FARCIQ

ANNUAL REPORT 2015

FARCIQ
Fonds d'assurance responsabilité professionnelle
du courtage immobilier du Québec

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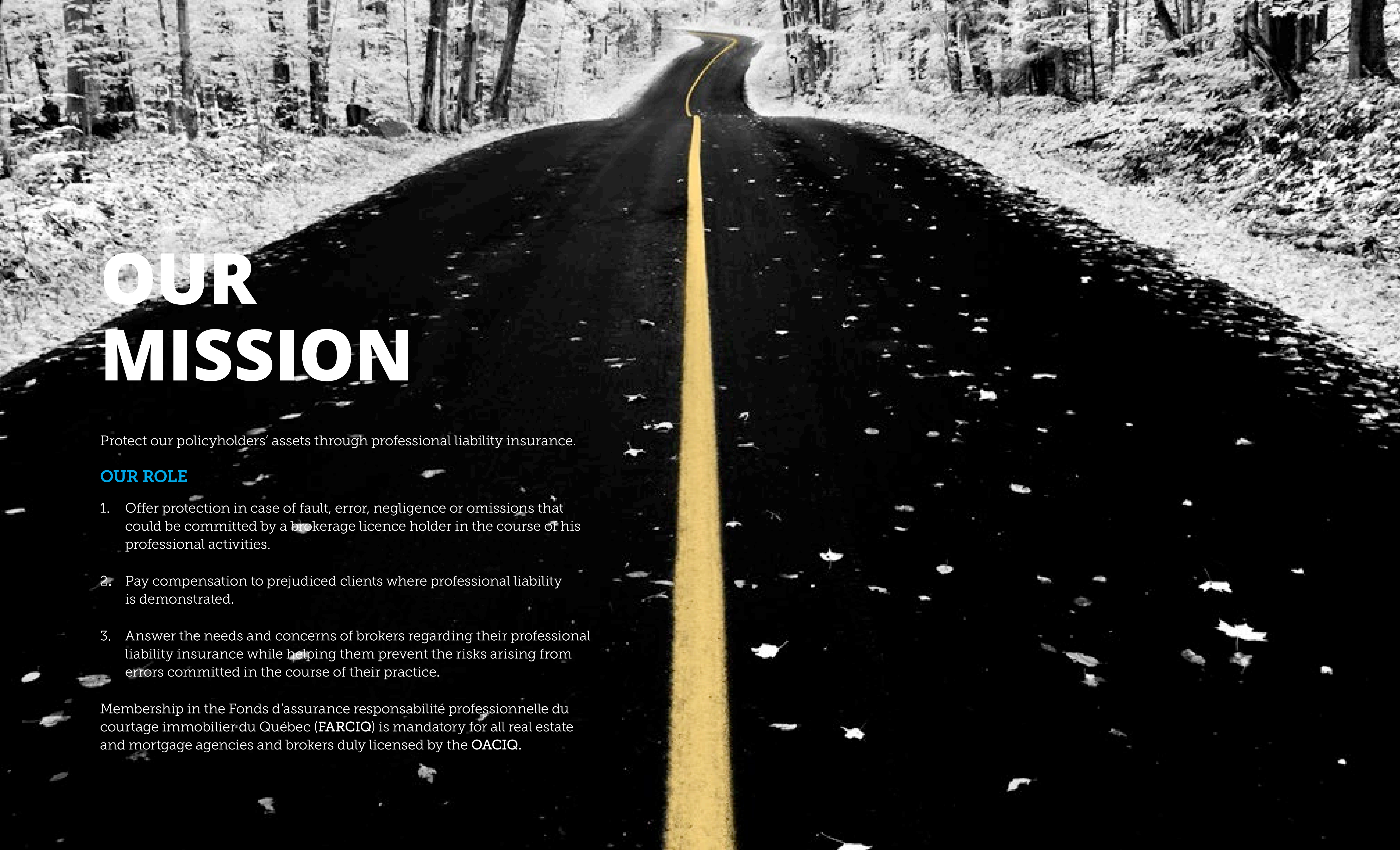

OUR MISSION

Protect our policyholders' assets through professional liability insurance.

OUR ROLE

1. Offer protection in case of fault, error, negligence or omissions that could be committed by a brokerage licence holder in the course of his professional activities.

2. Pay compensation to prejudiced clients where professional liability is demonstrated.

3. Answer the needs and concerns of brokers regarding their professional liability insurance while helping them prevent the risks arising from errors committed in the course of their practice.

Membership in the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (**FARCIQ**) is mandatory for all real estate and mortgage agencies and brokers duly licensed by the **OACIQ.**

From left to right:

Louis-Georges Pelletier
Martin Dupras
Albert Arduini
Christine Lemieux
Marc Simard
Michel Léonard
Christiane St-Jean
Xavier Lecat
Bernard Deschamps
Alain Chouinard

FARCIQ DIRECTORS

as at December 31, 2015

Chairman of the Board of Directors

Me Michel Léonard
Lawyer and Chartered Real Estate Broker
President of BTB Real Estate Investment Trust

Chair of the Governance Committee, Member of the Audit Committee, the Professional Ethics Committee, the Prevention and Claims Committee and the Investments Committee.

Vice-Chair of the Board of Directors and Treasurer

Mr. Martin Dupras, A.S.A., F. Pl., M. Tax.
President of ConFor financiers inc.

Chair of the Audit Committee, Member of the Governance Committee and the Investments Committee

Directors

Mr. Albert Arduini, T.P., CIP
Manager, Building Inspection and Expertise
SCM Risk Management Services Inc.

Chair of the Investments Committee, Member of the Governance Committee and the Prevention and Claims Committee

Mr. Bernard Deschamps, MPA, CPA, CMA
Chief Executive Officer, Groupe Ultima
Member of the Audit Committee

Mr. Xavier Lecat
Real Estate Broker, L'Expert Immobilier PM Inc.
Member of the Audit Committee and the Investments Committee

Mrs. Christine Lemieux, B.B.A., AMP
Chartered Real Estate Mortgage Broker and Agency Executive Officer
President of Dominion-Phénix Lending Centres

Member of the Prevention and Claims Committee

Mr. Louis-Georges Pelletier, BA, CIP
Corporate Director

Chair of the Prevention and Claims Committee, Member of the Governance Committee and the Investments Committee

Me Marc Simard
Partner, Bélanger Sauvé

Chair of the Professional Ethics Committee, Member of the Governance Committee

Mrs. Christiane St-Jean
Chartered Real Estate Broker and Agency Executive Officer
President of RE/MAX ACCÈS inc.

Member of the Professional Ethics Committee


GUIDING

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

We are proud to present the results of the FARCIQ for the year ended December 31, 2015. These results show the good financial health of the FARCIQ and the efficient balance achieved between the premiums paid by policyholders, the insurance coverage, and the cost of claims.

Lower premiums, higher coverage

Thanks to sound claims management and to our internal efforts, the insurance premium paid by real estate brokers and real estate and mortgage agencies was lowered from $395 to $345 on May 1, 2015.

Another new development in 2015: based on our claims experience, and in response to the wish expressed by some policyholders at the OACIQ Annual General Meeting in May 2014, the premium for brokers restricted to mortgage brokerage was reduced from $395 to $245 as of May 1, 2015.

In addition, in response to popular demand, the Board of Directors revised the liability insurance policy coverage. This led to improved coverage for claims concerning moulds, pollutants and antipollution measures. Since May 1, 2015, policyholders may benefit from a coverage sub-limit of $25,000 per claim of this type, up to a maximum of $100,000 per policy period.

> "THE **FARCIQ** AWARDED MORE THAN $1 MILLION IN INDEMNITIES IN 2015."

A balanced, mature fund

During 2015, the number of policyholders insured under the Fund decreased from 16,802 to 16,438 as at December 31, 2015. This, combined with the premium reduction, resulted in a slight decrease in revenues. During the same period, the number of claims received by the Fund increased from 583 in 2014 to 659 in 2015. An increase in claim amounts was also recorded. It is important to note that the **FARCIQ** awarded more than $1 million in indemnities in 2015.

Despite these factors, the year 2015 ended with operating earnings of $1,651,049 mainly due to the Fund's investment activities. The accumulated surplus in the Fund remains comfortable at $39,031,489, one of the highest reserve funds in Québec. This is reassuring for our policyholders and for the public, since it means that the **FARCIQ** has the resources to settle any legitimate claim.

Another sign of the **FARCIQ**'s excellent financial health: the Fund's solvency level continues above the target of 375% and meets the criteria established by the Autorité des marchés financiers and by our actuary.

> "THE FUND'S BOARD OF DIRECTORS FEELS THAT IT HAS ACHIEVED THE RIGHT BALANCE BETWEEN EXPENSES AND PREMIUMS CHARGED TO BROKERS. THIS BODES VERY WELL FOR THE FUTURE!"

Our goal is to offer the broadest possible coverage to our policyholders at a fair premium, while adequately compensating the public. After nine years of operation – the Fund began its activities in July 2006 – and four annual decreases in premiums and a progressive increase in claim values, the Fund's Board of Directors feels that it has achieved the right balance between expenses and premiums charged to brokers. This bodes very well for the future!

2016: Stability and transparency

In 2016 the **FARCIQ** will remain vigilant in order to maintain a balanced budget, which demonstrates the Fund's maturity. This said, in order to achieve this goal while maintaining a stable insurance premium, the **FARCIQ** does not rule out the possibility of subsidizing the premium via the accumulated surplus from previous years.

Given the above, we can already announce two items of good news: the first is that the premium payable for all licence categories as of May 1, 2016 will remain at its current level; the second is that agencies will be protected when a broker sells his own property.

In addition, in the coming year the FARCIQ will work to make its operations more transparent, according to terms that will be defined.

"OUR GOAL IS TO OFFER THE BROADEST POSSIBLE COVERAGE TO OUR POLICYHOLDERS AT A FAIR PREMIUM, WHILE ADEQUATELY COMPENSATING THE PUBLIC."

And finally, in 2016 the FARCIQ will celebrate its 10th anniversary. To mark this milestone, we will increase our presence in the field by taking part in numerous events. We will also take this opportunity to unveil a new and dynamic brand image.

In closing, I would like to thank the members of the Fund's Board of Directors and the Interim General Manager and his team for their outstanding work this year.

Me Michel Léonard
Chairman of the Board of Directors

MANAGEMENT REPORT – MESSAGE FROM THE INTERIM GENERAL MANAGER

In 2015 the FARCIQ's general management continued to work on several objectives in connection with the priorities set by the Board of Directors.

Claims

In 2015, as indicated by the Chairman of the Board, the FARCIQ opened more files, bringing the number of open and pending files to 659 (compared to 583 in 2014). The Fund has processed 5,136 files since its inception.

One of the most significant impacts on claims management has been the raising of the small claims limit from $7,000 to $15,000 on January 1, 2015. New rules of procedure coming into force in 2016 are also likely to have new impacts, and will be something to watch for. Considering these new challenges and because the Fund wishes to maintain outstanding customer service, a new resource has been added to its Claims team.

Insurance policy review

In 2015, in an ongoing effort to offer coverage that is adapted to the realities of the profession, the policy underwent several changes. These included a clarification regarding certain terms of application of the existing policy, as well as improved coverage, long-awaited by policyholders, concerning moulds and pollutants.

Since 2008, the insurance coverage had excluded this type of claim, but it did offer, according to certain terms, coverage limited to legal and expert fees up to a maximum of $25,000. Since May 1, 2015, claims arising from pollution or mould risks are now covered without being limited to legal and expert fees, with a sub-limit of $25,000 per loss. This is an important gain in the coverage offered.

Me ALAIN CHOUINARD
Interim General Manager

In addition, at the **OACIQ** Annual General Meeting in 2014, policyholders had asked that the insurance premium be modulated based on different criteria. Although not all criteria proved valid, it was found that the frequency and severity of claims for mortgage brokers were lower, which enabled us to reduce premiums for this group. Overall the premiums were revised downward, going from $394 to $345 for real estate and mortgage agencies and real estate brokers, and from $395 to $245 for mortgage brokers.

Another long-awaited change: the 2015-2016 policy specifies the context in which coverage applies for out-of-province transactions: thus a claim emanating from a real estate brokerage transaction relating to a property or a right located outside Québec is not covered unless it meets certain conditions.

All changes that came into effect on May 1, 2015 can be found in the Notice of Change 2015-2016 sent to all brokers in 2015.

"TO MARK ITS 10TH ANNIVERSARY, THE FARCIQ WILL STEP UP ITS COMMUNICATION EFFORTS IN VARIOUS WAYS, INCLUDING BY INCREASING ITS PRESENCE IN THE FIELD."

Organizational policies

In 2014 the **FARCIQ** had reviewed all Fund policies in order to maintain or improve compliance thereof. This necessary exercise affected about 20 policies, approved by each of the **FARCIQ**'s five committees, i.e. governance, audit, ethics, investments, prevention and claims. The Administrator's Manual was also completely revamped. In 2015, the **FARCIQ** continued its compliance work to ensure that its policies follow the guidelines of the Autorité des marchés financiers (AMF).

The **FARCIQ** also included in its claims processing manual the sound business practices principles contained in the AMF's guideline on this topic, including standards of behaviour, fair treatment for consumers, and guiding principles surrounding claims processing.

Finally, in 2015 the **FARCIQ** completed the work required by the AMF following a monitoring report issued in September 2014.

Communications

Focusing on good practices in order to reduce the risk of claims, and wishing to maintain broker trust, the **FARCIQ** continued its efforts to inform, advise and support brokers. This was done by:

- sending an information kit to new brokers;
- publishing prevention advice in *Profession BROKER*;
- producing a video capsule;
- having a presence in the field at seminars and conventions;
- taking part in our Continuing Education Program.

2016: Improved coverage

As announced by the Chairman in these pages, the premiums payable as of May 1, 2016 for all categories of policyholders will remain at their current level. As well, coverage for agencies will be improved, going from $2 million to $5 million per year. In addition, agency coverage will henceforth include a broker selling his own property.

As a good manager, the FARCIQ will also guard against any unforeseen hike in the number and value of claims by opting for an increased level of reinsurance. Thus the FARCIQ will benefit from total reinsurance coverage of $11 million instead of the current $4.5 million.

Finally, to mark its 10th anniversary, the FARCIQ will step up its communication efforts in various ways, including by increasing its presence in the field. We hope to have the opportunity to meet you. Come and see us!

"THE FUND HAS PROCESSED 5,136 FILES SINCE ITS INCEPTION."

I take this opportunity to thank all FARCIQ Board members. Without their support and collaboration, these great results could not have been achieved. I would also like to congratulate all FARCIQ employees for their commitment to our policyholders, their loyalty, and the excellence of their work.

Me Alain Chouinard
Interim General Manager


BALANCING

INDEPENDENT AUDITOR'S REPORT

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TO THE FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

We have audited the accompanying financial statements of the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (**FARCIQ**), which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in accumulated surplus, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **FARCIQ** as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte s.e.n.c.r.l./s.r.l.[1]

February 23, 2016

[1] CPA auditor, CA, public accountancy permit No. A116933

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of comprehensive income · Year ended December 31, 2015

(In Canadian dollars)

	2015	2014
	$	$
Insurance operations		
Premiums earned (note 11)	6,066,574	6,974,916
Reinsurance premiums ceded (note 11)	(374,067)	(442,085)
Net earned premiums	5,692,507	6,532,831
Claims and loss adjustment expenses	3,954,517	3,580,703
General and administrative expenses	1,359,462	1,338,054
Total claims and expenses	5,313,979	4,918,757
Underwriting profit	378,528	1,614,074
Investment and other income (note 4)	1,272,521	1,365,634
Income for the year	1,651,049	2,979,708
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Unrealized gain on available-for-sale securities	(631,366)	1,112,022
Portion reclassified to income from available-for-sale securities	(113,613)	(10,060)
Other comprehensive income for the year	(744,979)	1,101,962
COMPREHENSIVE INCOME	906,070	4,081,670

The accompanying notes are an integral part of the financial statements.

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of changes in accumulated surplus · Year ended December 31, 2015

(In Canadian dollars)

			2015	2014
	Accumulated surplus	Accumulated other comprehensive income	Total	Total
	$	$	$	$
Balance, beginning of year	37,380,440	508,542	37,888,982	33,807,312
Income for the year	1,651,049	-	1,651,049	2,979,708
Other comprehensive income	-	(744,979)	(744,979)	1,101,962
BALANCE, END OF YEAR	39,031,489	(236,437)	38,795,052	37,888,982

The accompanying notes are an integral part of the financial statements.

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of financial position · As at December 31, 2015

(In Canadian dollars)

	2015	2014
	$	$
Assets		
Cash	1,199,715	1,468,323
Treasury bills (interest rate of 0.1% in 2015 (1.88% in 2014))	49,954	808,196
Investments (note 4)	52,716,372	50,749,166
Investment income receivable	194,623	192,575
Premiums and other receivables (note 14)	105,139	62,261
Amounts recoverable from reinsurers for claims liabilities (note 9)	1,617,000	755,000
Deductibles recoverable from policyholders for claims liabilities	624,722	473,262
Prepaid reinsurance	-	374,067
Prepaid expenses	33,311	14,206
Property, plant and equipment (note 7)	6,785	19,454
Intangible asset (note 8)	67,795	108,215
	56,615,416	55,024,725
Liabilities		
Accounts payable and accrued liabilities	303,108	182,741
Due to OACIQ (note 13)	17,333	12,296
Unearned premiums	1,931,201	2,295,444
Claims liabilities (note 9)	15,568,722	14,645,262
	17,820,364	17,135,743
Commitments (note 16)		
Accumulated surplus		
Accumulated surplus, end of year	39,031,489	37,380,440
Accumulated other comprehensive income	(236,437)	508,542
	38,795,052	37,888,982
	56,615,416	55,024,725

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors

Michel Léonard
President

Martin Dupras
Treasurer

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of cash flows · Year ended December 31, 2015

(In Canadian dollars)

	2015	2014
	$	$
Operating activities		
Income for the year	1,651,049	2,979,708
Adjustments for:		
Amortization of property, plant and equipment	12,669	20,948
Amortization of intangible asset	40,420	39,374
Amortization of premiums and investment discounts	218,281	64,225
Gain on disposal of investments	(113,613)	(10,060)
Income of reinvested dividends	(309,653)	(281,138)
	1,499,153	2,813,057
Change in non-cash working capital items		
Investment income receivable	(2,048)	(7,352)
Premiums and other receivables	(42,878)	(20,206)
Prepaid expenses	(19,105)	22,555
Amounts recoverable from reinsurers for claims liabilities	(862,000)	1,639,000
Prepaid reinsurance	374,067	(119,015)
Deductibles recoverable from policyholders for claims liabilities	(151,460)	(75,278)
Accounts payable and accrued liabilities	120,367	31,277
Due to OACIQ	5,037	(3,633)
Unearned premiums	(364,243)	(232,704)
Claims liabilities	923,460	(1,228,976)
	1,480,350	2,818,725
Investing activities		
Acquisition of investments	(38,590,834)	(33,816,568)
Proceeds on disposal of investments	36,083,634	31,674,480
Additions to property, plant and equipment	-	(5,515)
Additions to intangible asset	-	(14,967)
	(2,507,200)	(2,162,570)
(Decrease) increase in cash and cash equivalents	(1,026,850)	656,155
Cash and cash equivalents, beginning of year	2,276,519	1,620,364
Cash and cash equivalents, end of year	1,249,669	2,276,519
Cash and cash equivalents consist of:		
Cash	1,199,715	1,468,323
Treasury bills	49,954	808,196
	1,249,669	2,276,519

The accompanying notes are an integral part of the financial statements.

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Notes to the financial statements · December 31, 2015

(In Canadian dollars)

1. Incorporation and nature of operations

Governed by the *Insurance Act*, the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (the "**FARCIQ**" or "Insurance Fund") was incorporated by Québec's self-regulatory body for real estate brokers, the Organisme d'autoréglementation du courtage immobilier du Québec (the "**OACIQ**"). The **OACIQ** obtained its insurer permit on July 4, 2006, and the Insurance Fund commenced its operations on July 21, 2006. Its mission is to provide professional liability insurance for all agencies, real estate brokers and mortgage brokers of Quebec. The Insurance Fund's head office is located at 4905 Lapinière Blvd., Suite 2800, Brossard, Québec, Canada. **FARCIQ** is not subject to the *Income Tax Act*.

2. Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as at December 31, 2015. These financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 23, 2016.

The Insurance Fund uses a liquidity presentation for statement of financial position.

3. Accounting policies

Insurance contracts

Insurance contracts are contracts that, at their effective date, transfer significant insurance risk. Insurance risk is transferred when the Insurance Fund agrees to compensate a policyholder if an uncertain future event specified in the contract adversely affects the policyholder. All contracts issued by the Insurance Fund transfer significant insurance risk and are therefore treated as insurance contracts.

Claims liabilities

Claims liabilities consist of unpaid claims and loss adjustment expenses "unpaid claims". Upon receipt of any notice of claim, the net final cost of claims and loss adjustment expenses is first estimated on a case-by-case basis and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these claims, including claims incurred but not reported, as well as a provision for adverse deviations, as required by accepted actuarial practice in Canada. Unpaid claims are discounted to take into account the time value of money using the market rates of the underlying invested assets. An external actuary, appointed by the Board of Directors of the Insurance Fund, evaluates the adequacy of claims liabilities using appropriate actuarial techniques.

Unearned premiums

Premiums written are deferred as unearned premiums and recognized as revenue on a pro rata basis over the terms of the underlying policies. Unearned premiums are calculated as the unexpired portion of the premiums written on a pro rata basis.

3. Accounting policies (continued)

Reinsurance

Claims are presented in the statement of comprehensive income, net of amounts recoverable from reinsurers. Estimated amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable for claims.

Amounts recoverable from reinsurers are assessed in the same manner as unpaid claims and are recorded to reflect the time value of money.

Cash and cash equivalents

Cash and cash equivalents include cash and treasury bills that, at purchase, have a maturity of three months or less from the acquisition date. Investment income on cash and cash equivalents is recognized when earned and is included in the statement of comprehensive income within Investment and other income.

Financial instruments

Financial instruments consist of available-for-sale ("AFS") financial assets and loans and receivables.

AFS financial assets are those financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. AFS assets are acquired for an indefinite period and may be sold to meet liquidity requirements.

The investments, all classified as AFS, are carried at fair value on the statement of financial position as of the trade date, and changes in fair value are recorded in other comprehensive income until the financial asset is disposed of or has become other-than-temporarily impaired. As long as an AFS asset is held and not other-than-temporarily impaired, gains and losses are not recognized in income. When the asset is disposed of or other-than-temporarily impaired, gains and losses are recognized in income as investment and other income and, accordingly, the amount is deducted from other comprehensive income. Gains and losses on the sale of AFS assets are calculated using the average cost method.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Cash, treasury bills, investment income receivable, premiums and other receivables, and amounts recoverable from policyholders for claims liabilities are classified as loans and receivables.

Financial liabilities at amortized cost

Financial liabilities, which are listed as accounts payable and accrued liabilities, and due to OACIQ, are measured at amortized cost.

Fair value of financial instruments

In accordance with IFRS 7, *Financial Instruments – Disclosures* for financial instruments measured at fair value on the statement of financial position, the Insurance Fund categorizes its fair value measurements according to a three-level hierarchy as described below:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 – Valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

3. Accounting policies (continued)

Revenue and expense recognition related to financial instruments

The effective interest method of amortization is used for all transaction costs added to the acquisition cost of a financial instrument and for the premiums or discounts earned or incurred for AFS financial instruments. Interest income is recognized as earned.

Determination of fair value of financial instruments

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

Subsequent to initial recognition, the fair values are determined based on available information. The fair value of financial instruments is based on ask prices.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Asset costs are amortized using rates established over the estimated life of the assets, using the straight-line method over the following periods:

Telephone system	3 years
Leasehold improvements	lease term
Furniture and equipment	5 years
Computer hardware	3 years

Intangible asset

Intangible asset is recorded at cost, net of accumulated amortization, and consists of application and operating software. Amortization is calculated on a straight-line basis over the estimated useful life of software, which is five years.

Impairment of long-lived assets

Long-lived assets, excluding goodwill, are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may exceed their recoverable amount. The recoverable amount of an asset or cash-generating unit ("CGU") is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from an asset or CGU. An impairment loss is the amount, if any, by which the carrying amount of an asset or CGU exceeds its recoverable amount and is charged to income. During the current and previous years, no intangible assets or items of property plant and equipment were impaired.

Standards issued but not yet effective

The Insurance Fund is currently analyzing the impact that the following standards will have on its financial statements:

A. Disclosure Initiative (Amendments to IAS 1)

On December 18, 2014, the IASB issued its Disclosure Initiative (Amendments to IAS 1) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to: (i) materiality; (ii) order of the notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2016. Early adoption is permitted.

3. Accounting policies (continued)

Standards issued but not yet effective (continued)

B. Financial instruments: Classification and measurement

On July 25, 2014, the IASB completed the final elements of its comprehensive response to the financial crisis by issuing further amendments to IFRS 9, Financial Instruments, in respect of (i) revisions to its classification and measurement model and (ii) a single, forward-looking "expected loss" impairment model.

IFRS 9, as amended, introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

IFRS 9, as amended, introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

The amendments to IFRS 9 are effective for annual periods beginning on January 1, 2018. Earlier adoption is permitted.

Significant accounting estimates and assumptions

The carrying values of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities during the next annual reporting period are related to measuring claims liabilities.

The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that an entity's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of prior years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by industry and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking into account all the uncertainties involved.

4. Investments

A financial instrument is regarded as quoted in an active market [Level 1] if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. When a quoted active market exists, the fair values of financial assets are based on bid prices and the fair values of financial liabilities are based on ask prices.

In the absence of an active market, fair values are based on inputs other than quoted prices that are observable for the asset or liability directly or indirectly [Level 2]. Such inputs include prevailing market rates for instruments with similar characteristics and risk profiles, the closing price of the most recent trade date subject to liquidity adjustments or average brokers' quotes when trades are too sparse to constitute an active market. Specifically, the fair value of bonds is determined by discounting cash flows generated over the holding period of the bond. The discount rate used reflects the credit risk of instruments with the same risk profile as the bond measured at the date of presentation of financial information. As for investment funds, fair value is based on their net asset value.

Certain financial instruments whose fair values are not based on observable market inputs are to be measured using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data [Level 3]. The Insurance Fund held no Level 3 securities as at December 31, 2015. During the year, there have been no transfers of amounts between Level 1 and Level 2.

The distribution of the Insurance Fund's financial instruments between each of the above-mentioned levels is presented below.

4. Investments (continued) · Fair value hierarchy

	2015		
	Level 1	Level 2	Total
	$	$	$
Provincial government bonds	-	5,647,139	5,647,139
Municipal government bonds	-	17,070,845	17,070,845
Corporate bonds	-	14,073,605	14,073,605
Investment funds	-	9,612,971	9,612,971
Preferred shares	6,311,812	-	6,311,812
	6,311,812	46,404,560	52,716,372

	2014		
	Level 1	Level 2	Total
	$	$	$
Provincial government bonds	-	12,094,548	12,094,548
Municipal government bonds	-	13,840,351	13,840,351
Corporate bonds	-	11,117,184	11,117,184
Investment funds	-	9,664,066	9,664,066
Preferred shares	4,033,017	-	4,033,017
	4,033,017	46,716,149	50,749,166

4. Investments (continued) · Investment maturities

	2015				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
	$	$	$	$	$
Provincial government bonds	-	143,369	5,503,770	-	5,647,139
Municipal government bonds	3,754,073	12,915,858	400,914	-	17,070,845
Corporate bonds	3,148,236	8,773,264	2,152,105	-	14,073,605
Investment funds	-	-	-	9,612,971	9,612,971
Preferred shares	-	-	-	6,311,812	6,311,812
	6,902,309	21,832,491	8,056,789	15,924,783	52,716,372

	2014				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
	$	$	$	$	$
Provincial government bonds	-	8,006,190	4,088,358	-	12,094,548
Municipal government bonds	4,296,881	9,543,470	-	-	13,840,351
Corporate bonds	1,221,551	7,782,050	2,113,583	-	11,117,184
Investment funds	-	-	-	9,664,066	9,664,066
Preferred shares	-	-	-	4,033,017	4,033,017
	5,518,432	25,331,710	6,201,941	13,697,083	50,749,166

4. Investments (continued) · Unrealized investment gains (losses)

	2015			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	5,443,805	203,995	(661)	5,647,139
Municipal government bonds	16,956,917	133,991	(20,063)	17,070,845
Corporate bonds	13,955,493	158,277	(40,165)	14,073,605
Investment funds	9,892,507	-	(279,536)	9,612,971
Preferred shares	7,094,369	20,042	(802,599)	6,311,812
	53,343,091	516,305	(1,143,024)	52,716,372

	2014			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	11,771,444	323,104	-	12,094,548
Municipal government bonds	13,715,868	125,138	(655)	13,840,351
Corporate bonds	10,997,315	132,755	(12,886)	11,117,184
Investment funds	9,676,858	-	(12,792)	9,664,066
Preferred shares	4,079,139	43,271	(89,393)	4,033,017
	50,240,624	624,268	(115,726)	50,749,166

4. Investments (continued) · Investment and other income

	2015	2014
	$	$
Interest income	1,027,354	1,013,278
Dividend income	536,071	448,281
Amortization of premiums and discounts	(218,281)	(64,225)
Gain from disposal of investments	113,613	10,060
	1,458,757	1,407,394
Investment management and custody fees	186,236	167,760
Investment income	1,272,521	1,239,634
Other income	-	126,000
INVESTMENT AND OTHER INCOME	1,272,521	1,365,634

5. Additional information about financial instruments

The Insurance Fund's investments are managed by two external managers, which are required to follow the investment policy set out by the Insurance Fund's Board of Directors. Management ensures compliance with these guidelines. The investment portfolio is entirely invested in well established, active and liquid markets.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other market price risk. The Insurance Fund's investment policies establish principles and limits pertaining to these risks. The Investment Committee regularly monitors compliance with these investment policies.

Currency risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currencies fluctuate because of changes in foreign exchange rates. Since all its financial instruments are denominated in Canadian dollars, the Insurance Fund is not exposed to currency risk.

Interest rate risk

Interest rate risk is the risk that a fluctuation in interest rates negatively impact the financial position of the Insurance Fund, which occurs when market interest rates rise.

The following table details the interest rate risk exposure. The financial instruments appearing in the statement of financial position are displayed according to the earlier of their maturity and their rate adjustment date. The effective interest rates, if any, are the current market rates for the overall bond portfolio.

5. Additional information about financial instruments (continued)

Financial instrument interest rates by maturity

	2015			
	Floating rate	Under 12 months	1 to 5 years	Over 5 years
	%	%	%	%
Assets				
Fixed-income securities	-	1.40 to 4.65	1.42 to 5.80	2.28 to 5.54
Reinsurance and deductibles	-	1.87	1.87	1.87
Liabilities				
Claims liabilities	-	1.87	1.87	1.87

	2014			
	Floating rate	Under 12 months	1 to 5 years	Over 5 years
	%	%	%	%
Assets				
Fixed-income securities	-	1.75 to 5.02	1.42 to 5.80	2.85 to 5.54
Reinsurance and deductibles	-	1.95	1.95	1.95
Liabilities				
Claims liabilities	-	1.95	1.95	1.95

A 1% change in interest rates would result in a $1,754,029 decrease (increase) in investment income ($1,588,417 in 2014).

Credit risk

Credit risk is the risk that a party to a financial instrument cause a financial loss for the Insurance Fund by failing to discharge an obligation. Credit risk arises primarily from fixed-income securities, which comprise substantially all of the investment portfolio.

The Insurance Fund's investment policy provides a quality criteria framework for portfolio securities and requires investment managers to produce regular compliance reports. The policy also stipulates that the Insurance Fund may not invest more than 50% of its fixed-income security portfolio in corporate bonds. No more than 5% of the fixed-income security portfolio may be invested in issues with ratings of BBB or less. The Insurance Fund may not invest more than 10% of the fixed-income security portfolio in the securities of a single corporate issuer.

The Insurance Fund assesses the reinsurer's financial strength before signing any reinsurance treaties and monitors its situation on a regular basis. In addition, the Insurance Fund has minimum rating requirements for its reinsurer. The reinsurer must have a minimum rating of A+. The Insurance Fund uses AM Best ratings agency.

5. Additional information about financial instruments (continued)

Maximum credit risk exposure arising from financial instruments

	2015	2014
	$	$
Cash	1,199,715	1,468,323
Treasury bills	49,954	808,196
Canadian, provincial and municipal government bonds	22,717,984	25,934,899
Corporate bonds	14,073,605	11,117,184
Investment funds	9,612,971	9,664,066
Preferred shares	6,311,812	4,033,017
Investment income receivable	194,623	192,575
Premiums receivable	105,139	62,261
Amounts recoverable from reinsurers for claims liabilities	1,617,000	755,000
Deductibles recoverable from policyholders for claims liabilities	624,722	473,262
TOTAL	56,507,525	54,508,783

Credit risk concentration

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics, such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. The Insurance Fund's invested assets could have sensitivity to changes affecting a particular industry. All of the securities held are issued in Canada.

5. Additional information about financial instruments (continued)

Debt securities by industry

	2015	2014
	%	%
Federal, provincial and municipal governments – Canada	61.62	69.94
Financials	27.48	21.14
Industrials	4.68	3.14
Energy	0.89	1.71
Infrastructure	2.33	1.32
Real estate	1.30	1.81
Telecommunication	1.70	0.94
	100.00	100.00

Liquidity risk

Liquidity risk is the risk that an entity encounter difficulty in meeting obligations associated with financial instruments that are settled by delivering cash. To manage its cash flow requirements, the Insurance Fund maintains a portion of its invested assets in liquid securities. On December 31, financial liabilities are all due in the following year.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument fluctuate in amount. The Insurance Fund mitigates this risk by matching cash inflows from investments with cash outflows for paid claims.

Fair value

The fair values of cash, treasury bills, investment income receivable, premiums and other receivables, amounts recoverable from reinsurers for claims liabilities, accounts payable and accrued liabilities, and amounts due to OACIQ approximate their carrying values due to their short term maturities.

6. Insurance risk

Insurance risk and management

The Insurance Fund underwrites professional liability insurance contracts for Quebec agencies, real estate brokers and mortgage brokers. Insurance contract risk mostly comprises risk associated with:

- Underwriting and pricing;
- Fluctuation in the timing, frequency and severity of claims relative to projections;
- Inadequate reinsurance protection.

A. Underwriting

Policies generally cover a twelve-month period with a renewal date of May 1st each year. The insurance business is cyclical in nature: the industry generally reduces insurance rates following periods of increased profitability, while it generally increases rates following periods of sustained loss. The Insurance Fund's profitability tends to follow this cyclical market pattern. In addition, the Insurance Fund is at risk from changes in professional liability insurance legislation and the economic environment.

In order to properly monitor the Insurance Fund's risk appetite, annual premium pricing is established using an internal return on equity model and a risk-based capital model as published by the Autorité des marchés financiers ("AMF"). The annual premium established at $395 in 2014, was decreased to $345 in 2015 for real estate brokers and agencies and to $245 in 2015 for mortgage brokers. However, the limit of guarantee offered to the insured remained the same. See Note 10.

The Investment Committee monitors the Insurance Fund's overall risk profile, aiming for a balance between risk, return and capital, and determines policies concerning the Insurance Fund's risk management framework. The Committee's mandate is to identify measure and monitor risks and avoid exposures that are outside of the Insurance Fund's risk tolerance level.

B. Claims management and reinsurance

One objective of the Insurance Fund is to ensure that sufficient claims liabilities are established to cover future claim payments. The Insurance Fund's success depends upon its ability to adequately assess the risk associated with the insurance contracts underwritten by the Insurance Fund. The Insurance Fund establishes claims liabilities to cover the estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to insurance contracts underwritten by the Insurance Fund. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Insurance Fund's estimates of its expected ultimate cost of claims for compensation payment and claims expenses. Expected inflation is taken into account when estimating claims liabilities, thereby mitigating inflation risk.

Overseen by the Claims Committee, strict claim review policies are in place to assess all new and ongoing claims. In addition, regular detailed reviews of claims handling procedures reduce the Insurance Fund's risk exposure. Further, the Insurance Fund enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that could negatively impact the business. The Insurance Fund has established a Claims Committee responsible for analyzing claims and contentious matters to ensure that appropriate claims liabilities are established and approved.

6. Insurance risk (continued)

Insurance risk and management (continued)

C. **Sensitivity to insurance risk**

The principal assumption underlying the claims liability estimates is that future claims development will follow a similar pattern to past claims development experience.

Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- Average claim costs including claim handling costs;
- Average claims by accident year;
- Trends in claim severity and frequency.

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Insurance Fund's ability to accurately assess the risk of the insurance contracts the Insurance Fund underwrites. In addition, there may be delays, sometimes amounting to several years, between the occurrence of an insured event and the time it is reported to the Insurance Fund and additional delays between the reporting and the final settlement of claims.

The Insurance Fund refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process and the policies surrounding this are overseen by the Insurance Fund's Claims Committee.

7. Property, plant and equipment

	2015		
	Cost	Accumulated amortization	Carrying value
	$	$	$
Telephone system	22,927	22,927	-
Leasehold improvements	55,343	55,095	248
Furniture and equipment	88,090	82,193	5,897
Computer hardware	41,105	40,465	640
TOTAL	207,465	200,680	6,785

	Carrying value December 31, 2014	Additions/ (disposals)	Amortization	Carrying value December 31, 2015
	$	$	$	$
Reconciliation of carrying value				
Telephone system	-	-	-	-
Leasehold improvements	7,115	-	6,867	248
Furniture and equipment	8,287	-	2,390	5,897
Computer hardware	4,052	-	3,412	640
TOTAL	19,454	-	12,669	6,785

7. Property, plant and equipment (continued)

	2014		
	Cost	Accumulated amortization	Carrying value
	$	$	$
Telephone system	22,927	22,927	-
Leasehold improvements	55,343	48,228	7,115
Furniture and equipment	88,090	79,803	8,287
Computer hardware	41,105	37,053	4,052
TOTAL	207,465	188,011	19,454

	Carrying value December 31, 2013	Additions/ (disposals)	Amortization	Carrying value December 31, 2014
	$	$	$	$
Reconciliation of carrying value				
Telephone system	-	-	-	-
Leasehold improvements	18,184	-	11,069	7,115
Furniture and equipment	5,494	5,515	2,722	8,287
Computer hardware	11,209	-	7,157	4,052
TOTAL	34,887	5,515	20,948	19,454

8. Intangible asset

			2015
	Cost	Accumulated amortization	Carrying value
	$	$	$
Software	550,253	482,458	67,795

	Additions/ (disposals)	Amortization	Carrying value December 31, 2015
	$	$	$
Reconciliation of carrying value			
Software	-	40,420	67,795

			2014
	Cost	Accumulated amortization	Carrying value
	$	$	$
Software	550,253	442,038	108,215

			2014	2013
	Additions/ (disposals)	Amortization	Carrying value December 31, 2014	Carrying value December 31, 2013
	$	$		$
Reconciliation of carrying value				
Software	14,967	39,374	108,215	132,622

General and administrative expenses include amortization for the year of $20,210 ($21,656 in 2014), and $20,210 ($17,718 in 2014), included in claims and loss adjustment expenses.

9. Claims liabilities

Actuarial liabilities are determined to reflect the estimate of the full amount of all liabilities associated with the insurance policies at the statement of financial position date, including claims incurred but not reported ("IBNR"). The ultimate amount of the settlement of these liabilities will vary from the best estimate for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

Unpaid claims and amounts recoverable from reinsurers

The provision for unpaid claims and amounts recoverable from reinsurers under unpaid claims are determined using standard actuarial techniques requiring assumptions such as loss development and claim settlement patterns, future rates of claim frequency and severity, inflation and other factors.

Unpaid claims were reduced on a net basis by $357,239 as at December 31, 2015 ($386,434 in 2014) to reflect the time value of money, using an average discount rate of 1.87% (1.95% in 2014) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $935,469 as at December 31, 2015 ($898,407 in 2014).

Unearned premiums

Unearned premiums are calculated on a pro rata basis from the unexpired portion of premiums written and must be sufficient to cover all future costs related to the unexpired portion of in-force policies as at December 31. The future risks to be provisioned consist of claims and loss adjustment expenses, policy maintenance expenses, and the cost of reinsurance pertaining to these policies. In the event that unearned premiums were inadequate to cover these costs, the Insurance Fund would be required to recognize a corresponding liability to cover the deficiency.

Interest rate sensitivity

As the time value of money is considered in determining the unpaid claims estimate, an increase or decrease in the discount rate would result, respectively, in a decrease or increase in the expense for unpaid claims. Accordingly, a 1% increase in the discount rate would have a $210,886 negative impact on the fair value of unpaid claims as at the statement of financial position date ($215,901 in 2014), while a 1% decrease in the discount rate would have a $218,616 positive impact on the fair value of unpaid claims as at the statement of financial position date ($224,322 in 2014).

Prior-year claims development

The following table shows the estimates of incurred claims, including IBNR, for the five most recent accident years, with subsequent developments during the periods, as well as cumulative payments to date. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

9. Claims liabilities (continued) · Prior year claims development

Ultimate incurred claims estimate	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	$	$	$	$	$	$	$	$	$	$
As at end of underwriting year	3,207,940	6,526,460	6,562,559	6,673,910	6,073,405	5,608,678	5,283,626	4,749,235	5,407,964	
One year later	5,073,644	7,023,718	6,424,801	6,033,124	4,671,308	4,468,644	4,069,840	4,607,025		
Two years later	5,285,586	5,651,971	4,772,070	4,790,220	4,077,761	4,144,194	3,301,052			
Three years later	4,034,785	4,585,239	3,220,954	4,076,860	3,245,717	3,543,060				
Four years later	2,984,691	3,439,944	2,761,601	3,660,691	3,125,725					
Five years later	2,778,007	3,073,062	2,428,397	3,509,608						
Six years later	2,728,906	2,976,026	2,578,027							
Seven years later	2,713,372	2,928,464								
Eight years after	2,713,372									
Total liabilities	2,713,372	2,928,464	2,578,027	3,509,608	3,125,725	3,543,060	3,301,052	4,607,025	5,407,964	31,714,297
Paid claims	2,713,372	2,925,142	2,349,440	3,093,488	2,649,655	2,549,424	1,631,505	1,618,341	497,695	20,028,063
Unpaid claims	-	3,322	228,587	416,120	476,070	993,635	1,669,547	2,988,684	4,910,269	11,686,234
Prior years										
Effect of discounting and margins										1,105,944
Other										2,151,822
FINAL UNPAID CLAIMS										14,944,000

Note: These amounts exclude $624,722 in deductibles recoverable from policyholders for claims liabilities.

9. Claims liabilities (continued) · Movement of net claims liabilities

	2015			2014		
	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
	$	$	$	$	$	$
	(In thousands of dollars)					
Balance, beginning of year	14,172	755	13,417	15,476	2,394	13,082
Changes in estimated losses and expenses for claims incurred in prior years	(2,925)	(565)	(2,360)	(4,354)	(1,973)	(2,381)
Losses and expenses on claims incurred in the current year	7,631	1,427	6,204	6,302	334	5,968
Less recoveries received (amounts paid) in respect of incurred claims						
During the current year	(765)	-	(765)	(811)	-	(811)
During prior years	(3,170)	-	(3,170)	(2,441)	-	(2,441)
BALANCE, END OF YEAR	14,944	1,617	13,327	14,172	755	13,417

Note: This table excludes $624,722 in deductibles recoverable from policyholders for claims liabilities ($473,262 in 2014).

10. Reinsurance

The limits coverage provided by the Fund to its insureds is $1,000,000 per claim, per insured, subject to an annual limit of $2,000,000.

In the normal course of business, the Insurance Fund reinsures a portion of the risks it assumes in order to limit its losses in the event of major claims or very high claim frequency.

The terms of the agreement may vary from year to year.

The reinsurance offers $4,500,000 in overall annual coverage in excess of Insurance Fund retention of $4,500,000, between January 1, 2015 to January 1, 2016.

11. Net earned premiums

	2015	2014
	$	$
Earned premiums	6,066,574	6,974,916
Reinsurance premiums written	-	561,100
Change in unearned reinsurance premiums	374,067	(119,015)
Reinsurance premiums ceded	374,067	442,085
Net earned premiums	5,692,507	6,532,831

No allowance for doubtful accounts was deducted from net earned premiums in 2015 and 2014 determined by an overall analysis of premiums receivable at year-end to identify those that in all probability will not be recovered. Given that the insurance premium is billed together with OACIQ annual membership dues, the insured is not actually covered until OACIQ receives the premium, and therefore no allowance is required.

12. Capital required

Capital required is governed by the AMF. Accordingly, the risk-based capital adequacy framework is based on an assessment of the riskiness of assets, policy liabilities, and structured settlements, letters of credit, derivatives and other exposures, by applying varying factors and margins. The Insurance Fund is required to meet a capital available to capital required test, called the minimum capital test ("MCT").

The AMF requires each property and casualty insurer to establish its own internal target capital level that reflects its risk profile and to justify to the AMF the target level it has adopted with an explanation backed by supporting data. This internal target level must be higher than the 100% minimum capital threshold imposed by the AMF and the 150% supervisory target level.

In January 2015, the AMF modified the guideline that describes how to calculate the MCT ratio. The gap resulting from the new calculation method is amortized over twelve consecutive quarters up to December 2017 and is presented against the capital available.

In 2015, the Insurance Fund established a 375% internal target for capital required, given the necessity of building adequate capital to meet future obligations with regard to protection of the public. The Insurance Fund has exceeded both the minimum threshold and its own internal target for capital required.

The Insurance Fund's capital available and capital required are detailed as follows:

	2015	2014
	$	$
	(in thousands of dollars)	
Capital available	38,656	37,889
Capital required	4,479	3,892
Excess of capital available over capital required	34,177	33,997
MCT (as a %)	863.05%	973.54%

13. Transactions with the OACIQ

By various agreements with OACIQ, the Insurance Fund received certain management services and provided sponsorship, totaling $122,877 ($57,346 in 2014), in addition to rent expenses of $91,669 ($80,692 in 2014). To these amounts are added other paid expenses totaling $35,921 ($30,072 in 2014). These transactions were concluded in the normal course of business and measured at the value agreed between parties. As at December 31, 2015, an amount of $17,333 is payable ($12,296 in 2014) in connection with these transactions. Premiums and other receivables include an amount of $12,684 ($7,620 in 2014) for the premiums collected by the OACIQ on behalf of the Fund.

14. Premiums and other receivables

	2015	2014
	$	$
Deductibles receivable	75,323	54,565
Premiums receivable	12,684	7,620
QST receivable	-	76
Other accounts receivable	17,132	-
TOTAL	105,139	62,261

15. Compensation of key executive officers

Key executive officers consist of all members of the Board of Directors and the executive officers of the Insurance Fund. Total compensation for 2015 amounted to $412,241 ($373,382 for 2014).

16. Commitments

The Insurance Fund is committed under a subletting arrangement with the OACIQ under a lease expiring in July 2020. Future minimum payments under the contract totalling $280,166 are as follows:

	$
2016	61,127
2017	61,127
2018	61,127
2019	61,127
2020	35,658


EVALUATING

EXPRESSION OF OPINION

I have valued the policy liabilities and reinsurance recoverable of Fonds d'assurance responsabilité du Courtage Immobilier du Québec for its statement of financial position at December 31, 2015 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

I am satisfied that the data utilized for the valuation of these liabilities are reliable and sufficient. I verified the consistency of the valuation data with the insurer's financial records.

The results of my valuation together with amounts carried in the annual return are the following:

Claim Liabilities ($'000)	Carried in Annual Return ($'000)	Actuary's Estimate ($'000)
(1) Direct unpaid claims and adjustment expenses	14,944	14,944
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	14,944	14,944
(4) Amounts recoverable from reinsurers	1,617	1,617
(5) Other recoverables on unpaid claims	625	625
(6) Other liabilities	625	625
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	13,327	13,327

Premium liabilities ($'000)	Carried in Annual Return (col. 1) ($'000)	Actuary's Estimate (col. 1) ($'000)
(1) Gross unearned premium liabilities		1,950
(2) Net unearned premium liabilities		2,065
(3) Gross unearned premiums	1,931	
(4) Net unearned premiums	1,931	
(5) Premium deficiency	134	134
(6) Other liabilities	0	0
(7) Deferred policy acquisition expenses	0	
(8) Maximum policy acquisition expenses deferrable (4) + (5) + (9) col. 1 – (2) col. 2		0
(9) Unearned commissions	0	

In my opinion, the amount of policy liabilities net of reinsurance recoverable makes appropriate provision for all policy obligations and the financial statement fairly presents the result of the valuation.

Xavier Bénarosch, FCAS, FICA

February 16, 2016

Opinion date

Eckler