

The Canadian Medical Protective Association

Consolidated Financial Statements

December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Medical Protective Association

Opinion

We have audited the consolidated financial statements of the Canadian Medical Protective Association, which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows and cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Canadian Medical Protective Association, as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Canadian Medical Protective 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 Canadian accounting standards for not-for-profit organizations, 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 Canadian Medical Protective Association 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 Canadian Medical Protective Association, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Canadian Medical Protective Association.

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 internal controls of the Canadian Medical Protective Association.
- 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 ability of the Canadian Medical Protective Association 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 Canadian Medical Protective 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Canadian Medical Protective Association to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

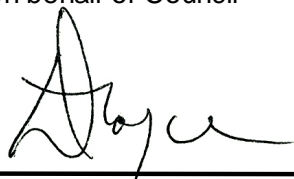
Ottawa, Canada

May 22, 2020

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Consolidated Statement of Financial Position
December 31, 2019 with comparative figures for 2018
(Thousands of Canadian dollars)

	2019	2018
ASSETS		
Cash	\$ 3,806	\$ 4,906
Accounts receivable and prepaid expenses	675	2,587
Portfolio investments (Note 3)	5,345,947	4,681,296
Investment in Salus Global (Note 4)	2,612	2,500
Receivable from investment sales (Note 3)	1,566	219
Post-retirement benefit asset (Note 8)	21,295	23,145
Capital assets (Note 5)	47,697	47,803
	\$ 5,423,598	\$ 4,762,456
LIABILITIES		
Line of credit (Note 6)	\$ 13,450	\$ 9,400
Term loan (Note 6)	49,000	51,400
Accounts payable and accrued liabilities (Note 7)	91,441	77,727
Unearned revenue - prepaid membership fees	6,432	8,671
Payable for investment purchases (Note 3)	87,062	87,105
Funds withheld for insurance (Note 9)	95,289	77,833
Post-retirement benefit liability (Note 8)	41,423	36,449
Provision for outstanding claims (Note 9)	3,859,855	3,769,287
	4,243,952	4,117,872
NET ASSETS		
Invested in capital assets	47,697	47,803
Unrestricted net assets	1,131,949	596,781
	1,179,646	644,584
	\$ 5,423,598	\$ 4,762,456

On behalf of Council



Debra E. Boyce, BSc, MD, CCFP, FCFP
President, CMPA



Michael T. Cohen, MD
1st Vice-President, CMPA Council

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Consolidated Statement of Operations
For the year ended December 31, 2019 with comparative figures for 2018
(Thousands of Canadian dollars)

	2019	2018
REVENUES		
Membership revenues (Note 10)	\$ 595,597	\$ 637,250
Net investment income		
Portfolio investment income (Note 11)	650,605	59,356
Short-term interest income	859	408
Investment expenses (Note 12)	(71,099)	(56,314)
Net investment income	580,365	3,450
Equity share of Salus Global net income (Note 4)	112	-
	1,176,074	640,700
EXPENSES		
Expenses in support of members		
Compensation to patients	223,390	260,103
Legal costs to defend members in civil legal actions	106,699	93,685
Legal costs to support members in other matters	84,548	84,333
Insurance (Note 9)	23,749	25,149
Expert consultant costs in support of members	17,422	14,611
Net change in provision for outstanding claims (Note 9)	90,568	87,665
	546,376	565,546
Member services and operations		
Assisting physicians	41,464	35,414
Safe medical care	22,207	18,313
Governance and operations support	11,905	8,066
Post-retirement benefits (Note 8)	7,666	7,383
Property management (Note 14)	666	1,346
Interest expense net of (loss)/gain on fair value of interest rate swap (Note 6)	1,787	1,425
Amortization of capital assets	2,447	2,842
	88,142	74,789
	634,518	640,335
EXCESS OF REVENUES OVER EXPENSES	\$ 541,556	\$ 365

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Consolidated Statement of Changes in Net Assets
For the year ended December 31, 2019 with comparative figures for 2018
(Thousands of Canadian dollars)

	Invested in Capital Assets (Note 5)	Unrestricted	2019
Balance, beginning of year	\$ 47,803	\$ 596,781	\$ 644,584
Excess of revenues over expenses	-	541,556	541,556
Re-measurements and other items related to post-retirement benefits (Note 8)	-	(6,494)	(6,494)
Amortization of capital assets	(2,447)	2,447	-
Acquisition of capital assets	2,341	(2,341)	-
Balance, end of year	\$ 47,697	\$ 1,131,949	\$ 1,179,646

	Invested in Capital Assets (Note 5)	Unrestricted	2018
Balance, beginning of year	\$ 49,157	\$ 591,351	\$ 640,508
Excess of revenues over expenses	-	365	365
Re-measurements and other items related to post-retirement benefits (Note 8)	-	3,711	3,711
Amortization of capital assets	(2,842)	2,842	-
Acquisition of capital assets	1,488	(1,488)	-
Balance, end of year	\$ 47,803	\$ 596,781	\$ 644,584

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Consolidated Statement of Cash Flows
For the year ended December 31, 2019 with comparative figures for 2018
(Thousands of Canadian dollars)

	2019	2018
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 541,556	\$ 365
Adjustments for non-cash items:		
Change in unrealized investment gains	(205,683)	151,418
Impairment charges on investments	33,100	28,749
Reversal of impairments	(654)	(3,917)
Net increase in investment to Salus Global	(112)	-
Amortization of capital assets	2,447	2,842
Increase in funds withheld for insurance	17,456	18,358
Post-retirement expense	7,666	7,383
Decrease in accounts receivable and prepaid expenses	1,912	70
Increase/(decrease) in accounts payable and accrued liabilities	13,714	(5,739)
(Decrease)/increase in prepaid membership fees	(2,239)	67
Funding of post-retirement benefit plans	(7,336)	(4,319)
Increase in provision for outstanding claims	90,568	87,665
	492,395	282,942
CASH FLOWS USED IN FINANCING ACTIVITIES		
Increase in line of credit	\$ 4,050	\$ 9,400
Repayment of term loan	(2,400)	(2,400)
	1,650	7,000
INVESTING ACTIVITIES		
Net increase to investments	\$ (491,414)	\$ (380,333)
Capital asset acquisitions	(2,341)	(1,488)
(Increase)/decrease in receivable from investment sales	(1,347)	2,052
(Decrease)/increase in payable for investment purchases	(43)	84,870
	(495,145)	(294,899)
Net change in cash	(1,100)	(4,957)
Cash, beginning of year	4,906	9,863
Cash, end of year	\$ 3,806	\$ 4,906

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

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 at least 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 investments in jointly controlled enterprises which are measured using the equity method and 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, private debt and private 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, 2019

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

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, 2019

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

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 determination of impairment of investments of private equities, debt and real assets investments, provision for outstanding claims and post-retirement benefits. Actual results may differ from the estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

(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, 2019

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

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 8. 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	5 to 50 years
Building improvements	2 to 12 years
Furniture and equipment	10 years
Computer equipment and software	3 to 8 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, 2019

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

3. PORTFOLIO INVESTMENTS

Portfolio investments are summarized as follows:

	2019		2018	
	Carrying Value		Carrying Value	
<i>Measured at fair value</i>				
Cash and short-term investments	\$ 855,203	16.1%	\$ 372,758	8.0%
Forward currency contracts	30,645	0.6%	(49,764)	(1.1%)
Future and option contracts	-	0.0%	(2,460)	(0.1%)
Swap Derivatives	11,429	0.2%	1,041	0.0%
Investment revenue receivable	7,518	0.1%	5,951	0.1%
Fixed income	1,214,551	22.7%	900,993	19.3%
Equities	1,194,651	22.3%	1,599,900	34.2%
Hedge funds	1,014,328	19.0%	1,000,024	21.4%
	4,328,325	81.0%	3,828,443	81.8%
<i>Measured at amortized cost</i>				
Private equities	287,206	5.4%	324,413	6.9%
Private debt	220,212	4.2%	170,888	3.7%
Private real assets	510,204	9.4%	357,552	7.6%
	1,017,622	19.0%	852,853	18.2%
	\$ 5,345,947	100.0%	\$ 4,681,296	100.0%

The net investment portfolio is as follows:

	2019	2018
	Carrying value	Carrying value
Investment assets	\$ 5,345,947	\$ 4,681,296
Receivable from investment sales	1,566	219
Payable for investment purchases	(87,062)	(87,105)
Net investment portfolio	\$ 5,260,451	\$ 4,594,410

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:

	2019	2018
	Fair value	Fair value
Private equities	\$ 402,830	\$ 385,380
Private debt	247,143	204,361
Private real assets	618,099	545,652
Net investment portfolio	\$ 1,268,072	\$ 1,135,393

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

3. PORTFOLIO INVESTMENTS (continued)

The total impairments recognized in 2019 in relation to the private equities, debt and real asset investments was \$33.1 million (2018 - \$28.7 million). The Association reversed impairments of \$0.7 million in 2019 (2018 - \$3.9 million). Investments with an impairment reserve of \$1.4 million (2018 - \$4.8 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:

	2019			2018		
	Original Cost	Accumulated Impairments	Carrying Value	Original Cost	Accumulated Impairments	Carrying Value
Private equities	\$ 74,742	\$ 34,626	\$ 40,116	\$ 68,587	\$ 22,003	\$ 46,584
Private debt	89,596	28,817	60,779	48,222	19,497	28,725
Private real assets	65,892	38,041	27,851	54,625	28,944	25,681
	\$ 230,230	\$ 101,484	\$ 128,746	\$ 171,434	\$ 70,444	\$ 100,990

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 fixed income investments include variable and fixed interest rate bearing financial instruments. As at December 31, these amounts are as follows:

	2019	2018
Fixed rate	\$1,213,989	\$ 899,543
Variable rate	562	1,450
	\$1,214,551	\$ 900,993

THE CANADIAN MEDICAL PROTECTIVE ASSOCIATION

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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

3. PORTFOLIO INVESTMENTS (continued)

The terms to maturity and yield to maturity on fixed income investments is as follows:

	Terms to maturity				Total
	(thousands of dollars)				
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	
Fixed income investments	\$1,008,103	109,457	30,960	66,031	\$1,214,551

Yield to Maturity		
Federal	\$ 69,527	1.86%
Provincial	89,285	2.39%
Corporate	71,696	3.68%
Pooled Funds	984,043	3.99%
Total	\$ 1,214,551	3.72%

- (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.

	2019			
	Currency Exposure	Net Currency Hedge	Net Currency Exposure	% of Total
United States	\$ 3,532,405	\$ (1,800,811)	\$ 1,731,594	74%
Euro	346,975	(177,688)	169,287	7%
British Pound	43,670	(36,769)	6,901	0%
Other International	447,122	-	447,122	19%
Total	\$ 4,370,172	\$ (2,015,268)	\$ 2,354,904	100%

	2018			
	Currency Exposure	Net Currency Hedge	Net Currency Exposure	% of Total
United States	\$ 2,878,400	\$ (1,109,180)	\$ 1,769,220	71%
Euro	329,587	(175,444)	154,143	6%
British Pound	59,668	(40,428)	19,240	1%
Other International	554,146	(891)	553,255	22%
Total	\$ 3,821,801	\$ (1,325,943)	\$ 2,495,858	100%

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For the year ended December 31, 2019

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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:

2019	Notional Amount of Currency Bought or Sold	Contract Exchange Rates	Fair Value of Contracts C\$
GBP	£21,093	1.745503 - 1.74574	\$ 432
Euro	€120,653	1.466865 - 1.476472	1,411
USD	\$1,366,829	1.311751 - 1.32006	28,802
			\$ 30,645

2018	Notional Amount of Currency Bought or Sold	Contract Exchange Rates	Fair Value of Contracts C\$
GBP	£23,907	1.6889091	\$ (1,235)
Euro	€115,062	1.5248277 - 1.56978	(5,015)
USD	\$868,979	1.332052 - 1.361175	(43,510)
Other			(4)
			\$ (49,764)

- (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.

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Notes to the Consolidated Financial Statements

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3. PORTFOLIO INVESTMENTS (continued)

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

Bonds	2019	%	2018	%
AAA	\$ 195,558	16.1	\$ 131,545	14.6
AA	242,551	19.9	152,268	16.9
A	178,358	14.7	109,020	12.1
BBB	216,534	17.8	162,179	18.0
BB	145,451	12.0	121,634	13.5
B	182,300	15.0	188,307	20.9
CCC	17,051	1.4	5,406	0.6
CC	5,139	0.4	-	0.0
C	424	0.1	1,802	0.2
D	645	0.1	-	0.0
Not rated	30,540	2.5	28,832	3.2
	\$ 1,214,551	100.0	\$ 900,993	100.0

(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 2019, the aggregate market value of the securities on loan was \$124.1 million (2018 - \$144.7 million) and the value of the cash collateral, all held in the lending agent's collateral investment account was \$131.9 million (2018 - \$154.8 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:

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

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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.

	2019	2018
Cash and short-term	16.1%	8.0%
Forward contracts	0.6%	(1.1%)
Futures and option contracts	0.0%	(0.1%)
SWAP Derivatives	0.2%	0.0%
Investment revenue receivable	0.1%	0.1%
Corporate	10.9%	8.8%
Government	1.3%	2.1%
Provincial	1.7%	1.8%
Canadian fixed income	13.9%	12.7%
Corporate	1.4%	1.7%
Government	1.7%	2.6%
Provincial	1.8%	0.9%
Other	3.9%	1.4%
Global fixed income	8.8%	6.6%
Consumer discretionary	3.1%	3.9%
Consumer staples	1.3%	2.2%
Energy	1.2%	2.1%
Financials	4.1%	7.1%
Health care	2.3%	3.0%
Industrials	2.1%	2.9%
Information technology	2.9%	2.3%
Materials	1.1%	1.9%
Real Estate	0.5%	0.0%
Telecommunication services	1.2%	1.7%
Utilities	0.8%	2.0%
Other	1.7%	5.1%
Equities	22.3%	34.2%
Consumer discretionary	1.4%	1.0%
Consumer staples	0.7%	0.7%
Energy	2.5%	2.8%
Financials	2.1%	5.5%
Health care	0.8%	0.5%
Industrials	2.9%	3.2%
Information technology	1.0%	0.6%
Materials	0.3%	0.2%
Real Estate	4.1%	0.0%
Telecommunication services	0.7%	0.7%
Utilities	1.8%	1.9%
Other	0.7%	1.1%
Private placements	19.0%	18.2%
Hedge funds	19.0%	21.4%
Total fund	100.0%	100.0%

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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, 2019, the Association had remaining commitments of \$1,296.8 million (2018 - \$789.5 million).

4. INVESTMENT IN SALUS GLOBAL

During 2018, the Association acquired a 33.3% equity interest in Salus Global, a jointly controlled enterprise, for \$2.5 million. The investment in Salus is accounted for by utilizing the equity method with the Associations pro rata share of Salus Global as follows:

Balance Sheet as at December 31

	<u>2019</u>
Total assets	<u>\$ 2,680</u>
Total liabilities	1,401
Shareholders' Equity	<u>1,279</u>
	<u>2,680</u>

Statements of Income and Deficit Year ended December 31

	<u>2019</u>
Total revenues	<u>\$ 1,876</u>
Total expenses	<u>(1,764)</u>
Net income	<u>112</u>

Statement of Cash Flow s Year ended December 31

	<u>2019</u>
Cash provided by (used in)	
Operating activities	<u>\$ 362</u>
Financing activities	-
Investing activities	<u>(57)</u>
Increase in cash	<u>305</u>

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5. CAPITAL ASSETS

	2019			2018		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 7,611	\$ -	\$ 7,611	\$ 7,611	\$ -	\$ 7,611
Building	62,083	26,632	35,451	61,885	25,186	36,699
Furniture and equipment	1,198	1,083	115	1,323	1,171	152
Software	510	300	210	492	347	145
Computer equipment	1,321	763	558	1,955	1,516	439
Building improvements	8,518	5,220	3,298	7,765	5,279	2,486
Deferred leasing costs	2,733	2,279	454	2,517	2,246	271
	\$ 83,974	\$ 36,277	\$ 47,697	\$ 83,548	\$ 35,745	\$ 47,803

During the year, fully depreciated assets with a cost and accumulated amortization of \$1.3 million (2018 - \$1.2 million) were written off.

6. FINANCING

(a) Line of Credit - CMPA

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, 2019 there was \$13.4 million funds drawn on the line of credit (2018 - \$9.4 million). Interest expense recorded for the line of credit is \$219.8 thousand (2018 - \$175.5 thousand).

(b) Term Loan

In 2015, the Association's DLC 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. Interest expenses recorded for the term loan and the interest rate swap are \$1.2 million (2018 - \$1.2 million).

Management does not believe that the demand features of the term loan will be exercised in the current period. At year end, the principal balance owing was \$49 million (2018 - \$51.4 million) and prepaid interest was \$45.1 thousand (2018 - \$55.2 thousand).

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6. FINANCING (continued)

(c) Interest rate swap

In 2015, the Association's DLC 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. A new interest rate swap agreement for \$49 million was entered into in the fall of 2019 to replace the existing agreement. The fixed rate of the new interest rate swap is 2.65% with maturity date of November 15, 2024.

At year end, the interest rate swap had a notional value of \$49 million (2018 – \$51.4 million) and fair value of (\$0.06) million (2018 – \$0.3 million). This resulted in an unrealized interest rate swap loss of \$0.4 million (2018 – loss of \$0.005 million).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2019		2018	
Accounts payable	\$	473	\$	16,243
Accruals		90,512		61,084
Government remittances		456		400
	\$	91,441	\$	77,727

8. 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, 2018. The most recent actuarial valuation for accounting purposes was performed as at December 31, 2019.

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

	2019				2018			
	Registered Pension Plan	Non-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	\$ 191,201	\$ 6,651	\$ -	\$ 197,852	\$ 162,825	\$ 5,070	\$ -	\$ 167,895
Accrued benefit obligation	(169,906)	(39,697)	(8,377)	(217,980)	(139,680)	(34,589)	(6,930)	(181,199)
Funded status - surplus/(deficit)	\$ 21,295	\$ (33,046)	\$ (8,377)	\$ (20,128)	\$ 23,145	\$ (29,519)	\$ (6,930)	\$ (13,304)

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8. POST-RETIREMENT BENEFITS (continued)

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

	2019			2018		
	Pension benefit plans	Other post-retirement benefits plan	Total	Pension benefit plans	Other post-retirement benefits plan	Total
Current service cost (employer portion)	\$ 6,850	\$ 291	\$ 7,141	\$ 6,608	\$ 305	\$ 6,913
Finance cost	255	270	525	245	225	470
Net periodic pension cost	\$ 7,105	\$ 561	\$ 7,666	\$ 6,853	\$ 530	\$ 7,383

Re-measurements and other items

	2019			2018		
	Pension benefit plans	Other post-retirement benefits plan	Total	Pension benefit plans	Other post-retirement benefits plan	Total
Return on plan assets excluding interest	\$ (18,436)	\$ -	\$ (18,436)	\$ 11,053	\$ -	\$ 11,053
Actuarial (gain) loss on obligations	23,869	1,061	24,930	(14,911)	147	(14,764)
Re-measurements and other items recognized	\$ 5,433	\$ 1,061	\$ 6,494	\$ (3,858)	\$ 147	\$ (3,711)

Plan assets consist of the following asset categories:

	2019	2018
	(asset mix)	
Cash	0.6%	0.3%
Canadian fixed income (bonds)	60.0%	64.3%
Canadian equities	20.2%	18.0%
Global equities	15.3%	13.4%
Other	3.9%	4.0%
	100.0%	100.0%

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8. POST-RETIREMENT BENEFITS (continued)

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

	<u>2019</u>	<u>2018</u>
Pension benefit plans		
Discount rate for accrued benefit obligations	3.20%	4.00%
Discount rate for plan expense	4.00%	3.50%
General inflation	2.00%	2.00%
Rate of compensation increase	2.50%	2.50%
Other post-retirement benefit plans		
Discount rate for accrued benefit obligations	3.10%	3.90%
Discount rate for plan expense	3.90%	3.50%
General inflation	2.00%	2.00%
Health care cost indexation	0.73%	0.73%
Retirement age	age 65	age 65
Termination of employment	age-related values	age-related values
Mortality tables	CPM 2014 Public	CPM 2014 Public

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

	<u>2019</u>	<u>2018</u>
Pension benefit plans		
Plan expense	\$ 7,105	\$ 6,850
Remeasurement and other items related to post retirement benefits	5,434	(3,858)
Employer contributions		
Normal	7,164	4,153
Employee contributions		
Normal	2,901	2,340
Past service	25	16
Transfers from flexible component	268	332
Benefits paid		
Pensioners	4,985	4,726
Lump-sum transfers	1,202	1,834
Other post-retirement benefit plans		
Plan expense	562	522
Benefits paid	176	155
Flexible component	397	463

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9. 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:

	2019	2018
Discounted liabilities for reported claims	\$ 2,093,628	\$ 2,046,324
Discounted liabilities for incurred but not reported claims	1,083,217	1,084,715
	3,176,845	3,131,039
<u>Provision for adverse deviation</u>		
Gross before consideration of Insurance	702,505	713,467
Volatility reduction due to insurance contracts	(19,495)	(75,219)
Net provision for adverse deviation	683,010	638,248
<u>Total discounted liabilities plus provision for adverse deviation</u>		
Gross before consideration of Insurance	3,879,350	3,844,506
Volatility reduction due to insurance contracts	(19,495)	(75,219)
Total discounted liabilities plus provision for adverse deviation	\$ 3,859,855	\$ 3,769,287

The liabilities have been discounted at a rate of 5.5% (2018 – 5.5%). The provision for adverse deviation for 2019 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 \$221 million and an increase of one hundred-basis points in the discount rate would have decreased the provision by approximately \$200 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 prior to accrual required to settle all claims would have increased or decreased the provision by approximately \$395 million respectively with all other variables held constant.

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9. PROVISION FOR OUTSTANDING CLAIMS (continued)

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

	2019	2018
Payments on claims relating to occurrences in prior years	\$ (399,651)	\$ (446,485)
Revaluation of the provision for outstanding claims relating to occurrences in prior years	(81,628)	72,600
Change in provision for outstanding claims in respect of occurrences in current year	591,342	536,769
Volatility reduction due to insurance contracts	(19,495)	(75,219)
Increase during the year	90,568	87,665
Provision for outstanding claims - beginning of year	3,769,287	3,681,622
Provision for outstanding claims - gross before consideration of insurance	3,879,350	3,844,506
Provision for outstanding claims - net of insurance	\$ 3,859,855	\$ 3,769,287

Insurance Program

In 2016, 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. Every year since 2016, the Association purchased insurance policies to address the compensation to patients component for occurrences in calendar years 2016 to 2019, subject to policy limits.

The premiums paid for these insurance policies totaled \$23.7 million (2018 - \$25.1 million) and were comprised of a deposit premium of \$6.2 million (2018 - \$6.8 million) and funds withheld of \$17.5 million (2018 - \$18.3 million). The premium allocated to the funds withheld account will grow at 5.5% interest each year until paid out according to the terms of the policies.

The balance in the funds withheld account upon commutation of the insurance policies for occurrence years 2016 to 2019 will be shared equally with the insurers. As of December 31, 2019, \$95.3 million (2018 - \$ 77.8 million) is recorded as funds withheld in the consolidated statement of financial position. Based on the terms in the insurance policies for occurrence years 2016 to 2019, the Association could receive up to a \$28.6 million reduction to the funds withheld upon commutation of the insurance policies.

The purchase 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, a superior to excellent ability to meet their ongoing insurance obligations.

The breakdown of ratings and insurers was as follows:

AM Best Rating	2019		2018	
	Number of Insurers	Insurer's Potential Maximum Liability	Number of Insurers	Insurer's Potential Maximum Liability
A+ Superior	5	\$ 459,500	4	\$ 418,000
A Excellent	5	\$ 303,500	4	\$ 255,000
		\$ 763,000		\$ 673,000

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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 2019 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 2019 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:

	2019	2018
Ontario	\$ 339,034	\$ 354,079
Québec	48,122	55,785
British Columbia and Alberta	151,304	168,815
Saskatchewan, Manitoba, the Atlantic provinces and Territories	57,137	58,571
Total Membership Revenues	\$ 595,597	\$ 637,250

During 2019, the Association's Council approved the application of an estimated net aggregate fee credit of \$40.4 million (Quebec credit of \$60 million, British Columbia and Alberta debit of \$1 million, Ontario debit of \$23.5 million and Saskatchewan, Manitoba, Atlantic provinces and Territories credit of \$4.9 million) to be added to the 2020 membership fees otherwise collectible in that year (2018 – \$27.3 million net fee credit).

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11. PORTFOLIO INVESTMENT INCOME

Portfolio investment income was derived from the following sources:

	2019	2018
Income for investments measured at fair value		
Interest income	\$ 40,266	\$ 24,964
Dividend income	24,438	49,910
Net realized gains	233,829	15,079
Change in net unrealized gains	205,683	(151,418)
Other income	14,743	13,234
Withholding taxes	42	124
	519,001	(48,107)
Income for investments measured at amortized cost		
Interest income	44,550	25,163
Dividend income	7,985	14,900
Net realized gains	108,371	83,193
Impairment charges	(33,100)	(28,749)
Reversal of impairments	654	3,917
Other income	5,322	10,268
Withholding taxes	(2,178)	(1,229)
	131,604	107,463
Total portfolio investment income	\$ 650,605	\$ 59,356

12. INVESTMENT EXPENSES

	2019	2018
Investment managers' fees	\$ 44,107	\$ 38,115
Internal management costs	4,779	3,911
Other investment expenses	22,213	14,288
	\$ 71,099	\$ 56,314

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 managing 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.

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14. PROPERTY MANAGEMENT

Property management for the year comprises expenses of \$4.0 million (2018 - \$4.4 million) net of \$3.3 million (2018 - \$3.1 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.

16. SUBSEQUENT EVENT

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and certain provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The Association continues to monitor the investment portfolio and its net assets, and assess the impact the COVID-19 pandemic will have on its business activities, net investment income and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Association is not known at this time.