International Financial Reporting Standards.

Collins Barrow SNS Inc.

Dartmouth, Nova Scotia
March 22, 2016

Chartered Accountants

Collins Barrow

NOVA SCOTIA HEALTH ORGANIZATIONS 3
PROTECTIVE ASSOCIATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE PERIOD ENDED DECEMBER 31, 2015 (Note 1)

	2015 $
INSURANCE PREMIUMS (Note 5)	2,477,810
EXPENSES	
Brokerage fees	23,475
Change in provision for unpaid claims and expenses	(139,000)
Damages	329,743
Insurance premium taxes	99,112
Legal	905,916
	1,219,246
NET UNDERWRITING INCOME	1,258,564
OPERATING EXPENSES	
Actuarial fees	22,482
Administrative - salaries and benefits	298,872
Advertising	677
Amortization	1,723
Audit fees	24,450
Board expenses	19,333
Contracted services	12,114
Dues and fees	17,239
Insurance	12,029
Interest and bank charges	1,230
Licenses and registration	515
Office	7,309
Other professional fees	18,595
Premises	21,882
Professional development	5,216
Risk management	12,184
Telephone and internet	1,493
Travel and meetings	2,160
	479,503
EARNINGS FROM OPERATIONS	779,061
Investment income	(10,165)
Recovery of expenses (Note 12)	104,451
NET EARNINGS	873,347
Unrealized loss on investments	(45,769)
COMPREHENSIVE INCOME	827,578

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION

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STATEMENT OF CHANGES IN SUBSCRIBERS' EQUITY
FOR THE PERIOD ENDED DECEMBER 31, 2015 (Note 1)

	Restricted reserve fund (Note 10)	Restricted guarantee fund (Note 10)	Accumulated other comprehensive loss	Unrestricted	**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**

**Contributions from subscribers consists of a contribution of $1,642,915 arising on acquisition of the book of business, as described in Note 11, and a contribution to surplus of $2,816,576.*

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

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	2015
	$
ASSETS	
Cash	6,359,800
Investments (Note 6)	6,047,896
Due from related party (Note 7)	77,278
Prepaids	773
Office and computer equipment	7,150
	12,492,897
LIABILITIES	
Accounts payable and accrued liabilities	37,828
Provision for unpaid claims and expenses (Note 8)	7,168,000
	7,205,828
SUBSCRIBERS' EQUITY	
Restricted reserve fund (Note 10)	1,238,904
Restricted guarantee fund (Note 10)	50,000
Accumulated other comprehensive loss	(45,769)
Unrestricted	4,043,934
	5,287,069
	12,492,897

Approved by the Board

_________________ Director

Wanda Matthews _________________ Director

Collins Barrow

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION 6
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2015 (Note 1)

	2015
	$
CASH PROVIDED BY (USED FOR):	
OPERATING	
Comprehensive income	827,578
Items not affecting cash	
Amortization	1,723
Unrealized loss on investments	45,769
Change in provision for unpaid claims and expenses	(139,000)
	736,070
Changes in non-cash working capital items	
Prepaids	(773)
Due to related party	(77,278)
Accounts payable and accrued liabilities	37,828
	695,847
FINANCING	
Contributions from subscribers	2,816,576
Acquisition of book of business (Note 11)	2,814,013
	5,630,589
INVESTING	
Acquisition of office and computer equipment	(8,873)
Proceeds on disposal of investments	42,237
	33,364
CHANGE IN CASH and CASH - end of period	6,359,800

NOVA SCOTIA HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2015 (Note 1) 7

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. The amounts reported in these financial statements represent the results of operations for the 10 month period 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 Board on March 22, 2016.

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 is the ten month ended December 31, 2015; as a result, there are no unearned premiums as at December 31, 2015.

(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 the ten month period ended, therefore there are no deferred acquisition expenses at December 31, 2015.

(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 bank balances held with financial institutions.

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, 2015 was $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 $1,288,904, which is comprised of a Restricted Reserve Fund of $1,238,904 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, 2015, 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 2015, the Association wrote liability policies with a per claim limit of $750,000 and an annual aggregate limit of $3,500,000, subject to sub-limits, and 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.

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 insurer. Payment of excess premium is remitted by subscribers to the excess insurer through the excess insurer's broker.

For the 10 month period ended December 31, 2015, subscribers of the Association paid total premiums of $1,866,920 to the excess insurer 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 2015 $	Fair value 2015 $
Funds held by Manulife Financial Balanced Fund	6,093,665	6,047,896

The unrealized loss on investments at December 31, 2015 is $45,769 and is included in accumulated other comprehensive loss.

7. RELATED PARTY TRANSACTIONS

During the period, the Association acquired the book of business of the incorporated society Nova Scotia Health Organizations Protective Association, a non-taxable entity, which is further described in Note 11.

The amount due from related party, related through a common board of directors, is unsecured and has no set terms of repayment.

8. 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.

8. PROVISION FOR UNPAID CLAIMS AND EXPENSES (Continued)

In the Association's actuarial report as at December 31, 2015, the actuarial policy liability was projected at $7,168,000 on a net discounted basis, including a provision for adverse deviation. Without a provision for adverse deviation, the actuarial policy liabilities would be $6,431,000 on a net discounted basis and $6,742,000 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.

	2015 $
Provision for unpaid claims and expenses - beginning of period	-
Unpaid claims and liabilities acquired (Note 11)	7,307,000
Current year's policy liabilities incurred	1,096,659
Claim and expense payments made during the year	(1,235,659)
Provision for unpaid claims and expenses - end of period	7,168,000

The actuarial assumptions used have been selected based on the program's experience 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, 2015 valuation was 1.9%. As at December 31, 2015, had the discount rate increased or decreased by 1%, the provision for unpaid claims and adjustment expenses would have decreased by $169,304 or increased by $178,238 respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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8. 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 2015, which were included in the Association book of business purchase described in Note 11.

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	Total as at Dec. 31, 2015
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	12,856,910
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	55,595	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	749,242	935,287	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	6,523,322
Net provision for policy years 2007-2008 through 2015										6,333,588
Net provision for policy years prior to 2007-2008										39,045
Undiscounted unpaid claims and expenses, net of recoveries										6,372,633
Unallocated loss adjustment expenses										369,613
Effect of discounting										(310,246)
Effect of provisions for adverse deviation										736,000
Provision for unpaid claims and expenses										7,168,000

9. 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.

9. 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, 2015.

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.

9. 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, 2015:

	Less than one year	2017	2018	2019 and thereafter	Total
	$	$	$	$	$
Provision for unpaid claims and expenses	2,046,520	1,558,924	1,134,736	2,427,820	7,168,000

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.

9. 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% 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, 2015, management estimates that a 10% increase in equity markets, with all other variables held constant, would impact OCI by approximately $604,790. A 10% decrease in equity prices would have the corresponding opposite effect, impacting OCI by the same amounts.

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10. 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.

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

11. BOOK OF BUSINESS

On March 1, 2015, the Association acquired all of the insurance contracts issued (the "Book of Business") by the incorporated society named Nova Scotia Health Organizations Protective Association (the "Vendor"). The price paid to the Association for assuming the Book of Business was $8,949,915, paid by the transfer of cash of $2,814,013 and investments having a value of $6,135,902 from the Vendor. Because the Vendor and the Association have the same membership, the acquisition is accounted for as a related party transaction. The book value to the Vendor of the Book of Business liabilities was $7,307,000, and the liability was reflected on the books and records of the Association at this amount. The $1,642,915 excess of the price paid to the Association over the book value of the assumed liabilities is reflected on the books and records of the Association as an initial contribution from the subscribers of the Association.

12. EXPENSE RECOVERY

During the year, the Association recovered certain expenses incurred while conducting the wind up of the incorporated society Nova Scotia Health Organizations Protective Association following the transfer of the Book of Business as described in Note 11.

2015 Board of Directors

NS HOPA's Board of Directors is a dedicated group of professionals from our Subscribers, as well as two outside Directors.

Arsenault, Greg	Risk Manager, Quality Management, NSHA	Since 2013
Ashton, Steve	VP People and Organization Development, IWK	Since 2013
Conrad, Paul	President, Actuarial Expert Consulting	Since 2013
Gaulton, Catherine	VP Quality & System Performance & Chief Legal Counsel, NSHA	Since 2009
Kemp, Marlene	Chief Comptroller, HANS	Since 2015
LeBlanc, Angela	Director ERM & Emergency Preparedness, NSHA	Since 2012
Madill, Chris	Partner, Stewart McKelvey	Since 2011
Matthews, Wanda	Western Zone Operations Executive Director, NSHA	Since 2011
Munden, Martina	General Counsel, NSHA	Since 2015
Purcell-Cotnam, Cheryl	Manager, Primary Health Care Operations, DoHW	Since 2014
Snow, Cecil	Senior Director Finance, NSHA	Since 2011

2015 Committees

Governance Committee

Wanda Matthews, Chair
Chris Madill, Vice Chair
Catherine Gaulton
Cecil Snow, Treasurer
Deborah Rozee

Audit Committee

Greg Arsenault, Chair
Steve Ashton
Paul Conrad
Deborah Rozee

Loss Prevention Advisory Council

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

Subscribers

Emergency Health Services

IWK Health Centre

Nova Scotia Association of Health Organizations

Nova Scotia Health Authority

St Anne Community & Nursing Care Centre

Nova Scotia Health Organizations Protective Association
2 Dartmouth Road, Bedford NS B4A 2K7
www.nshopa.ca