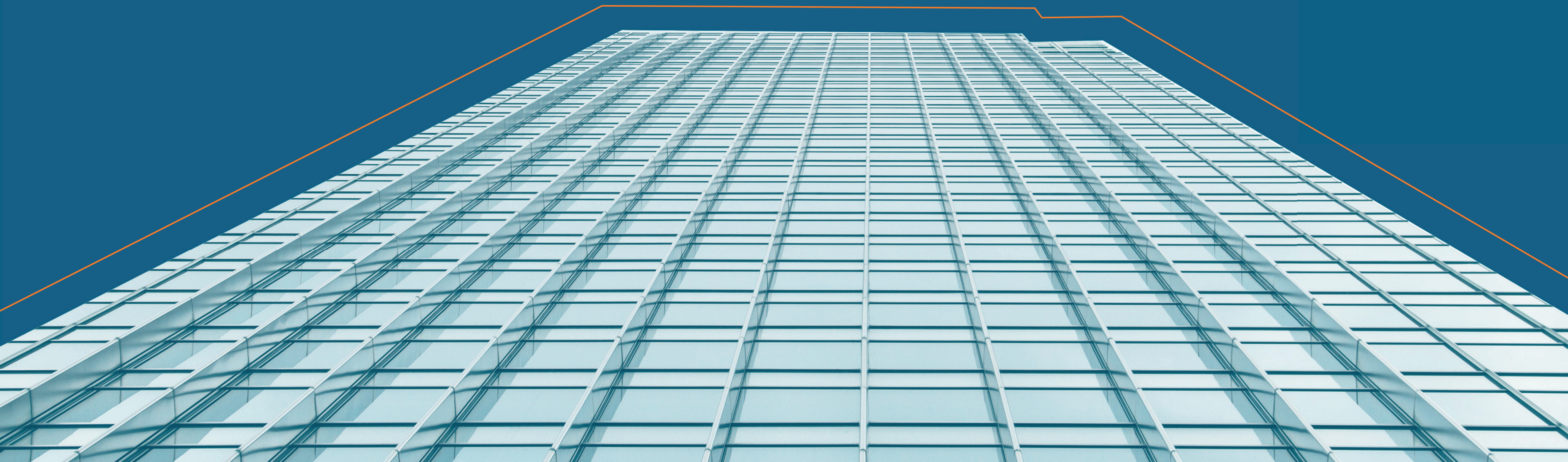
ANNUAL REPORT 2019

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 is divided into three parts.

First, we offer protection in case of fault, error, negligence or omission committed by a brokerage licence holder in the course of his professional activities.

Second, we pay compensation for the resulting loss where professional liability is demonstrated.

Third, we respond to the needs and concerns of brokers regarding their professional liability insurance while helping them prevent the risks arising from professional errors.

MESSAGE FROM THE **GENERAL MANAGER**

On behalf of the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ), I am proud to present the Fund's results for 2019.

Essential financial strength

The **FARCIQ**'s financial results are once again very positive this year. Although the **FARCIQ** maintained a subsidized premium in 2019 (i.e. lower than its actual cost), it managed to generate an operating profit of $26,077 and a positive overall result of $1,348,630, due to real investment income and the favourable change in anticipated but unrealized investments.

Year after year, the Fund is managed in a prudent and balanced manner. The result is an accumulated surplus of $42.4 million, which greatly contributes to ensuring the insurance Fund's stability in the mid-term.

Rising claims

In 2019, 697 new claims were processed compared to 645 in 2018, an increase of 8%. However, the total cost of claims paid remained stable at $1.5 million.

Although the **FARCIQ** is showing good financial results, the claims-related costs are on the rise and generating a growing technical deficit. This will have to be taken into consideration in coming years as we assess and set the insurance premium.

AN ACCUMULATED SURPLUS OF $42.4 MILLION, GREATLY CONTRIBUTES TO ENSURING THE INSURANCE FUND'S STABILITY IN THE MID-TERM.

An active and positive presence

The **FARCIQ** places a great deal of importance on claims prevention.

For this reason, as part of the **OACIQ**'s Mandatory Continuing Education Program, the Fund offers free training activities to policyholders. In 2019, over 2,500 CEUs were awarded for training sessions offered by the **FARCIQ**, including *My professional liability* and *Annual review of the jurisprudence pertaining to real estate brokerage professional liability*.

In addition, the **FARCIQ** takes proactive action throughout the year, notably by:

- attending various industry events as sponsor or exhibitor, including RDV **OACIQ**, or through training presentations in agencies;
- making regular contributions to the PRO@CTIVE newsletter;
- providing more than 1,300 insurance kits to new brokers.

Renewed governance

As announced in the previous annual report and in accordance with a legislative measure adopted by the government as part of Bill 141, since June 13, 2019 all of the **FARCIQ**'s insurance business comes under the **OACIQ** Board of Directors. The Organization remains the holder of the insurer's licence and is governed by the rules set out in the *Insurers Act*.

In accordance with this Act, a Professional Liability Insurance Decision-making Committee (PLIDC) was created. This new committee is responsible for processing notices of loss. Its members are appointed by the **OACIQ** Board of Directors.

The Committee is made up of experts with a diversified collective background who are very familiar with the **FARCIQ** for having served on its Board of Directors. They are: Martin Dupras, Louis-Georges Pelletier, Marc Simard and Michel Léonard.

I wish to thank the members of the outgoing **FARCIQ** Board of Directors for their outstanding contribution. I am also grateful to the members of the new PLIDC, who are helping to ensure that the implementation of this committee and the processing of claims can be carried out in a thorough manner. Finally, I wish to express my gratitude to our employees for their dedication and their contribution to the Fund's achievements.

2020: FARCIQ, a first-rate insurer

As part of its 2020-2022 strategic plan adopted by the **OACIQ** Board of Directors, the **FARCIQ** will soon be embarking enthusiastically on an important examination of the best ways to consolidate its role as a fair and compliant insurer, while contributing to the oversight of policyholders.

THE FUND IS MANAGED IN A PRUDENT AND BALANCED MANNER.

Me Alain Chouinard, MBA
General Manager

THE ASSURANCE
OF DOING BETTER

INDEPENDENT AUDITOR's REPORT

TO THE BOARD OF DIRECTORS OF ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (the Fund) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

pwc

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What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in accumulated surplus for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to financial statements, which include a summary of significant accounting policies.

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 Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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 IFRS, 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's 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 auditor's 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Montréal, Quebec
February 24, 2020

[1] **CPA auditor, CA,** public accountancy permit No. A125840

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of Financial Position · As at December 31, 2019

(expressed in Canadian dollars)

	2019	2018
	$	$
ASSETS		
Cash	1,855,537	2,032,326
Treasury bills (interest rate of 1.65%; 1.60% as at December 31, 2018) and banker's acceptance	219,457	383,510
Investments	56,787,109	54,002,709
Investment income receivable	247,943	245,583
Premiums and other receivables (note 12)	75,051	45,016
Amount recoverable from reinsurers for claims liabilities (note 7)	507,000	737,000
Deductibles recoverable from policyholders for claims liabilities	803,368	757,776
Prepaid expenses	32,729	32,102
Property plant and equipment	10,249	15,175
Intangible assets	49,137	-
	60,587,580	58,251,197
LIABILITIES		
Accounts payable and accrued liabilities	615,233	484,155
Unearned premiums	1,916,005	1,909,922
Claims liabilities (note 7)	15,680,368	14,829,776
	18,211,606	17,223,853
ACCUMULATED SURPLUS		
Accumulated surplus, end of year	39,870,518	39,844,441
Accumulated other comprehensive income	2,505,456	1,182,903
	42,375,974	41,027,344
	60,587,580	58,251,197

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

Approved by the Board of Directors

Pierre Hamel
Chairman

Michel Léonard
Vice-Chair

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of Income and Comprehensive Income · For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019	2018
	$	$
REVENUES		
Earned premiums	5,649,873	5,615,321
Reinsurance premiums ceded (note 9)	(404,700)	(404,700)
Net earned premiums (note 9)	5,245,173	5,210,621
EXPENSES		
Claims and loss adjustment expenses	5,581,570	5,480,575
General expenses	1,351,451	1,303,933
	6,933,021	6,784,508
UNDERWRITING LOSS	(1,687,848)	(1,573,887)
INVESTMENT AND OTHER INCOME (NOTE 4)	1,713,925	1,523,007
NET INCOME (LOSS) FOR THE YEAR	26,077	(50,880)
OTHER COMPREHENSIVE INCOME		
Items that will be subsequently reclassified to profit or loss		
Unrealized gain (loss) on available for sale securities	1,828,037	(653,224)
Portion reclassified to income from available for sale securities	(505,484)	(359,277)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	1,322,553	(1,012,501)
COMPREHENSIVE INCOME FOR THE YEAR	1,348,630	(1,063,381)

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of Changes in Accumulated Surplus · For the year ended December 31, 2019

(expressed in Canadian dollars)

			2019	2018
	Accumulated surplus	Accumulated other comprehensive income	Net amount	Net amount
	$	$	$	$
BALANCE – BEGINNING OF YEAR	39,844,441	1,182,903	41,027,344	42,090,725
Net income (loss) for the year	26,077	-	26,077	(50,880)
Other comprehensive income for the year	-	1,322,553	1,322,553	(1,012,501)
BALANCE – END OF YEAR	39,870,518	2,505,456	42,375,974	41,027,344

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of Cash Flows · For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019	2018
CASH FLOWS FROM (USED IN):	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	26,077	(50,880)
Adjustments for		
Amortization of property plant and equipment	4,926	4,074
Amortization of premiums and investment discounts	203,942	169,678
Realized gain on disposal of investments	(505,484)	(359,277)
Income on reinvested dividends	(388,234)	(331,572)
	(658,773)	(567,977)
Change in non cash working capital items		
Investment income receivable	(2,360)	(10,762)
Premiums and other accounts receivable	(30,035)	111,276
Amount recoverable from reinsurers for claims liabilities	230,000	361,000
Deductibles recoverable from policyholders for claims liabilities	(45,592)	(74,111)
Prepaid expenses	(627)	(982)
Accounts payable and accrued liabilities	131,078	209,217
Unearned premiums	6,083	24,628
Claims liabilities	850,592	686,111
	1,139,139	1,306,377
	480,366	738,400
INVESTING ACTIVITIES		
Acquisition of capital assets	-	(13,439)
Acquisition of intangible assets	(49,137)	-
Acquisition of investments	(38,965,454)	(26,817,692)
Proceeds on disposal of investments	38,193,383	27,640,261
	(821,208)	809,130
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(340,842)	1,547,530
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	2,415,836	868,306
CASH AND CASH EQUIVALENTS – END OF YEAR	2,074,994	2,415,836
Cash and cash equivalents consist of the following:		
Cash	1,855,537	2,032,326
Treasury bills and banker's acceptance	219,457	383,510
	2,074,994	2,415,836

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Notes to Financial Statements · December 31, 2019

(expressed in Canadian dollars)

1. Incorporation and nature of operations

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

2. Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in force on the date of publication. These financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 24, 2020.

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

3. Main accounting policies

Insurance contracts

Insurance contracts are contracts that, at their effective date, transfer significant insurance risk. Insurance risk is transferred when the Fund agrees to compensate a policyholder if an uncertain future event specified in the contract adversely affects the policyholder. All contracts issued by the 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, evaluates the adequacy of claims liabilities using the appropriate actuarial techniques.

3. Main accounting policies (continued)

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.

Reinsurance

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

The amount recoverable from reinsurers is assessed in the same manner as unpaid claims and is recorded taking into account the time value of money.

Cash and cash equivalents

Cash and cash equivalents include cash, Treasury bills and bankers' acceptances that have a maturity of three months or less from the acquisition date. Interest income on cash and cash equivalents is recognized when earned and is included in the statement of income and comprehensive income in investment and other income.

Financial instruments

Financial instruments consist of available for sale financial assets and loans and receivables.

Available for sale 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. Available for sale financial assets are acquired for an indefinite period and may be sold to meet liquidity requirements.

The investments, all classified as available for sale ("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. Transaction costs related to financial instruments are capitalized and, for bonds, are amortized over the term of the instrument using the effective interest rate method. 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 the statement of income and comprehensive 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 accounts receivable, and deductibles recoverable from policyholders for claims liabilities are classified as loans and receivables.

3. Main accounting policies (continued)

Financial liabilities at amortized cost

Financial liabilities, which consist of accounts payable and accrued liabilities, 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 Fund categorizes its fair value measurements according to a three level hierarchy as described below:

Level 1 – Valuation technique based on quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

Recognition of revenues and expenses 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 it is earned.

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in a normal transaction between market participants.

Subsequent to initial recognition, the fair values are determined based on available information. The fair values of financial instruments are determined based on the closing price for bonds and the net asset value for units of mutual funds.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis over the estimated life of the assets, as follows:

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

Intangible assets

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

Impairment of long lived assets

Long lived assets 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 recognized in the Statement of Income and comprehensive income. During the current and previous years, no intangible assets or items of property plant and equipment were impaired.

3. Main accounting policies (continued)

Change to accounting standards

IFRS 16, "Revenue from Contracts with Customers"

On January 1, 2019, the Fund adopted IFRS 16, "Leases" which will replace IAS 17, "Leases" and the related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single accounting model for a lessee, which requires the recognition of lease assets and liabilities for most leases on the balance sheet, eliminating the distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains minimal.

The Fund estimates that the adoption of IFRS 16 did not have any significant impact.

Standards issued but not yet effective

At the approval date of these financial statements, the following interpretations were issued but not yet effective:

A. IFRS 9, "Financial Instruments"

On July 25, 2014, the International Accounting Standards Board (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 the application of a single impairment model to all financial instruments.

IFRS 9, as amended, introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. More specifically, the new standard requires entities to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis. For more information, see the section IFRS 4, "Insurance Contracts" on the next page.

3. Main accounting policies (continued)

Standards issued but not yet effective (continued)

B. IFRS 4, "Insurance Contracts"

In September 2016, the IASB issued amendments to IFRS 4, "Insurance Contracts" to address concerns of insurers and their representative organizations about the different effective dates of IFRS 9, "Financial Instruments" on January 1, 2018, and of the forthcoming new IFRS on insurance contracts.

The amendments allow, but do not require, an entity that issues insurance contracts to choose between two options. The first option consists in applying a temporary exemption to continue using IAS 39, "Financial Instruments: Recognition and Measurement" rather than IFRS 9, for fiscal years beginning before January 1st, 2021 if the entity has not previously applied IFRS 9 and if its predominant activities are insurance-related. The second option allows an entity to apply the overlay approach to designated financial assets that are eligible under certain specific criteria by reclassifying, between profit or loss and other comprehensive income, the difference between amounts recognized in profit or loss under IFRS 9 and those that would have been reported in profit or loss if the entity had applied IAS 39 for these assets.

The Fund has elected to apply the temporary exemption to continue applying IAS 39, deferring the application date of IFRS 9 to January 1st, 2021 (however, an exposure draft suggests to postpone this date to January 1st, 2022).

C. IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts" which will replace the current standard, IFRS 4, "Insurance Contracts." IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on current value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees. In addition, entities have the option to use a simplified valuation model (premium allocation approach) for short term contracts that is similar to the current approach.

In June 2019, the IASB published an Exposure Draft proposing amendments to IFRS 17, including a one year deferral of the effective date of January 1st, 2022. The comment period on the Exposure Draft ended in September 2019 and final amendments to the standard are expected to be published in 2020. The Fund is currently assessing the impact of the adoption IFRS 17.

3. Main accounting policies (continued)

Significant accounting estimates and assumptions

The carrying values of certain assets and liabilities are often determined on the basis of estimates and assumptions of future events. The main estimates and assumptions that present 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 development observed in 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 closing prices for bonds and on net asset value for units of mutual funds.

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 on the most recent trade date subject to liquidity adjustments, or average brokers' quotes when trades are too sparse to constitute an active market. More specifically, the fair value of bonds is determined by discounting the 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 the financial information. As for units of mutual funds, fair value is based on their net asset value.

Certain financial instruments whose fair values are not based on observable market inputs must be measured using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data [Level 3]. The Fund held no Level 3 securities as at December 31, 2018 and 2019. During the years, there were no transfers of amounts between Level 1 and Level 2.

The distribution of the Fund's financial instruments between each of the above–mentioned levels is presented on the next page.

4. Investments (continued) • Fair value hierarchy

	2019			
	Level 1	Level 2	Level 3	TOTAL
	$	$	$	$
Federal government bonds	-	8,639,639	-	8,639,639
Provincial government bonds	-	11,884,204	-	11,884,204
Municipal government bonds	-	11,097,253	-	11,097,253
Corporate bonds	-	13,087,593	-	13,087,593
Investment funds	-	12,078,420	-	12,078,420
	-	56,787,109	-	56,787,109

	2018			
	Level 1	Level 2	Level 3	TOTAL
	$	$	$	$
Federal government bonds	-	3,566,479	-	3,566,479
Provincial government bonds	-	16,410,113	-	16,410,113
Municipal government bonds	-	10,838,443	-	10,838,443
Corporate bonds	-	12,745,162	-	12,745,162
Investment funds	-	10,442,512	-	10,442,512
	-	54,002,709	-	54,002,709

4. Investments (continued) · Investment maturities

	2019				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	TOTAL
	$	$	$	$	$
Federal government bonds	2,346,403	5,678,782	614,454	-	8,639,639
Provincial government bonds	-	6,865,476	5,018,728	-	11,884,204
Municipal government bonds	1,997,457	8,746,339	353,457	-	11,097,253
Corporate bonds	1,593,752	8,581,097	2,912,744	-	13,087,593
Investment funds	-	-	-	12,078,420	12,078,420
	5,937,612	29,871,694	8,899,383	12,078,420	56,787,109

	2018				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	TOTAL
	$	$	$	$	$
Federal government bonds	436,384	1,406,911	1,723,184	-	3,566,479
Provincial government bonds	5,596,434	6,269,832	4,543,847	-	16,410,113
Municipal government bonds	2,574,834	7,860,890	402,719	-	10,838,443
Corporate bonds	2,058,548	7,649,601	3,037,013	-	12,745,162
Investment funds	-	-	-	10,442,512	10,442,512
	10,666,200	23,187,234	9,706,763	10,442,512	54,002,709

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

	2019			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Federal government bonds	8,609,154	38,614	(8,129)	8,639,639
Provincial government bonds	11,813,228	90,090	(19,114)	11,884,204
Municipal government bonds	11,062,671	56,765	(22,183)	11,097,253
Corporate bonds	12,975,193	131,966	(19,566)	13,087,593
Investment funds	9,821,407	2,434,266	(177,253)	12,078,420
	54,281,653	2,751,701	(246,245)	56,787,109

	2018			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Federal government bonds	3,532,919	33,560	-	3,566,479
Provincial government bonds	16,412,336	53,471	(55,694)	16,410,113
Municipal government bonds	10,880,898	13,955	(56,410)	10,838,443
Corporate bonds	12,822,900	19,800	(97,538)	12,745,162
Investment funds	9,170,753	1,303,514	(31,755)	10,442,512
	52,819,806	1,424,300	(241,397)	54,002,709

4. Investments (continued) · Investment and other income

	2019	2018
	$	$
Interest income	1,217,184	1,188,092
Dividend income	388,234	331,572
Variation of bond discount	(203,942)	(169,678)
Realized gain on disposal of investments	505,484	359,277
Management fees	(193,035)	(186,256)
	1,713,925	1,523,007

5. Additional information on financial instruments

The Fund's investments are managed by two external managers, which are required to follow the investment policy set out by the 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 will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and market price risk. The Fund's investment policy establishes principles and limits pertaining to these risks. The Audit and Risk Management Committee regularly monitors compliance with this investment policy.

5. Additional information on financial instruments (continued)

Currency risk

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

Interest rate risk

Interest rate risk is the risk that a fluctuation in interest rates will negatively impact the financial position of the Fund, which occurs when market interest rates rise. This risk is a significant component of market risk and is derived from the Fund's property and casualty insurance activity and from the investment portfolios it holds. The Fund has adopted an integrated risk management policy that takes into account interest rate risk.

A change in interest rates will impact the financial statements, such that a 1% change in interest rates would result in a $447,087 decrease (increase) in investment income ($435,602 as at December 31, 2018).

Market price risk

Stock market price risk arises from uncertainty related to the fair value of assets traded on stock markets. The Fund's investment policy limits market traded securities to a maximum of 30% of the total portfolio market value in order to improve risk/return, subject to capital requirements. As at December 31, 2019, the Fund indirectly held, through its fund units, $12,078,420 ($10,442,512 as at December 31, 2018) in securities traded on stock markets. As a result, a 1% change in the fair value of these assets would have an impact of $120,784 ($104,425 as at December 31, 2018) on the Fund's comprehensive income.

Credit risk

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

The 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 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 corporate securities with ratings of BBB or lower. The Fund may not invest more than 10% of the fixed-income security portfolio in the securities of a single issuer.

The Fund assesses the reinsurer's financial strength before signing any reinsurance treaties and monitors its situation on a regular basis. In addition, the Fund has minimum rating requirements for its reinsurer. The reinsurer must have a minimum rating of A+ (A+ as at December 31, 2018). The Fund uses the AM Best ratings agency.

5. Additional information on financial instruments (continued)

Credit risk (continued)

The following tables present the fair value of municipal government bonds and corporate bonds according to the nomenclature of the rating agency:

	2019					
	AAA	AA	A	BBB	Unrated	Fair value
	$	$	$	$	$	$
			(in thousands of dollars)			
Federal government bonds	8,640	-	-	-	-	8,640
Provincial government bonds	-	11,884	-	-	-	11,884
Municipal government bonds	-	-	-	-	11,097	11,097
Corporate bonds	-	6,821	4,503	1,764	-	13,088

	2018					
	AAA	AA	A	BBB	Unrated	Fair value
	$	$	$	$	$	$
			(in thousands of dollars)			
Federal government bonds	3,567	-	-	-	-	3,567
Provincial government bonds	-	16,410	-	-	-	16,410
Municipal government bonds	-	-	-	-	10,838	10,838
Corporate bonds	-	7,745	3,771	1,229	-	12,745

5. Additional information on financial instruments (continued)

Maximum credit risk exposure arising from financial instruments

	2019	2018
	$	$
Cash	1,855,537	2,032,326
Treasury bills and banker's acceptance	219,457	383,510
Canadian, provincial and municipal government bonds	31,621,096	30,815,035
Corporate bonds	13,087,593	12,745,162
Investment income receivable	247,943	245,583
Premiums and other accounts receivable	75,051	45,016
Amount recoverable from reinsurers for claims liabilities	507,000	737,000
Deductibles recoverable from policyholders for claims liabilities	803,368	757,776
	48,417,045	47,761,408

Credit risk concentration

Concentration of credit risk exists where a number of borrowers or counterparties 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 Fund's invested assets could be sensitive to changes affecting a particular type of industry. All of the securities held are issued in Canada.

Liquidity risk

Liquidity risk is the risk that an entity will have difficulty meeting obligations associated with financial instruments that are settled in cash. To manage its cash flow requirements, the Fund maintains a portion of its invested assets in liquid securities. On December 31, 2019 and 2018, the financial liabilities were all due in the following year.

5. Additional information on financial instruments (continued)

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument fluctuate in amount. The Fund mitigates this risk by matching, as much as possible, 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 accounts receivable, deductibles recoverable from policyholders for claims liabilities, and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

6. Insurance risk

Insurance risk and management

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

- Underwriting and pricing;
- Fluctuations 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 1 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 Fund's profitability tends to follow this cyclical market pattern. In addition, the Fund is at risk from changes in professional liability insurance legislation and the economic environment.

In order to properly monitor the 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 was established at $345 in 2018 and maintained at $345 in 2019 for real estate brokers and agencies, and at $245 in 2018 and 2019 for mortgage brokers. In addition, the limit of coverage provided to policyholders remained the same (see Note 8).

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

6. Insurance risk (continued)

Insurance risk and management (continued)

B. Claims management and reinsurance

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

Under the aegis of the Professional Liability Insurance Decision making Committee, (PLIDC), strict claim review policies are used to assess all new and ongoing claims. In addition, regular detailed reviews of claims handling procedures reduce the Fund's risk exposure. Furthermore, the 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 PLIDC analyses claims and contentious matters in order to ensure that sufficient claims liabilities are established.

C. Sensitivity to insurance risk

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

Estimates of claims liabilities 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 factors and unforeseen factors could negatively impact the Fund's ability to accurately assess the risk of the insurance contracts underwritten by the Fund. 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 Fund as well as additional delays between the reporting and the final settlement of claims.

The Fund refines its estimates of claims liabilities on a regular basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process, and the surrounding policies are overseen by the PLIDC.

7. Claims liabilities

Actuarial liabilities are determined to reflect the estimate of the full amount of all liabilities associated with the insurance policies as at the date of the statement of financial position, 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 obtained on the facts and circumstances concerning the claims incurred.

Unpaid claims and amounts recoverable from reinsurers

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

Unpaid claims were reduced in a net amount of $410,106 as at December 31, 2019 ($527,600 as at December 31, 2018) to reflect the time value of money, using an average discount rate of 1.90% (2.29% in 2018) on the underlying claim settlement statistics. The provision for adverse deviations increased unpaid claims in a net amount of $1,664,997 as at December 31, 2019 ($1,420,243 as at December 31, 2018).

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 are inadequate to cover these costs, the Fund will be required to recognize a corresponding liability to cover the deficiency.

Interest rate sensitivity

Since the time value of money is considered in determining the unpaid claims estimate, an increase or decrease in the discount rate would result in a decrease or increase, respectively, in the expense for unpaid claims. Accordingly, a 1% increase in the discount rate would have a $233,792 negative impact on the value of unpaid claims as at the date of the statement of financial position ($233,508 as at December 31, 2018), while a 1% decrease in the discount rate would have a $242,817 positive impact on the value of unpaid claims as at the date of the statement of financial position ($243,130 as at December 31, 2018).

Prior year claims development

The following table shows estimates of incurred claims, including IBNR claims, for the nine 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 as well as current estimates of claims liabilities for claims still open or claims still unreported.

7. Claims liabilities (continued) • Ultimate incurred claims estimate

	2011	2012	2013	2014	2015	2016	2017	2018	2019	TOTAL
	$	$	$	$	$	$	$	$	$	$
As at end of underwriting year	6,073,405	5,608,678	5,283,626	4,749,235	5,407,964	4,615,194	4,948,557	5,524,969	4,951,093	
One year later	4,671,308	4,468,644	4,069,840	4,607,025	5,439,827	4,137,714	4,713,490	4,865,831		
Two years later	4,077,761	4,144,194	3,301,052	4,552,032	5,138,710	3,604,401	4,530,731			
Three years later	3,245,717	3,543,060	3,288,660	4,561,616	5,048,986	3,671,419				
Four years later	3,125,725	3,551,053	3,347,492	4,254,503	5,012,496					
Five years later	3,247,652	3,343,806	3,005,507	4,314,815						
Six years later	3,241,606	3,323,517	2,943,504							
Seven years later	3,167,900	3,258,499								
Eight years later	3,120,618									
Ultimate incurred claims estimate	3,120,618	3,258,499	2,943,504	4,314,815	5,012,496	3,671,419	4,530,731	4,865,831	4,951,093	36,669,006
Paid claims	3,120,618	3,225,216	2,857,515	3,914,795	4,546,943	2,860,226	1,972,943	1,694,459	581,203	24,773,918
Unpaid claims	-	33,283	85,989	400,020	465,553	811,193	2,557,788	3,171,372	4,369,890	11,895,088
Effect of discounting and margins										1,136,410
Other										1,845,502
FINAL UNPAID CLAIMS										14,877,000

Note: The amounts in this table are net of $803,368 in deductibles recoverable from policyholders for claims liabilities.

7. Claims liabilities (continued) · Developments in net claims liabilities

	2019			2018		
	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
	$	$	$	$	$	$
	(In thousands of dollars)			(In thousands of dollars)		
BALANCE – BEGINNING OF YEAR	14,072	737	13,335	13,460	1,098	12,362
Changes in estimated losses and expenses for claims incurred in prior years	(1,259)	(230)	(1,029)	(2,180)	(467)	(1,713)
Losses and expenses on claims incurred in the current year	6,526	-	6,526	7,108	106	7,002
Less: recoveries received (amounts paid) in respect of incurred claims						
During the current year	(955)	-	(955)	(1,082)	-	(1,082)
During prior years	(3,507)	-	(3,507)	(3,234)	-	(3,234)
BALANCE – END OF YEAR	14,877	507	14,370	14,072	737	13,335

Note : The amounts in this table are net of $803,368 in deductibles recoverable from policyholders for claims liabilities ($757,776 in 2018).

8. Reinsurance

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

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

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

The reinsurance offered $11,000,000 in overall annual coverage in excess of the Fund retention of $6,000,000 from January 1, 2019 to January 1, 2020.

9. Net earned premiums

	2019	2018
	$	$
GROSS PREMIUMS WRITTEN	5,655,955	5,638,376
Reinsurance premiums ceded	(404,700)	(404,700)
Net premiums written	5,251,256	5,233,676
Change in unearned premiums	(6,083)	(23,055)
NET EARNED PREMIUMS	5,245,173	5,210,621

No allowance for doubtful accounts was deducted from net earned premiums in 2019 and 2018, determined on the basis of 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 policyholder is not actually covered until the OACIQ receives the premium, and therefore no allowance for doubtful accounts is required.

10. 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 risk-weighting and margin factors. The 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.

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

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

	2019	2018
	$	$
Capital available	42,327	41,027
Capital required	5,509	5,128
Excess of capital available over capital required	36,818	35,899
MCT (AS A %)	**768,32 %**	**800,06 %**

11. Transactions with the OACIQ

By various agreements with the **OACIQ**, the Fund received certain management services and provided sponsorships, totaling $83,965 ($64,508 in 2018), in addition to rent expenses of $114,345 ($112,739 in 2018). To these amounts are added other paid expenses totaling $197,978 ($137,350 in 2018). These transactions were concluded in the normal course of business and measured at the value agreed between the parties. As at December 31, 2019, an amount of $57,005 was payable ($13,768 as at December 31, 2018) in connection with these transactions. Premiums and other accounts receivable include an amount of $13,357 ($15,223 in 2018) for premiums and deductibles collected by the **OACIQ** on behalf of the Fund.

12. Premiums and accounts receivable

	2019	2018
	$	$
Deductibles receivable	64,750	31,900
Premiums receivable	10,187	13,116
Other amounts receivable	114	-
	75,051	45,016

13. Compensation of key executive officers

Key executive officers consist of all members of the Board of Directors and the executive officers of the Fund. Their total compensation for 2019 amounted to $262,394 ($303,759 for 2018).

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, 2019 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	Carried in Annual Return ($000)	Actuary's estimate ($000)
(1) Direct unpaid claims and adjustment expenses	14,877	14,877
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	14,877	14,877
(4) Amounts recoverable from reinsurers	507	507
(5) Other recoverables on unpaid claims	803	803
(6) Other liabilities	803	803
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	14,370	14,370

Premium liabilities	Carried in Annual Return (col. 1) ($000)	Actuary's estimate (col. 2) ($000)
(1) Gross unearned premium liabilities		2,114
(2) Net unearned premium liabilities		2,249
(3) Gross unearned premiums	1,916	
(4) Net unearned premiums	1,916	
(5) Premium deficiency	333	333
(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 + Ceded deferred premium taxes + Ceded deferred insurance operations expenses	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 21, 2020

Date opinion was rendered

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A SENSE OF BALANCE

OACIQ

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