HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2024

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INDEPENDENT AUDITORS' REPORT

To the Subscribers of:
Health Organizations Protective Association

Opinion

We have audited the financial statements of **Health Organizations Protective Association** ("the Association"), which comprise the statement of financial position as at December 31, 2024 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 material 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, 2024, 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 auditors' 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.

- 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 24, 2025

Chartered Professional Accountants

HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
IN CANADIAN DOLLARS
FOR THE YEAR ENDED DECEMBER 31, 2024

	2024	2023
	$	$
INSURANCE REVENUE (Note 7)	**5,627,383**	5,551,203
INSURANCE SERVICE EXPENSES		
Incurred claims and other directly attributable expenses	**2,289,201**	4,030,391
Insurance acquisition cash flows amortization	**258,700**	255,653
	2,547,901	4,286,044
INSURANCE SERVICE RESULT	**3,079,482**	1,265,159
INVESTMENT INCOME (Note 9)	**2,728,456**	3,162,116
INSURANCE FINANCE EXPENSE	**(911,522)**	(659,641)
NET FINANCIAL RESULT	**4,896,416**	3,767,634
OTHER OPERATING EXPENSES		
Actuarial fees	**35,880**	34,500
Administrative - salaries and benefits	**714,332**	650,081
Amortization	**24,717**	26,085
Audit fees	**37,375**	37,375
Board	**6,426**	17,068
Contracted services	**89,511**	90,154
Dues and fees	**20,399**	20,154
Insurance	**37,717**	37,011
Interest and bank charges	**737**	1,047
Licenses and registration	**1,326**	1,326
Office	**17,474**	17,969
Other professional fees	**109,039**	50,227
Premises	**61,193**	65,974
Professional development	**9,474**	12,524
Miscellaneous	**(4,377)**	4,377
Telephone and internet	**6,388**	4,721
Travel and meetings	**5,581**	6,375
	1,173,192	1,076,968
NET EARNINGS	**3,723,224**	2,690,666
Fair value gain (loss) on equity investments designated at FVOCI	**340,085**	(707,533)
COMPREHENSIVE INCOME	**4,063,309**	1,983,133

HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF CHANGES IN SUBSCRIBERS' EQUITY
IN CANADIAN DOLLARS
FOR THE YEAR ENDED DECEMBER 31, 2024

	Restricted reserve fund (Note 11)	Restricted guarantee fund (Note 11)	Accumulated other comprehensive income	Unrestricted	**2024**
	$	$	$	$	**$**
Balance - beginning of year	2,787,227	50,000	(22,962)	9,449,303	**12,263,568**
Net earnings	-	-	-	3,723,224	**3,723,224**
Change in fair value gain on equity investments designated at FVOCI	-	-	340,085	-	**340,085**
Total comprehensive income	-	-	340,085	3,723,224	**4,063,309**
Transfers from restricted funds (Note 11)	35,965	-	-	(35,965)	**-**
Balance - end of year	2,823,192	50,000	317,123	13,136,562	**16,326,877**

Total Subscribers' Equity of $16,326,877 includes $13,160,203 attributable to the liability underwriting group and $3,166,674 attributable to the property underwriting group.

	Restricted reserve fund (Note 11)	Restricted guarantee fund (Note 11)	Accumulated other comprehensive income	Unrestricted	2023
	$	$	$	$	$
Balance - beginning of year	2,751,066	50,000	684,571	6,794,798	10,280,435
Net earnings	-	-	-	2,690,666	2,690,666
Change in fair value loss on equity investments designated at FVOCI	-	-	(707,533)	-	(707,533)
Total comprehensive income	-	-	(707,533)	2,690,666	1,983,133
Transfers to restricted funds (Note 11)	36,161	-	-	(36,161)	-
Balance - end of year	2,787,227	50,000	(22,962)	9,449,303	12,263,568

Total Subscribers' Equity of $12,263,568 includes $9,487,768 attributable to the liability underwriting group and $2,775,800 attributable to the property underwriting group.

HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
IN CANADIAN DOLLARS
AS AT DECEMBER 31, 2024

	2024	2023
	$	$
ASSETS		
Cash	**4,028,600**	5,244,096
Investments measured at fair value (Note 8)	**28,207,727**	20,601,974
Investments measured at amortized cost (Note 8)	**-**	3,460,000
Accrued interest receivable	**10,653**	215,521
Prepaids	**4,160**	5,486
Office and computer equipment	**111,523**	74,812
	32,362,663	29,601,889
LIABILITIES		
Insurance contracts - liability for incurred claims (Note 5)	**15,800,036**	17,121,571
Insurance contracts - liability for remaining coverage (Note 5)	**235,750**	216,750
	16,035,786	17,338,321
SUBSCRIBERS' EQUITY		
Restricted reserve fund (Note 11)	**2,823,192**	2,787,227
Restricted guarantee fund (Note 11)	**50,000**	50,000
Accumulated other comprehensive income	**317,123**	(22,962)
Unrestricted	**13,136,562**	9,449,303
	16,326,877	12,263,568
	32,362,663	29,601,889

Approved by the Board

Stefan Cowell
_________________________ **Director**

Barry Burke
_________________________ **Director**

HEALTH ORGANIZATIONS PROTECTIVE ASSOCIATION
STATEMENT OF CASH FLOWS
IN CANADIAN DOLLARS
FOR THE YEAR ENDED DECEMBER 31, 2024

	2024	2023
	$	$
CASH PROVIDED BY (USED FOR):		
OPERATING		
Net earnings	**3,723,224**	2,690,666
Item not affecting cash		
Amortization	**24,717**	26,085
	3,747,941	2,716,751
Changes in non-cash working capital items and other		
Accrued interest receivable	**204,868**	(144,118)
Prepaids	**1,326**	(2,654)
Insurance contracts - liability for incurred claims	**(1,321,535)**	1,879,705
Insurance contracts - liability for remaining coverage	**19,000**	23,250
	2,651,600	4,472,934
INVESTING		
Acquisition of office and computer equipment	**(61,428)**	(39,844)
Proceeds on disposal of investments	**3,576,524**	14,637,454
Purchase of investments	**(7,382,192)**	(27,882,987)
	(3,867,096)	(13,285,377)
CHANGE IN CASH	**(1,215,496)**	(8,812,443)
CASH - beginning of year	**5,244,096**	14,056,539
CASH - end of year	**4,028,600**	5,244,096

Included in cash flows from operations are:

Interest paid	**737**	1,047
Interest received	**393,711**	625,734

1. REPORTING ENTITY

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 100 Venture Run, Suite 105, Dartmouth, Nova Scotia, B3B 0H9. 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 investments that are measured at fair value at the end of each reporting period as discussed further under Note 3 "Material Accounting Policies - Financial instruments".

These financial statements were authorized for issuance by the Association's Board on March 24, 2025.

3. MATERIAL 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. MATERIAL ACCOUNTING POLICIES (Continued)

(b) Insurance premiums

Insurance premiums are recognized as revenue over the insurance contract period. The annual contract period for liability claims ends December 31 and the annual contract period for property claims ends March 31.

(c) Contract 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 contract period for the expenses noted above is the year ending December 31 for liability insurance expenses and the year ending March 31 for property insurance expenses.

(d) Liability for incurred claims and expenses

The liability for incurred 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.

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.

(e) Recognition of insurance contracts

An insurance contract issued by the Association is recognized from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Association provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(f) Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group.

Insurance contracts cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Association can compel the policyholder to pay premiums or has a substantive obligation to provide the policyholder with insurance contract services.

A substantive obligation to provide services ends when:

- the Association has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Association has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks that the portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The reassessment of risks considers only risks transferred from policyholders to the Association, which may include both insurance and financial risks, but exclude lapse and expense risks.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Association's substantive rights and obligations and, therefore, may change over time.

(g) Measurement – Contracts measured under the premium allocation approach ("PAA")

The Association uses the PAA to simplify the measurement of groups of contracts when the following criteria are met at inception.

For insurance contracts the coverage period of each contract in the group is one year or less. Some of these contracts provide compensation for the cost of rebuilding or repairing a property after physical loss or damage; for these contracts, the Association determines the insured event to be the occurrence of an insured peril and the coverage period to be the period in which an insured peril can occur for which a policyholder can make a valid claim.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(g) Measurement – Contracts measured under the premium allocation approach ("PAA") (Continued)

On initial recognition of each contract, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at that date, and adjusted for any amount arising from the derecognition of any assets or liabilities previously recognized for cash flows related to the group. The Association has chosen not to expense insurance acquisition cash flows when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and the amortization of insurance acquisition cash flows as expensed, and decreased by the amount recognized as insurance revenue for services provided and any additional insurance acquisition cash flows allocated after initial recognition. On initial recognition of each group of contracts, the Association expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the Association has chosen not to adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Association recognizes a loss in comprehensive income and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows are discounted (at current rates) if the liability for incurred claims is also discounted.

The Association recognizes the liability for incurred claims of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows are discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

(h) Derecognition and contract modification

The Association derecognizes a contract when it is extinguished, i.e. when the specified obligations in the contract expire or are discharged or cancelled.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(h) Derecognition and contract modification (Continued)

The Association also derecognizes a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognized. If a contract modification does not result in derecognition, then the Association treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

(i) Presentation

Any assets or liabilities for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) are included in the carrying amount of the related portfolios of contracts.

The Association disaggregates amounts in the statement of operations and comprehensive income into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses.

The Association does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are as follows:

The insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The Association allocates the expected premium receipts to each period based on the passage of time.

Insurance service expenses arising from insurance contracts are recognized in profit or loss generally as they are incurred. They exclude repayments of investment components and comprise the following items:

- Incurred claims and other directly attributable insurance service expenses.
- Amortization of insurance acquisition cash flows. For contracts measured under the PAA, the insurance acquisition cash flows are amortized on a straight-line basis over the coverage period of the group of contracts.
- Losses on onerous contracts and reversals of such losses.
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(i) Presentation (Continued)

- Impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein, unless any such changes for groups of direct participating contracts are allocated to a loss component and included in insurance service expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals). The Association presents insurance finance income or expenses in profit or loss.

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.

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**
Cash	Amortized cost
Accrued interest receivable	Amortized cost
Investments - GIC	Amortized cost
Investments - Balanced Fund	FVOCI (designated)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(a) Fair value through other comprehensive income ("FVOCI")

FVOCI 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 FVOCI 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.

(b) Impairment of financial assets

IFRS 9 - *Financial Instruments* uses a forward-looking ‘expected credit loss’ model. The model applies to financial assets measured at amortized cost and debt investments at FVOCI.

Under IFRS 9, the concept of Expected Credit Losses ("ECL") is a key component of the impairment model for financial assets measured at amortized cost.

IFRS 9 requires entities to recognize an allowance for ECLs for financial assets measured at amortized cost, which represents management's estimate of the expected credit losses over the life of the financial asset, based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

The Association has reviewed its financial assets classified at amortized cost and has determined that there are no indicators of impairment or expected credit losses that would require the recognition of a loss allowance. The Association's impairment assessment is based on relevant information about past events, current conditions, and reasonable and supportable forecasts, and considers a range of qualitative and quantitative factors, including the borrower's creditworthiness, the terms of the financial asset, the economic environment, and other relevant factors. The Association will continue to monitor its financial assets for impairment and expected credit losses and will update its impairment assessment as necessary in future reporting periods.

<u>Income taxes</u>

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

New standards and interpretations not yet adopted

The following new or amended accounting standards under IFRS have been issued or revised by the IASB; however, they are not yet effective and, as such, have not been applied to the financial statements.

Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7), which:

- Clarifies that a financial liability is derecognized on the "settlement date which is when the related obligation is discharged, cancelled, expires or the liability otherwise qualifies for derecognition. It also introduces an accounting policy option to derecognize financial liabilities that are settled through an electronic payment system before settlement date if certain conditions are met,
- Clarifies how to assess the contractual cash flow characteristics of financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features,
- Clarifies the treatment of non-recourse assets and contractually linked instruments, and
- Requires additional disclosures in IFRS 7 for financial assets and liabilities with contractual terms that reference a contingent event (including those that are ESG-linked), and equity instruments classified at fair value through other comprehensive income.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2026. Entities can early adopt the amendments that relate to the classification of financial assets plus the related disclosures and apply the other amendments later. The new requirements will be applied retrospectively with an adjustment to opening retained earnings. Prior periods are not required to be restated and can only be restated without using hindsight. An entity is required to disclose information about financial assets that change their measurement category due to the amendments.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1. IFRS 18 introduces new categories and subtotals in the statement of profit or loss.

3. MATERIAL ACCOUNTING POLICIES (Continued)

IFRS 18 – Presentation and Disclosure in Financial Statements (Continued)

It also requires disclosure of management-defined performance measures (as defined) and includes new requirements for the location, aggregation and disaggregation of financial information.

IFRS 18, and consequential amendments to the other accounting standards, is effective for reporting periods beginning on or after 1 January 2027 and must be applied retrospectively. Early adoption is permitted and must be disclosed.

The Association is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

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 Association issues contracts accepting significant insurance risk.

Liability for remaining coverage ("LRC")

Insurance acquisition cash flows

The Association has chosen not to recognize insurance acquisition cash flows as expenses. Insurance acquisition cash flows are initially allocated to related groups of insurance contracts recognized in the statement of financial position and are subsequently amortized over the contract's coverage period. The Association was able to allocate acquisition costs exactly to contracts that they relate to without the need of use of systematic method.

IN CANADIAN DOLLARS

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

Liability for incurred claims ("LIC")

Discount rates

As a general rule, insurance contract liabilities are calculated by discounting expected future cash flows at a discount rate that:

- reflects the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
- is consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and
- excludes the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

The Association uses the bottom-up approach and from Fiera Capital's CIA IFRS 17 Illiquid Reference Curves at December 31, 2024. A bottom-up approach is whereby a liquid risk-free yield curve is adjusted to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts.

The table below sets out the yield curves used to discount the cash flows of insurance contracts.

Year	**2024 Illiquid Yield Curve**	2023 Illiquid Yield Curve
1	**3.32%**	4.89%
2	**3.40%**	4.56%
3	**3.47%**	4.36%
4	**3.58%**	4.28%
5	**3.70%**	4.25%
6	**3.82%**	4.23%
7	**3.94%**	4.24%
8	**4.05%**	4.25%
9	**4.15%**	4.27%
10	**4.23%**	4.29%
11	**4.31%**	4.31%
12	**4.37%**	4.33%

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

Risk adjustment

The risk adjustment for non-financial risk is the compensation that the Association requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

Different approaches to determining the risk adjustment are covered in the *CIA Educational Note IFRS 17 Risk Adjustment for Non-Financial Risk for Property and Casualty Insurance Contracts*, and a margin approach was selected.

The Association determined the risk adjustment to be 12% (2023 - 12%).

Claims development tables

The estimation of claims 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.

IN CANADIAN DOLLARS

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

The following table presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2015 to 2024:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total as at Dec. 31, 2024
Estimate of net ultimate claims and adjustment expenses as at:											
Dec. 31, 2015	1,448,202	-	-	-	-	-	-	-	-	-	-
Dec. 31, 2016	1,228,799	2,706,164	-	-	-	-	-	-	-	-	-
Dec. 31, 2017	886,423	2,289,378	2,596,883	-	-	-	-	-	-	-	-
Dec. 31, 2018	805,333	2,336,965	2,823,886	2,801,850	-	-	-	-	-	-	-
Dec. 31, 2019	691,812	1,990,336	2,433,607	2,653,111	2,579,714	-	-	-	-	-	-
Dec. 31, 2020	751,953	1,710,277	3,475,613	2,775,145	3,064,145	3,214,391	-	-	-	-	-
Dec. 31, 2021	701,732	1,747,664	3,765,186	3,012,690	2,452,057	3,427,452	3,945,737	-	-	-	-
Dec. 31, 2022	812,382	1,631,498	3,765,186	2,507,926	2,185,291	2,838,729	3,718,176	3,969,581	-	-	-
Dec. 31, 2023	872,679	1,899,646	3,765,186	2,243,886	2,080,761	2,655,454	4,167,479	3,768,409	4,700,431	-	-
Dec. 31, 2024	800,399	1,939,007	3,765,186	2,151,187	1,868,805	2,379,706	3,627,650	3,229,806	4,816,945	4,535,921	29,114,612
Direct cumulative claims and adjustment expense payments as at:											
Dec. 31, 2015	57,321	-	-	-	-	-	-	-	-	-	-
Dec. 31, 2016	172,609	72,533	-	-	-	-	-	-	-	-	-
Dec. 31, 2017	279,309	541,656	90,379	-	-	-	-	-	-	-	-
Dec. 31, 2018	325,530	681,667	352,259	58,997	-	-	-	-	-	-	-
Dec. 31, 2019	364,939	801,294	579,796	413,213	139,603	-	-	-	-	-	-
Dec. 31, 2020	402,692	787,971	679,207	716,277	508,132	107,562	-	-	-	-	-
Dec. 31, 2021	441,305	872,916	1,141,282	1,028,100	931,790	580,225	119,222	-	-	-	-
Dec. 31, 2022	459,832	880,625	1,892,135	1,126,146	1,037,588	1,095,992	734,528	434,536	-	-	-
Dec. 31, 2023	546,201	907,728	2,467,333	1,298,948	1,152,940	1,219,004	1,049,932	1,098,550	202,534	-	-
Dec. 31, 2024	548,621	969,880	2,537,115	1,388,317	1,238,849	1,439,123	2,080,989	1,925,985	2,049,161	633,976	14,812,016
Outstanding claims											14,302,596
Liability for all prior accident years											203,383
Undiscounted unpaid claims and expenses, net of recoveries											14,505,979
Unallocated loss adjustment expenses											1,058,937
Effect of discounting											(1,580,046)
Risk adjustment for non-financial risk											1,500,094
Other payables net of receivables											315,072
Net liability for incurred claims on the statement of financial position											15,800,036

IN CANADIAN DOLLARS

5. INSURANCE CONTRACTS

The table below presents the movement of the insurance contracts liabilities, showing separately the liability for remaining coverage and the liability for incurred claims:

	Liability for remaining coverage			Liability for incurred claims			
	Excluding Loss Component $	Loss Component $	Total $	Present Value of Cash Flows $	Risk Adjustment $	Total $	Total Insurance Contract Liability $
Opening insurance contract liabilities at January 1, 2024	216,750	-	216,750	15,598,556	1,523,015	17,121,571	17,338,321
Insurance revenue	(5,627,383)	-	(5,627,383)	-	-	-	(5,627,383)
Incurred claims relating to current year	-	-	-	4,468,625	396,682	4,865,307	4,865,307
Incurred claims relating to prior years	-	-	-	(2,156,503)	(419,603)	(2,576,106)	(2,576,106)
Losses (and reversal) on onerous contracts	-	-	-	-	-	-	-
Amortization of insurance acquisition cash flows	258,700	-	258,700	-	-	-	258,700
Other incurred insurance services expenses	-	-	-	-	-	-	-
Insurance service expenses	258,700	-	258,700	2,312,122	(22,921)	2,289,201	2,547,901
Insurance service result	(5,368,683)	-	(5,368,683)	2,312,122	(22,921)	2,289,201	(3,079,482)
Insurance finance expense	-	-	-	911,522	-	911,522	911,522
Net change in statement of comprehensive income	(5,368,683)	-	(5,368,683)	3,223,644	(22,921)	3,200,723	(2,167,960)
Premiums received	5,646,383	-	5,646,383	-	-	-	5,646,383
Insurance acquisition cash flows paid	(258,700)	-	(258,700)	-	-	-	(258,700)
Claims paid	-	-	-	(4,890,326)	-	(4,890,326)	(4,890,326)
Other insurance service expenses paid	-	-	-	368,068	-	368,068	368,068
Total cash flows	5,387,683	-	5,387,683	(4,522,258)	-	(4,522,258)	865,425
Insurance contract liabilities balance as at December 31, 2024	**235,750**	**-**	**235,750**	**14,299,942**	**1,500,094**	**15,800,036**	**16,035,786**

IN CANADIAN DOLLARS

5. INSURANCE CONTRACTS (Continued)

	Liability for remaining coverage			Liability for incurred claims			
	Excluding Loss Component $	Loss Component $	Total $	Present Value of Cash Flows $	Risk Adjustment $	Total $	Total Insurance Contract Liability $
Opening insurance contract liabilities at January 1, 2023	193,500	-	193,500	13,890,859	1,351,007	15,241,866	15,435,366
Insurance revenue	(5,551,203)	-	(5,551,203)	-	-	-	(5,551,203)
Incurred claims relating to current year	-	-	-	4,324,407	388,894	4,713,301	4,713,301
Incurred claims relating to prior years	-	-	-	(466,024)	(216,886)	(682,910)	(682,910)
Losses (and reversal) on onerous contracts	-	-	-	-	-	-	-
Amortization of insurance acquisition cash flows	255,653	-	255,653	-	-	-	255,653
Other incurred insurance services expenses	-	-	-	-	-	-	-
Insurance service expenses	255,653	-	255,653	3,858,383	172,008	4,030,391	4,286,044
Insurance service result	(5,295,550)	-	(5,295,550)	3,858,383	172,008	4,030,391	(1,265,159)
Insurance finance expense (income)	-	-	-	659,641	-	659,641	659,641
Net change in statement of comprehensive income	(5,295,550)	-	(5,295,550)	4,518,024	172,008	4,690,032	(605,518)
Premiums received	5,574,453	-	5,574,453	-	-	-	5,574,453
Insurance acquisition cash flows paid	(255,653)	-	(255,653)	-	-	-	(255,653)
Claims paid	-	-	-	(2,444,679)	-	(2,444,679)	(2,444,679)
Other insurance service expenses paid	-	-	-	(365,648)	-	(365,648)	(365,648)
Total cash flows	5,318,800	-	5,318,800	(2,810,327)	-	(2,810,327)	2,508,473
Insurance contract liabilities balance as at December 31, 2023	**216,750**	**-**	**216,750**	**15,598,556**	**1,523,015**	**17,121,571**	**17,338,321**

6. CAPITAL MANAGEMENT

The Association views capital as the subscribers' equity which as at December 31, 2024 was $16,326,877 (2023 - $12,263,568). The Association's objective for the management of net assets is the 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.

6. 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 $2,873,192 (2023 - $2,837,227), which is comprised of a Restricted Reserve Fund of $2,823,192 (2023 - $2,787,227) plus a Restricted Guarantee Fund of $50,000 (2023 - $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.

7. INSURANCE REVENUE

During the year, the Association issued primary insurance contracts to subscribers under two underwriting groups - liability and property. Insurance contracts under both underwriting groups are subject to a per claim and annual aggregate limit of insurance, as determined by the Association based on the advice of the appointed Actuary. Insurance premiums include only those premiums earned on primary insurance contracts issued by the Association to the subscribers. The Association also arranged for excess insurance over the Association's per claim and annual aggregate limits for the liability underwriting group.

Subscribers purchase liability and property excess insurance above the per claim and annual aggregate limits retained by the Association. These excess premiums are not recorded by the Association as premium income.

8. FINANCIAL INSTRUMENTS

Financial instruments not measured at fair value include cash and accrued interest receivable. These financial instruments carrying amounts approximate fair value due to their short term nature.

<u>Fair value hierarchy</u>

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).

IN CANADIAN DOLLARS

8. FINANCIAL INSTRUMENTS (Continued)

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 2024 $	**Fair value 2024 $**	Cost 2023 $	Fair value 2023 $
Investments measured at fair value: Mawer Balanced Fund	**27,890,604**	**28,207,727**	20,624,936	20,601,974
Investments measured at amortized cost: CIBC 5.45% GIC maturing Jan. 2, 2024	**-**	**-**	3,460,000	3,460,000
	27,890,604	**28,207,727**	24,084,936	24,061,974

9. INVESTMENT INCOME

	2024 $	2023 $
Interest	**382,788**	766,583
Investment management fee	**(122,715)**	(57,681)
Realized capital gain	**2,468,383**	2,453,214
	2,728,456	3,162,116

10. RISK MANAGEMENT

Overview

The Association has exposure to the following risks:

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

10. RISK MANAGEMENT (Continued)

Overview (Continued)

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.

There are no changes in how the Association manages the risks from prior years and no changes in the significant risks from prior year.

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 contract 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 7 as well as establishing policy limits. 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 in those years.

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 and establishes policy limits. Therefore, the Association collects premiums only on what it expects to pay.

10. RISK MANAGEMENT (Continued)

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, 2024.

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 an actuary 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.

IN CANADIAN DOLLARS

10. 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, 2024:

	Less than one year	2026	2027	2028 and thereafter	Total
	$	$	$	$	$
Liability insurance contract for incurred claims	4,460,043	2,761,901	2,050,834	6,607,210	15,879,988

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 an investment fund which holds strategically diversified investments, on a long-term basis, to reduce exposure to interest volatility.

As at December 31, 2024, had the discount rate increased or decreased by 1.00%, the provision for unpaid claims and adjustment expenses would have decreased by $413,081 or increased by $436,970 respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

10. RISK MANAGEMENT (Continued)

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.

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 43% of its total holdings. The Association does not use derivative instruments to reduce its exposure to foreign currency risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Association’s exposure to other price 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 other price risk, the Association closely monitors its investments and invests in a fund that is managed by professional investment advisors.

As at December 31, 2024, management estimates that a 10% increase in equity markets, with all other variables held constant, would impact OCI by approximately $2,820,773 (2023 - $2,060,197). A 10% decrease in equity prices would have the corresponding opposite effect, impacting OCI by the same amount.

11. 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 $35,965 was transferred to the fund (2023 - $36,161). The Nova Scotia Insurance Act requires that $50,000 be maintained as a Restricted Guarantee Fund in cash or approved securities. The Association is in compliance with these requirements.

12. COMPARATIVE FIGURES

Certain figures presented for comparative purposes have been reclassified to conform with the financial statement presentation adopted for the current year.