

**The Canadian Medical Protective Association**

Consolidated Financial Statements

**December 31, 2017**



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## INDEPENDENT AUDITORS' REPORT

To the Members of The Canadian Medical Protective Association:

We have audited the accompanying consolidated financial statements of The Canadian Medical Protective Association, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.



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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Canadian Medical Protective Association as at December 31, 2017, and its consolidated results of operations, consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

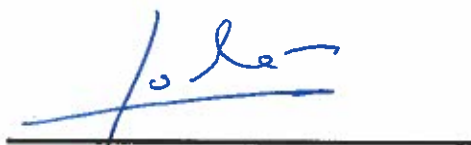
Ottawa, Canada

May 10, 2018

**THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**  
**Consolidated Statement of Financial Position**  
**December 31, 2017 with comparative figures for 2016**  
(Thousands of Canadian dollars)

	2017	2016
<b>ASSETS</b>		
Cash	\$ 9,863	\$ 20,353
Accounts receivable and prepaid expenses	2,657	2,487
Portfolio investments (Note 3)	4,479,712	3,871,620
Receivable from investment sales (Note 3)	2,271	967
Unrealized interest rate swap asset (Note 5)	314	-
Post-retirement benefit asset (Note 7)	22,287	28,183
Capital assets (Note 4)	49,157	50,910
	<b>\$ 4,566,261</b>	<b>\$ 3,974,520</b>
<b>LIABILITIES</b>		
Term loan (Note 5)	\$ 53,800	\$ 56,200
Unrealized interest rate swap liability (Note 5)	-	921
Accounts payable and accrued liabilities (Note 6)	83,780	69,411
Unearned revenue - prepaid membership fees	8,604	8,092
Payable for investment purchases (Note 3)	2,235	3,358
Funds withheld for insurance (Note 8)	59,475	18,021
Post-retirement benefit liability (Note 7)	36,237	34,308
Provision for outstanding claims (Note 8)	3,681,622	3,578,441
	<b>3,925,753</b>	<b>3,768,752</b>
<b>NET ASSETS</b>		
Invested in capital assets	49,157	50,910
Unrestricted net assets	591,351	154,858
	<b>640,508</b>	<b>205,768</b>
	<b>\$ 4,566,261</b>	<b>\$ 3,974,520</b>

On behalf of Council



Jean-Joseph Condé, MD  
President, CMPA Council



Hartley S. Stern, MD, FRCSC, FACS, ICD.D  
Executive Director/CEO

**THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**  
**Consolidated Statement of Operations**  
**For the year ended December 31, 2017 with comparative figures for 2016**  
(Thousands of Canadian dollars)

	2017	2016
<b>REVENUES</b>		
Membership revenues (Note 10)	\$ 690,017	\$ 566,272
Net investment income		
Portfolio investment income (Note 11)	468,429	246,628
Short-term interest income	417	6,822
Investment expenses (Note 12)	(53,613)	(49,632)
Net investment income	415,233	203,818
	<b>1,105,250</b>	<b>770,090</b>
<b>EXPENSES</b>		
Expenses in support of members		
Compensation to patients	250,452	171,685
Legal costs to defend members in civil legal actions	88,919	87,332
Legal costs to support members in other matters	79,847	73,591
Insurance (Note 8)	56,629	67,578
Expert consultant costs in support of members	14,291	14,397
Net change in provision for outstanding claims (Note 8)	103,181	(6,225)
	<b>593,319</b>	<b>408,358</b>
Member services and operations		
Assisting physicians	32,939	32,729
Safe medical care	14,716	14,652
Governance and operations support	11,449	9,488
Post-retirement benefits (Note 7)	6,067	6,180
Property management (Note 14)	1,154	1,586
Interest expense net of gain on fair value of interest rate swap (note 5)	170	752
Amortization of capital assets	2,833	3,048
	<b>69,328</b>	<b>68,435</b>
	<b>662,647</b>	<b>476,793</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ 442,603</b>	<b>\$ 293,297</b>

**THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**  
**Consolidated Statement of Changes in Net Assets**  
**For the year ended December 31, 2017 with comparative figures for 2016**  
(Thousands of Canadian dollars)

	Invested in Capital Assets (Note 4)	Reserved in Risk Retention Reserve Fund (Note 9)	Unrestricted	2017
Balance, beginning of year	\$ 50,910	\$ -	\$ 154,858	\$ 205,768
Excess of revenues over expenses	-	-	442,603	442,603
Re-measurements and other items related to post-retirement benefits (Note 7)	-	-	(7,863)	(7,863)
Amortization of capital assets	(2,833)	-	2,833	-
Acquisition of capital assets	1,080	-	(1,080)	-
Balance, end of year	\$ 49,157	\$ -	\$ 591,351	\$ 640,508

	Invested in Capital Assets (Note 4)	Reserved in Risk Retention Reserve Fund (Note 9)	Unrestricted	2016
Balance, beginning of year	\$ 53,649	\$ 42,982	\$ (190,830)	\$ (94,199)
Excess of revenues over expenses	-	-	293,297	293,297
Re-measurements and other items related to post-retirement benefits (Note 7)	-	-	6,670	6,670
Amortization of capital assets	(3,048)	-	3,048	-
Acquisition of capital assets	309	-	(309)	-
Transfer made in the year	-	3,356	(3,356)	-
Transfer in respect of investment income	-	1,562	(1,562)	-
Closed to unrestricted net assets	-	(47,900)	47,900	-
Balance, end of year	\$ 50,910	\$ -	\$ 154,858	\$ 205,768

**THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**  
**Consolidated Statement of Cash Flows**  
**For the year ended December 31, 2017 with comparative figures for 2016**  
(Thousands of Canadian dollars)

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	\$ 442,603	\$ 293,297
Adjustments for non-cash items:		
Unrealized investment (gains)/losses	(132,837)	4,010
Unrealized interest rate swap gains	(1,235)	(781)
Impairment charges on investments	21,067	19,836
Reversal of impairments	(242)	(1,757)
Amortization of capital assets	2,833	3,048
Increase in funds withheld for insurance	41,454	18,021
Post-retirement expense	6,067	6,180
(Increase)/decrease in accounts receivable and prepaid expenses	(170)	92,345
Increase in accounts payable and accrued liabilities	14,369	12,612
Increase in prepaid membership fees	512	892
Funding of post-retirement benefit plans	(6,105)	(6,879)
Increase/(decrease) in provision for outstanding claims	103,181	(6,225)
	<b>491,497</b>	<b>434,599</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Decrease in line of credit	\$ -	\$ (29,950)
Repayment of term loan	(2,400)	(2,400)
	<b>(2,400)</b>	<b>(32,350)</b>
<b>INVESTING ACTIVITIES</b>		
Net increase to investments	\$ (496,080)	\$ (386,661)
Capital asset acquisitions	(1,080)	(309)
(Increase)/decrease in receivable from investment sales	(1,304)	9,295
Decrease in payable for investment purchases	(1,123)	(7,816)
	<b>(499,587)</b>	<b>(385,491)</b>
Net change in cash	<b>(10,490)</b>	<b>16,758</b>
Cash, beginning of year	<b>20,353</b>	<b>3,595</b>
Cash, end of year	<b>\$ 9,863</b>	<b>\$ 20,353</b>

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### 1. DESCRIPTION OF BUSINESS

The Canadian Medical Protective Association (“CMPA” or the “Association”) is a not-for-profit medical mutual defence organization incorporated by an Act of Parliament in 1913. Its membership is comprised of doctors licensed to practice medicine in Canada. It is governed by a Council elected by its members.

The objects of the Association are:

- (a) to support, maintain and protect the honour, character and interest of its members;
- (b) to encourage honourable practice of the medical profession;
- (c) to give advice and assistance to, and defend and assist in the defence of, members of the Association in cases where proceedings of any kind are unjustly brought or threatened against them; and
- (d) to promote and support all measures likely to improve the practice of medicine.

Protection is extended to members on an occurrence basis, addressing medico-legal issues arising from practice while a member of the Association, regardless of when such issues may be reported or actioned. The decision to assist members, and the extent of the assistance, is made at the discretion of the Council, and is not subject to a contract that sets out terms or limits.

While the Association has adopted fee-setting policies to maintain a fully funded operating position, which is defined as holding one dollar of assets for each dollar of discounted estimated future liabilities, the Unrestricted Net Asset balance at a point in time may be at a value other than zero. Each year, sufficient funds will be levied from members annually to cover in aggregate (with investment income) all anticipated disbursements, present and future, arising from the occurrences in the same year. In the event that emerging costs and investment experience vary from the estimates used at the time the fees were set, future membership fees will be adjusted to offset any emerging deficiencies or surpluses.

### 2. ACCOUNTING POLICIES

These consolidated financial statements were prepared in accordance with Part III - Accounting Standards for Not-For-Profit Organizations of the CPA Canada Handbook - Accounting (“Part III”).

#### **(a) Basis of Consolidation**

The consolidated financial statements include the accounts and results of operations of Dow's Lake Court Inc. and CMPA Investment Corporation, both wholly-owned subsidiaries of the Association. All significant intercompany balances and transactions have been eliminated on consolidation.

#### **(b) Recognition and Measurement of Financial Instruments**

The Association initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Purchases and sales of publicly traded investments are recognized on a trade-date basis.

The Association subsequently measures all its financial assets and financial liabilities at amortized cost, except for the following investments which are measured at fair value: investments in equity instruments that are quoted in an active market, investments in bonds and hedge funds which the Association has elected to subsequently measure at fair value, and all derivative financial instruments. Realized gains and losses are recognized in the consolidated statement of operations on a trade-date basis. Unrealized gains and losses from changes in fair value of securities recorded on a mark-to-market basis are also recognized in the consolidated statement of operations.

Financial assets measured at amortized cost include cash, investments in private equities, debt and real assets and amounts receivable. Financial liabilities measured at amortized cost include line of credit, term loan, accounts payable and accrued liabilities.



# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### 2. ACCOUNTING POLICIES (continued)

Subsequent to initial recognition, fair value for financial assets is determined as follows:

- (i) Cash and short-term investments held in the investment portfolio are measured at cost that together with accrued interest or discounts earned approximate fair value.
- (ii) Publicly traded bonds are measured at year end closing price.
- (iii) Publicly traded equities are measured at year end market closing prices on the appropriate stock exchange.
- (iv) Publicly traded pooled funds, which are included in equities, are measured by reference to the latest closing transactional net asset value.
- (v) Derivative financial instruments, including options, futures, interest rate swaps and currency contracts, are valued at year-end quoted market prices where available. If quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.
- (vi) Hedge funds are measured at fair value based on net asset values obtained from each of the funds administrators.

At the end of each reporting period, the Association assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of the Association, including but not limited to the following events: significant financial difficulties of issuer, a breach of contract, bankruptcy or other financial reorganization proceedings.

When there is an indication of impairment, the Association determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset. When the Association identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the financial asset to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset, or the amount the Association expects to realize by exercising its right to any collateral. The amount of the reduction is recognized as an impairment loss in the consolidated statement of operations.

If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

#### **(c) Investment income and expenses**

Dividends, interest and realized gains and losses on sales of financial instruments are included in portfolio investment income. Dividend income is recognized on the ex-dividend date. Interest income is recognized on the accrual basis. The change in fair value of investments subsequently measured at fair value is reported as portfolio investment income. Write-downs for impairments in the value and any subsequent reversals of the private assets are included in portfolio investment income.

For investments measured at fair value, the resulting gains or losses from changes in foreign exchange rates at the valuation date are included in portfolio income.

Investment expenses include the following items:

- (i) fees paid to external investment managers for portfolio management services;
- (ii) partnership expenses incurred with respect to private investment assets;
- (iii) custodian fees;
- (iv) internal salary and other costs incurred to monitor and administer the portfolio;
- (v) costs incurred to operate the Investment Committee of Council; and
- (vi) transaction costs associated with the acquisition of financial instruments that are subsequently measured at fair value.

These costs are recorded as an expense in the year they are incurred, on a trade-date basis.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### 2. ACCOUNTING POLICIES (continued)

#### *(d) Measurement uncertainty*

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the period. In particular, significant estimates are contained in the impairment of investments in private equities, debt and real assets, provision for outstanding claims and post-retirement benefits. Actual results may differ from the estimates.

#### *(e) Membership fees*

Annual membership fees are recognized as revenue on a pro-rata basis over the membership year. The membership fees are set annually by Council at an amount estimated (with anticipated investment income) to provide full funding of all expenditures of the Association, including the expected future costs for all claims arising out of work done by members during the year. In addition, annual membership fees are adjusted as necessary from time to time to reflect prior experience gains or losses for outstanding claims or investment income. Membership fees received in advance are deferred.

#### *(f) Foreign exchange*

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. Thereafter, monetary assets and liabilities are adjusted to reflect the exchange rates that are in effect at the consolidated statement of financial position date. Gains and losses resulting from the adjustment are included in the consolidated statement of operations.

#### *(g) Compensation to patients*

The actual costs of compensation to patients incurred on behalf of members are recognized when paid or when management determines that their payment will become likely. Judgments that were rendered before year end but were unpaid at December 31 are accrued in the year of judgment. Settlements that have been agreed before year end but were unpaid at December 31 are accrued in that year. The amounts recorded are based in part on estimates and assumptions made by management and therefore may be subject to measurement uncertainty. Actual amounts paid, if any, could differ from the amounts accrued at the previous year end. Differences are recognized in the year they are determined.

#### *(h) Provision for outstanding claims*

It is not possible to determine precisely the amount of the potential costs to which the Association may be exposed as a result of pending or future litigation against its members for which it exercises its discretion to assist its members. Consequently, an estimate of the Association's potential outstanding claims liabilities, including future compensation to patients and legal and administrative expenses, is prepared by the Association's actuaries on an annual basis.

As the events affecting the ultimate disposition of reported claims have not taken place and may not take place for some time, this estimate is subject to variability, which could be material in the near term. In addition, it is anticipated that there remain a material number of events that have already occurred, but which have not yet been identified to the member involved or reported to the Association, that may give rise to claims in which the Association may choose to provide assistance. Variability in the estimate can be caused by actual emerging experience being different from the trends used by the actuaries in their forecasting model. Emerging experience gains or losses are recognized in the year they are determined. Estimated recoveries from insurance are calculated and included in the provision for outstanding claims as a reduction in the projected liability.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### 2. ACCOUNTING POLICIES (continued)

The provision for outstanding claims has been valued on a discounted basis. In accordance with the standards of practice of the Canadian Institute of Actuaries, the estimate of the Association's provision for outstanding claims includes a provision for adverse deviation which provides comfort over the adequacy of the provision in the event that actual experience differs negatively from the projections used in the actuarial valuation. Any reduction in volatility due to the existence of an insurance contract is included in the provision for adverse deviation.

#### (i) Insurance premiums

Insurance contracts entered into by the Association could have two components: a deposit premium and a funds withheld premium. Deposit premiums are expensed at the inception of the insurance contract and include any insurance taxes and brokerage fees. The funds withheld premiums are retained by the Association and are credited with interest at rates determined per the contract. Any amount recovered from an insurance policy will be first paid out using the funds withheld until those funds are depleted, then paid by the insurance companies. Funds withheld premiums are expensed upon inception of the contract. Interest on balances in the funds withheld account is charged to insurance expense annually.

#### (j) Post-retirement benefits

Post-retirement benefits are accounted for on an accrual basis, whereby the actuarially determined obligations under the plan and related costs are recorded net of the fair value of the plan assets. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate assumptions as described in Note 7. The actuarial valuation of the plans accrued benefit obligation was calculated using a valuation prepared for accounting purposes.

The current cost of pension and other post-retirement benefit plans is charged to the period in which services are rendered.

Re-measurements and other items comprise the aggregate of the difference between the actual return on plan assets and the return calculated using the discount rate; the actuarial gains and losses; the effect of any valuation allowance in the case of a net defined benefit asset; the past service costs; and the gains and losses arising from settlements and curtailments. Re-measurements are recognized directly in net assets.

#### (k) Capital assets

The costs of capital assets are capitalized upon meeting the criteria for recognition as a capital asset; otherwise, costs are expensed as incurred. The cost of a capital asset comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. Amortization is computed using the straight-line method over the following terms:

Buildings	50 years
Furniture and equipment	10 years
Computer equipment and software	3 to 8 years
Building improvements	5 to 49 years
Deferred leasing costs	terms of leases

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In this event, recoverability of assets held and used is measured by reviewing the estimated fair market value of the asset. If the carrying amount of an asset exceeds its estimated fair market value, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS

Portfolio investments are summarized as follows:

	2017		2016	
	Carrying Value		Carrying Value	
<i>Measured at fair value</i>				
Cash and short-term investments	\$ 241,304	5.4%	\$ 271,459	7.1%
Forward currency contracts	38,447	0.8%	(7,688)	(0.2%)
Future and option contracts	104,763	2.3%	(3,480)	(0.1%)
Swap Derivatives	2,597	0.1%	-	0.0%
Investment revenue receivable	5,856	0.1%	5,564	0.1%
Fixed income	767,877	17.1%	717,722	18.5%
Equities	1,853,549	41.4%	1,517,300	39.2%
Hedge funds	676,399	15.1%	696,386	18.0%
	<b>3,690,792</b>	<b>82.3%</b>	<b>3,197,263</b>	<b>82.6%</b>
<i>Measured at amortized cost</i>				
Private equities	236,652	5.3%	136,701	3.5%
Private debt	186,771	4.2%	162,332	4.2%
Private real assets	365,497	8.2%	375,324	9.7%
	<b>788,920</b>	<b>17.7%</b>	<b>674,357</b>	<b>17.4%</b>
	<b>\$ 4,479,712</b>	<b>100.0%</b>	<b>\$ 3,871,620</b>	<b>100.0%</b>

The net investment portfolio is as follows:

	2017		2016	
	Carrying value		Carrying value	
Investment assets	\$ 4,479,712		\$ 3,871,620	
Receivable from investment sales	2,271		967	
Payable for investment purchases	(2,235)		(3,358)	
Net investment portfolio	<b>\$ 4,479,748</b>		<b>\$ 3,869,229</b>	

Management's estimate of the fair value of the private equities, debt and real asset investments based on the latest available information reported for these investments is as follows:

	2017		2016	
	Fair value		Fair value	
Private equities	\$ 308,791		\$ 157,842	
Private debt	195,652		191,607	
Private real assets	517,730		515,152	
Net investment portfolio	<b>\$ 1,022,173</b>		<b>\$ 864,601</b>	

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

The total impairments recognized in 2017 in relation to the private equities, debt and real asset investments was \$21.1 million (2016 - \$19.8 million). The Association reversed impairments of \$0.2 million in 2017 (2016 - \$1.7 million). Investments with an impairment reserve of \$20.0 million (2016 - \$16.7 million) were sold during the year releasing the reserve.

The carrying value of the Association's impaired portfolio investments and the amount of the related allowance for impairments is as follows:

	2017			2016		
	Original Cost	Accumulated Impairments	Carrying Value	Original Cost	Accumulated Impairments	Carrying Value
Private equities	\$ 31,321	\$ 13,294	\$ 18,027	\$ 46,210	\$ 25,804	\$ 20,406
Private debt	28,909	17,695	11,214	28,171	17,560	10,611
Private real assets	34,660	19,439	15,221	9,857	6,254	3,603
	<b>\$ 94,890</b>	<b>\$ 50,428</b>	<b>\$ 44,462</b>	<b>\$ 84,238</b>	<b>\$ 49,618</b>	<b>\$ 34,620</b>

### Risk Management

The Association follows a diversified asset mix strategy designed to earn the required investment return at an acceptable level of risk. Some of the risks that the Association's portfolio is exposed to are as follows:

#### (a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk is comprised of interest rate risk, foreign currency risk and other price risk.

- (i) Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The exposure of the Association to interest rate risk arises from its interest bearing assets, term loan, interest rate swap and line of credit. The Association's cash includes amounts on deposit with financial institutions that earn interest at market rates.

The Association's fixed income investment portfolio has guidelines on concentration, duration, and distribution which are designed to partially mitigate the risks of interest rate volatility.

The Association's investments in bonds include variable and fixed interest rate bearing financial instruments. As at December 31, these amounts are as follows:

	2017	2016
Fixed rate	\$ 762,469	\$ 709,888
Variable rate	5,408	7,834
	<b>\$ 767,877</b>	<b>\$ 717,722</b>

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

The terms to maturity and yield to maturity on interest-bearing financial instruments is as follows:

	<b>Terms to maturity</b>				Total
	(thousands of dollars)				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	
Interest-bearing financial instruments	\$ 378,788	158,625	121,532	108,932	\$ 767,877

<b>Yield to Maturity</b>		
Federal	\$ 129,311	1.99%
Provincial	113,053	2.73%
Corporate	152,650	3.44%
Convertible	3,638	4.05%
Pooled Funds	369,225	4.98%
<b>Total</b>	<b>\$ 767,877</b>	<b>3.71%</b>

- (ii) Foreign currency risk refers to the risk that the carrying value of financial instruments, denominated in a foreign currency or future cash flows associated with these instruments, will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments.

The following table summarizes the Association's directly held investment holdings and the underlying investments in pooled funds, by currency exposure, the impact of the currency hedging and the net currency exposure.

2017				
	Currency Exposure	Net Currency Hedge	Net Currency Exposure	% of Total
United States	\$ 2,484,456	\$ (1,066,148)	\$ 1,418,308	63%
Euro	386,731	(246,781)	139,950	6%
British Pound	67,044	(48,961)	18,083	1%
Other International	673,122	-	673,122	30%
<b>Total</b>	<b>\$ 3,611,353</b>	<b>\$ (1,361,890)</b>	<b>\$ 2,249,463</b>	<b>100%</b>

2016				
	Currency Exposure	Net Currency Hedge	Net Currency Exposure	% of Total
United States	\$ 2,127,025	\$ (1,302,652)	\$ 824,373	51%
Euro	385,381	(225,315)	160,066	10%
British Pound	84,525	(46,525)	38,000	2%
Other International	590,548	(7,372)	583,176	37%
<b>Total</b>	<b>\$ 3,187,479</b>	<b>\$ (1,581,864)</b>	<b>\$ 1,605,615</b>	<b>100%</b>

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

#### Forward currency contracts

Forward currency contracts represent agreements between two parties to exchange currencies at a later date. They are used by the Association to hedge the currency risk related to certain investments denominated in foreign currencies. Realized and unrealized gains and losses are included in income on a mark-to-market basis.

Notional amounts of forward currency contracts represent the contractual amount to which an exchange rate is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined. All contracts mature within one year.

The notional amount and fair value of forward currency contracts as at December 31 was as follows:

2017	Notional Amount of Currency Bought or Sold	Contract Exchange Rates	Fair Value of Contracts C\$
GBP	£28,346	1.708081 - 1.7268057	\$ 837
Euro	€ 161,514	1.515895 - 1.5242538	2,262
USD	\$884,119	1.271 - 1.2872	35,348
			\$ 38,447

2016	Notional Amount of Currency Bought or Sold	Contract Exchange Rates	Fair Value of Contracts C\$
GBP	£27,865	1.664789 - 1.668353	\$ 306
Euro	€ 160,851	1.394373 - 1.418588	(2,848)
USD	\$976,002	1.333790 - 1.356130	(5,076)
Other	-		(70)
			\$ (7,688)

- (iii) 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 (other than those arising from interest rate risk or currency risk). To mitigate the impact of other price risk, the Association invests in a diversified portfolio of investments based on the asset mix, and within the investment constraints approved by Council.

#### (b) Credit risk

Credit risk arises from the potential for a bond issuer to fail or for a counterparty to default on its contractual obligations to the Association. The Association is exposed to credit risk through its short term investments, fixed income assets, and forward contracts.

The Association limits credit risk by dealing with counterparties that are considered to be of high quality relative to their obligations, by obtaining collateral where appropriate, through investment diversification and by setting and monitoring compliance with portfolio guidelines. With respect to municipal, provincial or corporate borrowers, the Association has established investment policies which place limits on the exposure to any individual entity.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

As at December 31, the fixed income investments were rated as follows:

Bonds	2017	%	2016	%
AAA	\$ 150,215	19.5	\$ 155,146	21.6
AA	140,149	18.3	108,110	15.1
A	79,389	10.3	115,287	16.1
BBB	98,992	12.9	135,381	18.8
BB	89,509	11.7	80,238	11.2
B	71,022	9.2	63,655	8.8
CCC	13,249	1.7	8,177	1.1
CC	1,385	0.2	1,365	0.2
C	1,409	0.2	403	0.1
Not rated	122,558	16.0	49,960	7.0
	<b>\$ 767,877</b>	<b>100.0</b>	<b>\$ 717,722</b>	<b>100.0</b>

#### (c) Securities lending

The Association has entered into a securities lending program through CIBC Mellon Global Securities Services and CIBC (the lending agent). Under the program, the Association will lend various securities in its possession to borrowers approved by the lending agent. The loans can be secured by either securities or cash collateral. The Association has various risks under this program including borrower default and reinvestment risk.

- (i) Borrower default occurs if the borrower fails to return the loaned securities. Borrower default risk is mitigated by joint and several indemnities provided by CIBC Mellon, CIBC Bank and Bank of New York Mellon. Borrower default risk is also mitigated by requiring the borrowers to provide collateral with an aggregate market value exceeding the aggregate market value of the loaned securities. For 2017, the aggregate market value of the securities on loan was \$221.4 million (2016 - \$193.9 million) and the value of the cash collateral, all held in the lending agent's collateral investment account was \$235.0 million (2016 - \$205.1 million).
- (ii) Reinvestment risk occurs if the interest earned on any cash collateral is insufficient to cover the interest that is rebated to the borrower. Reinvestment risk is mitigated by the relatively short duration of the investment of the collateral and the short duration of the loans, the majority of which are done on an open or overnight basis.

#### (d) Investment risk

The maximum investment risk to the Association is represented by the carrying value of the investments. Diversification provides the most significant measure to control investment risk.

The asset mix targets the following diversification for the portfolio:

<b>Equities</b>	50% (20% Developed Market Low Volatility, 15% Developed Market, 5% Emerging Market, 5% Private Equities, 5% Private Debt)
<b>Fixed Income</b>	20% (15% Canadian Bonds, 5% Emerging Market Bonds)
<b>Real Assets</b>	17.5% (15% Private, 2.5% Public)
<b>Absolute Return</b>	12.5%



# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

#### (e) Concentration risk

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described below do not represent excessive risk.

	2017	2016
<b>Cash and short-term</b>	<b>5.4%</b>	<b>7.1%</b>
<b>Forward contracts</b>	<b>0.9%</b>	<b>(0.2%)</b>
<b>Futures and option contracts</b>	<b>2.3%</b>	<b>(0.1%)</b>
<b>SWAP Derivatives</b>	<b>0.1%</b>	<b>0.0%</b>
<b>Investment revenue receivable</b>	<b>0.1%</b>	<b>0.1%</b>
Corporate	5.7%	6.9%
Government	2.9%	2.6%
Provincial	2.5%	3.8%
<b>Canadian fixed income</b>	<b>11.1%</b>	<b>13.3%</b>
Corporate	1.4%	1.5%
Government	2.8%	3.0%
Provincial	0.7%	0.8%
Other	1.1%	(0.1%)
<b>Global fixed income</b>	<b>6.0%</b>	<b>5.2%</b>
Consumer discretionary	0.5%	0.7%
Consumer staples	0.2%	0.5%
Energy	0.8%	1.4%
Financials	1.3%	1.5%
Health care	0.1%	0.1%
Industrials	0.7%	0.7%
Information technology	0.3%	0.4%
Materials	0.7%	0.6%
Telecommunication services	0.2%	0.2%
Utilities	0.2%	0.0%
Other	0.0%	0.0%
<b>Canadian equities</b>	<b>5.0%</b>	<b>6.1%</b>
Consumer discretionary	4.7%	5.3%
Consumer staples	2.7%	2.9%
Energy	1.6%	1.9%
Financials	8.6%	7.5%
Health care	3.3%	3.1%
Industrials	3.7%	2.8%
Information technology	5.1%	4.3%
Materials	2.0%	1.9%
Telecommunication services	1.8%	1.7%
Utilities	1.2%	1.5%
Other	1.6%	0.2%
<b>Global equities</b>	<b>36.3%</b>	<b>33.1%</b>
Consumer discretionary	1.0%	1.4%
Consumer staples	0.6%	0.4%
Energy	2.9%	3.2%
Financials	5.0%	2.5%
Health care	0.6%	0.8%
Industrials	3.0%	4.0%
Information technology	0.7%	0.7%
Materials	0.1%	0.1%
Telecommunication services	0.7%	0.8%
Utilities	2.1%	2.9%
Other	1.0%	0.6%
<b>Private placements</b>	<b>17.7%</b>	<b>17.4%</b>
<b>Hedge funds</b>	<b>15.1%</b>	<b>18.0%</b>
<b>Total fund</b>	<b>100.0%</b>	<b>100.0%</b>

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 3. PORTFOLIO INVESTMENTS (continued)

#### (f) Commitments to fund private assets

The Association has set a long-term target allocation of 25% to private assets, comprised of equities, debt and real asset investments. It invests in these assets through private partnerships and private placements. Under the agreements, these commitments are called upon as they are required for investments. As of December 31, 2017, the Association had remaining commitments of \$522.9 million (2016 - \$572.4 million).

### 4. CAPITAL ASSETS

	2017			2016		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 7,611	\$ -	\$ 7,611	\$ 7,611	\$ -	\$ 7,611
Building	61,651	23,749	37,902	61,589	22,304	39,285
Furniture and equipment	1,558	1,359	199	1,658	1,393	265
Software	602	325	277	813	525	288
Computer equipment	2,513	2,080	433	3,355	2,431	924
Building improvements	7,023	4,419	2,604	6,298	3,787	2,511
Deferred leasing costs	2,352	2,221	131	2,232	2,206	26
	<b>\$ 83,310</b>	<b>\$ 34,153</b>	<b>\$ 49,157</b>	<b>\$ 83,556</b>	<b>\$ 32,646</b>	<b>\$ 50,910</b>

During the year, fully depreciated assets with a cost and accumulated amortization of \$1.3 million (2016 - \$2.7 million) were written off.

### 5. FINANCING

#### (a) Line of Credit

In order to better manage the short-term needs of the Association throughout the year, the Association maintains a line of credit to a maximum of \$40.0 million. The line of credit is due on demand and bears interest at the bank's prime lending rate. The facility is secured by a general security agreement on all assets of the Association. As at December 31, 2017 there were no funds drawn on the line of credit (2016 - no funds drawn). Interest expense recorded for the line of credit is \$111.7 (2016 - \$175.0).

#### (b) Term Loan

In May 2015, the Association's subsidiary entered into a term loan agreement with a financial institution for \$60 million. Security for the term loan consists of the real estate assets of the Association's subsidiary and a \$25 million guarantee from the Association. The term loan is repayable on demand on a renewable one year term and is calculated over an amortization period of 25 years. Principal payments consist of \$0.2 million per month and interest is comprised of a variable component (banker's acceptance + 0.8%) and a 0.6% stamping fee which is recorded in the property management expenses. Interest expenses recorded for the term loan and the interest rate swap are \$1.3 million (2016 - \$1.4 million).

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### 5. FINANCING (continued)

Management does not believe that the demand features of the term loan will be exercised in the current period. Assuming payment of the term loan is not demanded, regular principal payments required for the next three years are due as follows:

	Principal payment	Interest
2018	2,400,000	1,240,056
2019	2,400,000	1,183,364
2020	49,000,000	379,809

#### (c) Interest rate swap

In May 2015, the Association's subsidiary entered into an interest rate swap agreement for \$60 million to mitigate interest rate risk on its term loan. The fixed rate of the interest rate swap is 2.36% and has a maturity date of May 2020.

At year end, the interest rate swap had a notional value of \$53.8 million (2016 – \$56.2 million) and fair value of \$0.3 million (2016 – (\$0.9) million). This resulted in an unrealized interest rate swap gain of \$1.2 million (2016 - \$0.8 million).

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Association's amounts payable and accrued liabilities as at December 31 consist of:

	2017	2016
Accounts payable	\$ 12,295	\$ 12,736
Accruals	70,981	55,835
Government remittances	504	840
	<b>\$ 83,780</b>	<b>\$ 69,411</b>

### 7. POST-RETIREMENT BENEFITS

The Association sponsors a number of defined benefit plans for its employees, which provide pension and post-retirement health and dental benefits. The registered pension plans are funded through a combination of employee and employer contributions with benefits being paid from the funds held in trust by the pension plans. The non-registered pension plan is funded through a combination of employee and employer contributions with benefits being paid from operating cash flows. The other post-retirement benefit plan is not funded with benefits being paid from operating cash flows.

The most recent actuarial valuation of the pension plans for funding purposes was performed as at January 1, 2015. The most recent actuarial valuation for accounting purposes was performed as at December 31, 2017.

On January 17, 2017, the Financial Services Commission of Ontario approved the asset transfer for all members of the Canadian Medical Protective Association Pension Plan for Senior Staff Plan ("Senior Staff Plan") to merge into the Canadian Medical Protection Plan for Staff ("Plan") effective January 1, 2015. As such, all assets from the Senior Staff Plan were transferred to the Plan on February 28, 2017. The assets of the Senior Staff Flex Plan also merged into the Staff Flex Plan on March 2, 2017. As a result, from that point on, Senior Staff Plan and Senior Flex Plan ceased to exist and all members of this plan have been transferred to the Plan.

**THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2017**  
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**7. POST-RETIREMENT BENEFITS (continued)**

The components of the post-retirement asset/(liability) are as follows:

	2017				2016			
	Registered Pension Plan	Registered Pension Plan	Other Post-Retirement Benefit Plan	Total	Registered Pension Plans	Non-Registered Pension Plans	Other Post-Retirement Benefit Plan	Total
Fair value of plan assets	\$ 168,494	\$ 4,384	\$ -	\$ 172,878	\$ 154,608	\$ 2,546	\$ -	\$ 157,154
Accrued benefit obligation	(146,207)	(34,205)	(6,416)	(186,828)	(126,425)	(31,129)	(5,725)	(163,279)
Funded status - surplus/(deficit)	\$ 22,287	\$ (29,821)	\$ (6,416)	\$ (13,950)	\$ 28,183	\$ (28,583)	\$ (5,725)	\$ (6,125)

Benefit plan expenses, re-measurements and other items recognized in the consolidated statement of operations and consolidated statement of changes in net assets are composed of the following components:

**Benefit plan expenses**

	2017			2016		
	Pension benefit plans	Other post-retirement benefits plan	Total	Pension benefit plans	Other post-retirement benefits plan	Total
Current service cost (employer portion)	\$ 5,573	\$ 249	\$ 5,822	\$ 5,412	\$ 245	\$ 5,657
Finance cost	16	229	245	295	228	523
Net periodic pension cost	\$ 5,589	\$ 478	\$ 6,067	\$ 5,707	\$ 473	\$ 6,180

**Re-measurements and other items**

	2017			2016		
	Pension benefit plans	Other post-retirement benefits plan	Total	Pension benefit plans	Other post-retirement benefits plan	Total
Return on plan assets excluding interest	\$ (5,900)	\$ -	\$ (5,900)	\$ (9,815)	\$ -	\$ (9,815)
Actuarial (gain) loss on obligations	13,416	347	13,763	3,180	(35)	3,145
Re-measurements and other items recognized	\$ 7,516	\$ 347	\$ 7,863	\$ (6,635)	\$ (35)	\$ (6,670)

Plan assets consist of the following asset categories:

	2017	2016
	(asset mix)	
Cash	0.3%	0.4%
Canadian fixed income	41.7%	29.3%
Canadian equities	19.5%	21.2%
Global equities	34.6%	45.1%
Other (Flex)	3.9%	4.0%
	<b>100.0%</b>	<b>100.0%</b>

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 7. POST-RETIREMENT BENEFITS (continued)

The significant actuarial assumptions adopted in measuring the Association's accrued benefit obligations and benefits expense are as follows:

	<u>2017</u>	<u>2016</u>
Pension benefit plans		
Discount rate for accrued benefit obligations	<b>3.50%</b>	4.00%
Discount rate for plan expense	<b>4.00%</b>	4.00% to 4.20%
General inflation	<b>2.00%</b>	2.00%
Rate of compensation increase	<b>2.50%</b>	2.50%
Expected long-term rate of return on plan assets	<b>4.00%</b>	4.00% to 4.20%
Other post-retirement benefit plans		
Discount rate for accrued benefit obligations	<b>3.50%</b>	4.00%
Discount rate for plan expense	<b>4.00%</b>	4.20%
General inflation	<b>2.00%</b>	2.00%
Health care cost indexation	<b>0.73%</b>	0.73%
Retirement age	<b>age 65</b>	age 65
Termination of employment	<b>age-related values</b>	age-related values
Mortality tables	<b>CPM-RPP Public</b>	CPM-RPP Public

Other information about the Association's post-retirement benefit plans for the year is as follows:

	<u>2017</u>	<u>2016</u>
Pension benefit plans		
Plan expense	<b>\$ 5,589</b>	\$ 5,707
Remeasurement and other items related to post retirement benefits	<b>7,516</b>	(6,635)
Employer contributions		
Normal	<b>5,970</b>	5,381
Lump-sum valuation funding	-	1,363
Employee contributions		
Normal	<b>2,278</b>	1,920
Past service	<b>26</b>	36
Transfers from flexible component	<b>687</b>	467
Benefits paid		
Pensioners	<b>4,361</b>	3,881
Lump-sum transfers	<b>1,152</b>	428
Other post-retirement benefit plans		
Plan expense	<b>478</b>	473
Benefits paid	<b>134</b>	136
Flexible component	<b>459</b>	449

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 8. PROVISION FOR OUTSTANDING CLAIMS

The outstanding claims liabilities, calculated by the Association's actuaries in accordance with the standards of practice of the Canadian Institute of Actuaries, as at December 31 are as follows:

	2017	2016
Discounted liabilities for reported claims	\$ 2,010,659	\$ 2,060,415
Discounted liabilities for incurred but not reported claims	1,040,113	876,596
	<u>3,050,772</u>	<u>2,937,011</u>
<b><u>Provision for adverse deviation</u></b>		
Gross before consideration of Insurance	695,526	683,241
Volatility reduction due to insurance contracts	<u>(64,676)</u>	<u>(41,811)</u>
Net provision for adverse deviation	<u>630,850</u>	<u>641,430</u>
<b><u>Total discounted liabilities plus provision for adverse deviation</u></b>		
Gross before consideration of Insurance	3,746,298	3,620,252
Volatility reduction due to insurance contracts	<u>(64,676)</u>	<u>(41,811)</u>
Total discounted liabilities plus provision for adverse deviation	<u>\$ 3,681,622</u>	<u>\$ 3,578,441</u>

The liabilities have been discounted at a rate of 5.5% (2016 – 5.5%). The provision for adverse deviation for 2017 includes a margin of 200 basis points on the discount rate and a margin of 2.5% to 15% for case development for all cost components. The one exception is the compensation to patients component for the Ontario region where the maximum percentage is 20% (to reflect the added volatility) on the claims development variables. For the compensation to patients cost component, the net provision for adverse deviation for case development reflects the impact of the insurance agreements on the compensation to patients estimates. There is no active market for the trading of claims liabilities; however, the present value of the actuarial claims liabilities, including provision for adverse deviation is considered an indicator of fair value.

The discount rate used to estimate the present value of the provision for outstanding claims has a significant effect on the provision at the end of the year. A decrease of one hundred-basis points in the discount rate would have increased the provision by approximately \$219 million and an increase of one hundred-basis points in the discount rate would have decreased the provision by approximately \$197 million.

Inherent in the valuation of the provision for outstanding claims is an estimate of the payments required to settle all claims from medico-legal events that occurred prior to year-end. A 10% increase or decrease in the estimate of total payments required to settle all claims would have increased or decreased the provision by approximately \$380 million respectively with all other variables held constant.

During 2016 and 2017 and with the objective of reducing the volatility inherent in the compensation to patients component of the provision for outstanding claims, the Association initiated an insurance program to address the compensation to patients component for occurrences prior to December 31, 2015, subject to policy limits. During 2016 and 2017, the Association purchased insurance policies to address the compensation to patients component for occurrences in calendar years 2016 and 2017, subject to policy limits.

The premiums paid for these insurance policies totaled \$56.6 million (2016 - \$67.6 million) and were comprised of a deposit premium of \$15.2 million (2016 - \$49.6 million) and funds withheld of \$41.4 million (2016 - \$18.0 million). The premium allocated to the funds withheld account will grow at 5.5% interest each year until such time any recoveries are expected to be received from the insurance policies. As of December 31, 2017, \$59.5 million (2016 - \$18.0 million) is included in the consolidated statement of financial position.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

(All amounts in thousands of Canadian dollars unless otherwise stated)

### 8. PROVISION FOR OUTSTANDING CLAIMS (continued)

The acquisition of these insurance policies subjects the Association to credit risk. Credit risk arises from the potential for an insurer to fail to meet their obligations under the policies. The Association limits credit risk by dealing with insurance companies rated by AM Best as A+ or A which is assigned to insurance companies that have, in AM Best's opinion, an superior to excellent ability to meet their ongoing insurance obligations.

The breakdown of ratings and insurers was as follows:

AM Best Rating	2017		2016	
	Number of Insurers	Insurer's Potential Maximum Liability	Number of Insurers	Insurer's Potential Maximum Liability
A+ Superior	4	\$ 554,000	4	\$ 327,000
A Excellent	3	\$ 19,000	1	\$ 6,000
		\$ 573,000		\$ 333,000

The provision for outstanding claims changed throughout the year as follows:

	2017	2016
Payments on claims relating to occurrences in prior years	\$ (415,866)	\$ (331,505)
Revaluation of the provision for outstanding claims relating to occurrences in prior years	11,010	(173,968)
Change in provision for outstanding claims in respect of occurrences in current year	572,713	541,059
Volatility reduction due to insurance contracts	(64,676)	(41,811)
Increase/(decrease) during the year	103,181	(6,225)
Provision for outstanding claims - beginning of year	3,578,441	3,584,666
Provision for outstanding claims - gross before consideration of insurance	3,746,298	3,620,252
Provision for outstanding claims - net of insurance	\$ 3,681,622	\$ 3,578,441

### 9. RISK RETENTION RESERVE FUND

In 2007, the Council established an internal risk retention program to replace the former excess of loss insurance policies placed with third party insurers in the years prior to 2007. In 2016 with the adoption of the insurance program, Council decided to wind up the risk retention fund. All amounts accrued under the fund were credited back to unrestricted net assets.

# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

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### 10. MEMBERSHIP REVENUES

The Association has adopted fee-setting policies to maintain a fully funded operating position, and to levy sufficient funds from members annually to cover the discounted anticipated liabilities related to occurrences in the same year. Actuarial models and calculations are used to determine the occurrence year costs that represent the anticipated future disbursements. The occurrence year cost requirement is adjusted up or down to amortize the actual emerging cost and investment experience from previous years to set the net fees charged to members. The net fees charged to members are recognized as membership revenues during the year.

The 2017 Membership fees in Quebec were arrived at as per the Memorandum of Understanding between the Association, the Fédération des médecins spécialistes du Québec, the Fédération des médecins omnipraticiens du Québec, and the Government of Quebec. The 2017 membership fees for the other regions were determined by the Association. Future membership fees for the Quebec region will be determined according to the Memorandum of Understanding between the Association, the Fédération des médecins spécialistes du Québec, the Fédération des médecins omnipraticiens du Québec, and the Government of Quebec. Future membership fees for the other regions will be determined by the Association.

The membership revenue split by region is as follows:

	2017	2016
<b>Ontario</b>	\$ 392,765	\$ 281,932
<b>Québec</b>	70,500	79,622
<b>British Columbia and Alberta</b>	173,755	157,460
<b>Saskatchewan, Manitoba, the Atlantic provinces and Territories</b>	52,997	47,258
<b>Total Membership Revenues</b>	\$ 690,017	\$ 566,272

During 2017, the Association's Council approved the application of an estimated net aggregate fee debit of \$31.7 million (Quebec credit of \$35 million, British Columbia and Alberta debit of \$22.7 million, Ontario debit of \$50 million and Saskatchewan, Manitoba, Atlantic provinces and Territories credit of \$6 million) to be added to the 2018 membership fees otherwise collectible in that year (2016 – \$113.5 million fee debit).



# THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

## Notes to the Consolidated Financial Statements

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### 11. PORTFOLIO INVESTMENT INCOME

Portfolio investment income was derived from the following sources:

	2017	2016
Income for investments measured at fair value		
Interest income	\$ 19,375	\$ 16,424
Dividend income	39,887	36,212
Net realized gains	172,977	90,179
Net unrealized gains/(losses)	132,837	(4,010)
Other income	11,938	11,600
Withholding taxes	588	2
	<b>377,602</b>	<b>150,407</b>
Income for investments measured at amortized cost		
Interest income	9,393	24,649
Dividend income	10,812	4,920
Net realized gains	84,831	85,945
Impairment charges	(21,066)	(19,836)
Reversal of impairments	242	1,757
Other income	8,635	2,779
Withholding taxes	(2,020)	(3,993)
	<b>90,827</b>	<b>96,221</b>
Total portfolio investment income	<b>\$ 468,429</b>	<b>\$ 246,628</b>

### 12. INVESTMENT EXPENSES

	2017	2016
Investment managers' fees	\$ 36,151	\$ 34,943
Internal management costs	3,601	3,674
Other investment expenses	13,861	11,015
	<b>\$ 53,613</b>	<b>\$ 49,632</b>

### 13. LIQUIDITY RISK

Liquidity risk is the risk that the Association will be unable to meet a demand for cash or fund its obligations as they come due. The Association is exposed to liquidity risk through its responsibility to pay capital calls (see Note 3) on a timely basis to fund its outstanding investment commitments, as well as meeting the day-to-day disbursements requirements arising from protecting members. Accounts payable and accrued liabilities have contractual maturities within normal trade terms of 30 days and the line of credit is due on demand. The provision for future claims has no contractual maturity and the timing of settlement will depend on actual claims experience in the future.

The Association's primary source of liquidity is the collection of fees charged to active members. The Association forecasts its cash requirements over the near term in order to determine whether sufficient funds will be available from fee income to meet forecast disbursements. In addition, the Association mitigates liquidity risk by holding various income producing assets and limiting exposure to non-liquid asset classes.

The Association manages its current operating cash flow requirements by drawing from current year's membership fees received. Any surplus cash is transferred to portfolio investments. In the event that current cash inflows from membership fees are insufficient to cover current outflows, funds are drawn from the line of credit or drawn from the portfolio investments.

# **THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2017**

(All amounts in thousands of Canadian dollars unless otherwise stated)

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### **14. PROPERTY MANAGEMENT**

Property management for the year comprises expenses of \$4.7 million (2016 - \$5.1 million) net of \$3.5 million (2016 - \$3.5 million) revenue received from unrelated third parties.

### **15. CONTINGENCIES**

The Association itself may be subject, from time to time, to disputes and lawsuits in the ordinary course of business. Management estimates that the ultimate liability, if any, arising from these matters will have no material impact on the consolidated financial statements.