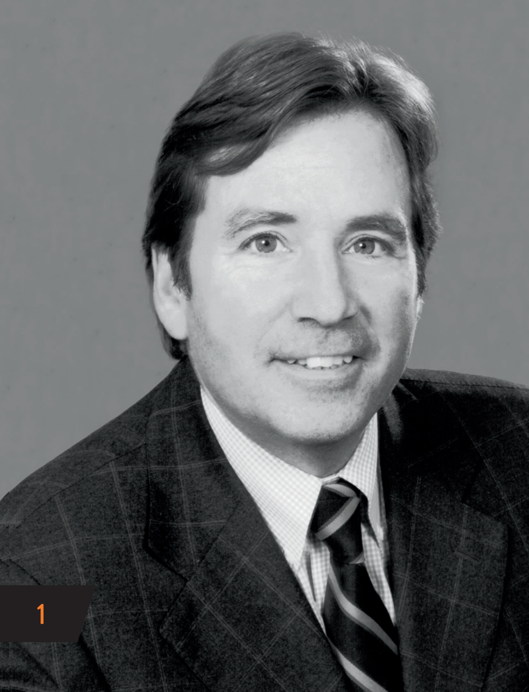
Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec

ANNUAL REPORT 2013

Committed to protecting you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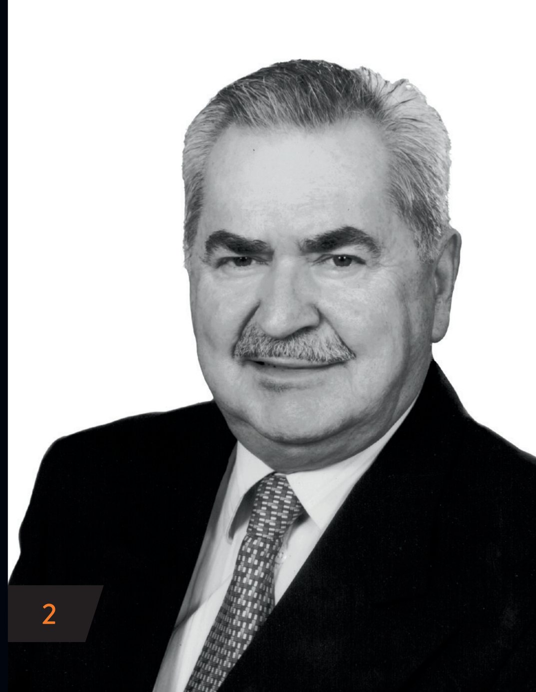
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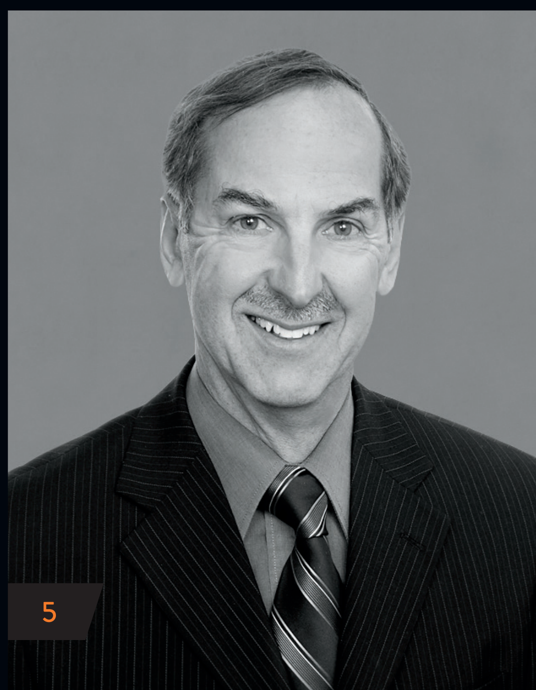
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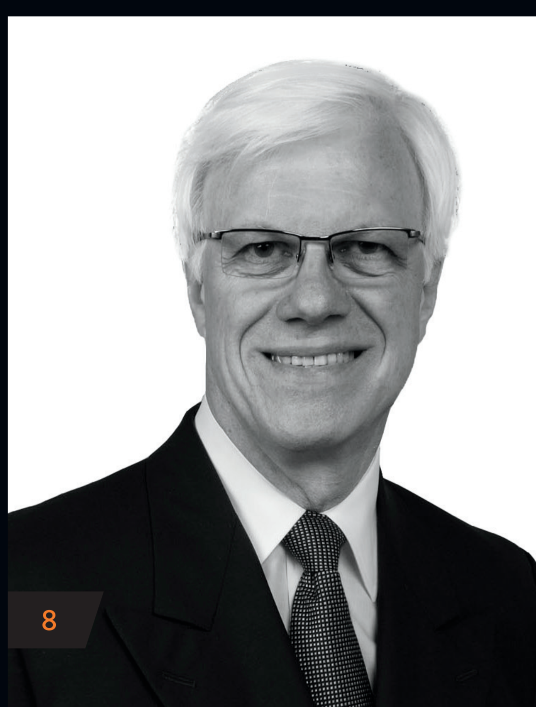
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FARCIQ DIRECTORS AS AT DECEMBER 31, 2013

1. Me MICHEL LÉONARD
Chartered Real Estate Broker
and Lawyer
President of BTB Real Estate
Investment Trust

Chairman of the Board of Directors
President of the Visibility Committee and the Governance Committee, and Member of the Audit Committee, the Ethics Committee, the Prevention and Claims Committee and the Investments Committee

2. JEAN-GUY SAVOIE
Real Estate Broker with Royal LePage de l'OUTAOUAIS

Vice-Chair of the Board of Directors
Member of the Prevention and Claims Committee and the Governance Committee

3. MARTIN DUPRAS, A.S.A., F.Pl., D. Tax.
President of ConFor financiers inc.

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

4. ALBERT ARDUINI, T.P., CIP
Manager, Building inspection
and expertise
Risk Management Services Inc.

Director
Member of the Audit Committee and the Prevention and Claims Committee

5. Me YVES COUSINEAU
Partner, Robinson Sheppard Shapiro, S.E.N.C.R.L.

Director
Chair of the Ethics Committee, and Member of the Governance Committee

6. XAVIER LECAT
Real Estate Broker, L'Expert Immobilier PM Enr.

Director
Member of the Investments Committee and the Visibility Committee

7. DENIS MAJEAU, CPA, CA
Chief Financial Officer, Governance and Operations, Kitco Metals Inc.

Director
Member of the Audit Committee and the Investments Committee

8. LOUIS-GEORGES PELLETIER, AIAC
General Insurance Broker

Director
Chair of the Prevention and Claims Committee, and Member of the Ethics Committee, the Governance Committee and the Visibility Committee

9. CHRISTIANE ST-JEAN
Franchisee, Agency Manager and President of RE/MAX ACCÈS Inc.

Director
Member of the Ethics Committee and the Visibility Committee

MISSION

Protect our policyholders' assets through professional liability insurance.

Membership in the *Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec* is mandatory. All real estate and mortgage brokerage agencies and brokers who are duly licensed by the OACIQ are covered by a professional liability insurance for faults, errors, negligence or omissions committed in the course of their professional activities.

FARCIQ

Fonds d'assurance responsabilité professionnelle
du courtage immobilier du Québec

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MICHEL LÉONARD

Chairman of the Board of Directors

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

We are happy to present the financial results of the *Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec* for 2013. For the year ended December 31, the number of policyholders dropped from 17,998 to 17,371. During this period the premium also decreased, going from $485 in 2012 to $420 in 2013, contributing to a decrease in the Fund's revenues. The number of new claims for the same period remained stable at 511.

In addition, the Fund closed 672 files, and the insurance coverage of $1,000,000 remained the same.

We ended the fiscal year 2013 with a profit of $4,842,363, bringing our accumulated surplus to $33,807,312. The Fund's solvency level is maintained above the target of 375%, set in consultation with its Appointed Actuary. This confirms its excellent financial health.

The primary role of the FARCIQ is to protect the assets of its policyholders in case of fault, error, negligence or omission committed in the course of their professional activities. Reducing its clients' exposure to professional liability claims enables the Fund to offer them advantageous coverage. Thus in 2013 the Fund participated in several prevention activities and engaged in a number of communication actions and interventions, in order to make an active contribution to the collective efforts aimed at reducing the number of claims, which benefits both brokers and consumers. The challenges relating to claims experience and prevention will remain a priority in 2014.

As in previous years, the Fund reassessed the amount of premiums needed to meet its obligations, based on claims experience and capitalization, and will be in a position to reduce it from $420 to $395 at policy renewal time in May 2014. In addition, the policy will be reviewed in an effort to take into account various concerns that have been raised.

On the administrative side, in July 2013 the Fund welcomed its new General Manager, Brigitte Corbeil. With a corporate governance certification, a Master's degree in Business Administration and a Bachelor's degree in Actuarial Science, Ms. Corbeil brings more than 25 years of experience in the property and casualty insurance industry to the Insurance Fund.

I would like to thank the members of the Fund's Board of Directors for their continued contributions and availability, as well as our former General Manager for his involvement in the various projects carried out in 2013.

Michel Léonard
Chairman of the Board of Directors

BRIGITTE CORBEIL

General Manager

MESSAGE FROM THE GENERAL MANAGER

First of all, allow me to say how proud I was to join the ranks of the FARCIQ in July 2013. As soon as I arrived, I was made aware of the needs and concerns of policyholders when it comes to their professional liability insurance, and of the importance of prevention and training for real estate and mortgage brokers. The last two elements play a major role in decreasing claims and keeping premiums under control.

Throughout the year, the Insurance Fund team worked to fulfill its mission of protecting policyholders' assets. With client satisfaction at the heart of our efforts, our team also guided policyholders through the various procedures relating to their professional liability.

2013 was marked by an intensive array of communications activities. A visibility program put forth by our Board of Directors gave rise to numerous projects:

- **Capsules, articles and comic strips**
  Some 20 columns, interviews, articles and informational texts in the form of comic strips (*Brokers' Actions*) were published in the OACIQ's *Pro@ctive* and *Profession Broker* newsletters.

- **Prevention Guide**
  We developed a guide containing useful tips on ways for brokers to reduce the risk of claims and outlining proper professional practices.

- **Mass mailing to all our policyholders**
  A USB key was sent to each broker containing various useful tools: *Prevention Guide, Liability Insurance Policy, the 10 Golden Rules of Real Estate and Mortgage Brokerage*, and the brochure presenting the role and mission of the Insurance Fund.

- **Seminars, conventions and fall tour of real estate boards**
  We participated as guest speaker or exhibitor in about a dozen activities.

- **Mandatory continuing education activity *Agency executive officer: more than a director***
  We helped develop the chapter on "Professional liability" of the OACIQ's *Participant's Guide* and *Trainer's Guide*, as well as the training session itself.

As you can see, our projects in 2013 focused on prevention and information.

I would like to say a special thank you to FARCIQ directors for their involvement and great cooperation. I also congratulate all FARCIQ employees for their commitment to our policyholders, their loyalty and their excellent work.

Brigitte Corbeil
General Manager

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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Suite 3000
Montréal QC H3B 4T9

Tel.: 514 393-7115 • Fax: 514 390-4111
www.deloitte.ca

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, 2013, 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 in our audit 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP [1]

February 24, 2014

[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, 2013

(in Canadian dollars)

	2013	2012
	$	$
Insurance operations		
Premiums earned (Note 11)	7,946,885	9,021,625
Reinsurance premiums ceded (Note 11)	(491,607)	(493,753)
Net earned premiums	7,455,278	8,527,872
Claims and loss adjustment expenses	1,801,311	2,517,429
General and administrative expenses	2,024,850	1,684,113
Total claims and expenses	3,826,161	4,201,542
Underwriting profit	3,629,117	4,326,330
Investment and other income (Note 4)	1,213,246	1,782,396
Income for the year	4,842,363	6,108,726
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Unrealized (loss) gain on available-for-sale securities	(927,102)	227,473
Portion reclassified to income from available-for-sale securities	(62,397)	(658,549)
Other comprehensive income for the year	(989,499)	(431,076)
COMPREHENSIVE INCOME	3,852,864	5,677,650

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

Statement of changes in accumulated surplus · Year ended December 31, 2013

(in Canadian dollars)

	Accumulated surplus	Accumulated other comprehensive income	Total	
			2013	2012
	$	$	$	$
Balance, beginning of year	29,558,369	396,079	29,954,448	24,276,798
Income for the year	4,842,363	-	4,842,363	6,108,726
Other comprehensive income	-	(989,499)	(989,499)	(431,076)
BALANCE, END OF YEAR	34,400,732	(593,420)	33,807,312	29,954,448

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 · December 31, 2013

(in Canadian dollars)

	2013	2012
	$	$
Assets		
Cash	1,270,966	145,195
Treasury bills (interest rate of 0.89% in 2013)	349,398	-
Investments (Note 4)	47,278,143	46,993,685
Investment income receivable	185,223	171,186
Premiums and other receivables (Note 14)	42,055	126,446
Amounts recoverable from reinsurers for claims liabilities (Note 9)	2,394,000	2,575,000
Deductibles recoverable from policyholders for claims liabilities	397,984	528,627
Prepaid reinsurance	255,052	236,555
Prepaid expenses	36,761	38,142
Property, plant and equipment (Note 7)	34,887	58,123
Intangible assets (Note 8)	132,622	169,288
	52,377,091	51,042,247
Liabilities		
Accounts payable and accrued liabilities	151,464	93,237
Due to OACIQ (Note 13)	15,929	249,792
Unearned premiums	2,528,148	3,023,266
Claims liabilities (Note 9)	15,874,238	17,721,504
	18,569,779	21,087,799
Commitments (Note 16)		
Accumulated surplus		
Accumulated surplus, end of year	34,400,732	29,558,369
Accumulated other comprehensive income	(593,420)	396,079
	33,807,312	29,954,448
	52,377,091	51,042,247

Approved by the Board of Directors

Michel Léonard
Chairman of the Board of Directors

Martin Dupras
Treasurer and Director

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

Statement of cash flows • Year ended December 31, 2013

(in Canadian dollars)

	2013	2012
	$	$
Operating activities		
Income for the year	4,842,363	6,108,726
Adjustments for:		
Amortization of property, plant and equipment	30,923	35,665
Amortization of intangible assets	36,666	22,435
Amortization of premiums and investment discounts	144,243	155,216
Gain on disposal of investments	(62,397)	(658,549)
Income of reinvested dividends	(293,562)	(261,443)
	4,698,236	5,402,050
Change in non-cash working capital items		
Investment income receivable	(14,037)	11,432
Premiums and other receivables	84,391	12,689
Prepaid expenses	1,381	(32,732)
Amounts recoverable from reinsurers for claims liabilities	181,000	2,004,000
Prepaid reinsurance	(18,497)	20,643
Deductibles recoverable from policyholders for claims liabilities	130,643	(72,288)
Accounts payable and accrued liabilities	58,227	(451,082)
Due to OACIQ	(233,863)	238,967
Unearned premiums	(495,118)	(136,582)
Claims liabilities	(1,847,266)	(2,828,835)
	2,545,097	4,168,262
Investing activities		
Acquisition of investments	(40,164,328)	(33,410,018)
Proceeds on disposal of investments	39,102,087	28,589,409
Additions to property, plant and equipment	(7,687)	(4,645)
Additions to intangible assets	-	(76,134)
	(1,069,928)	(4,901,388)
(Decrease) increase in cash and cash equivalents	1 475 169	(733,126)
Cash and cash equivalents, beginning of year	145 195	878,321
Cash and cash equivalents, end of year	1 620 364	145,195
Cash and cash equivalents consist of:		
Cash	1,270,966	145,195
Treasury bills	349,398	-
	1,620,364	145,195

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Notes to financial statements · December 31, 2013

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") (formerly the Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec) was incorporated by Québec's self-regulatory body for real estate brokers, the Organisme d'autoréglementation du courtage immobilier du Québec (the "OACIQ") (formerly the Association des courtiers et agents immobiliers du Québec). 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 issued by the International Accounting Standards Board ("IASB"). These financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 24, 2014.

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

3. Accounting policies

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Insurance Fund agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Insurance Fund determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

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.

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. 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.

3. Accounting policies (cont'd)

Financial instruments (cont'd)

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.

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 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 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.

Application of new standards

A. **IAS 1 – Presentation of Financial Statements**

On January 1, 2013, the Insurance Fund adopted the amendments to IAS 1, *Presentation of Financial Statements* which improve the presentation of items of other comprehensive income. The amendments require the presentation by nature of items by distinguishing those that will not be reclassified to the statements of net income in a subsequent period from those that will. The retrospective application of this standard has no impact on the comprehensive income.

B. **Offsetting Financial Assets and Financial Liabilities**

On January 1, 2013, the Insurance Fund adopted the amendments to IFRS 7, *Financial instruments: Disclosures*. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The purpose of these amendments is to help users of financial statements better evaluate the effect of netting agreements on the financial position of an entity and how an entity manages credit risk in connection with such agreements. The retrospective application of this standard has no impact on the financial statements.

C. **IFRS 13 – Fair value measurement**

On January 1, 2013, the Insurance Fund adopted IFRS 13, *Fair value measurement*. This standard defines fair value and sets out a single framework for measuring the fair value of transactions and balances for which IFRS require or permit fair value measurement.

The Insurance Fund has applied these changes prospectively. These changes, which specifically target the disclosure to be provided, had no impact on the statement of comprehensive income or on the statement of financial position of the Insurance Fund. The new disclosure requirements under IFRS 13 are disclosed in Note 4.

3. Accounting policies (cont'd)

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. **Financial instruments: Classification and measurement**
   The IASB has issued a new standard, IFRS 9, Financial Instruments, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides guidance on the classification and measurement of financial assets and financial liabilities, and requirements for the derecognition of financial assets and financial liabilities. IFRS 9 will be applied prospectively with transitional arrangements depending on the date of application. There is currently no mandatory effective date in IFRS 9 and it is left open pending the finalization of the impairment and classification and measurement requirements.

B. **Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities***
   In December 2011, the IASB published the amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities*. The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

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, 2013.

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

4. Investments (cont'd)

Fair value hierarchy

	2013		
	Level 1	Level 2	Total
	$	$	$
Provincial government bonds	-	9,669,611	9,669,611
Municipal government bonds	-	11,402,400	11,402,400
Corporate bonds	-	13,482,709	13,482,709
Investment funds	-	9,295,173	9,295,173
Preferred shares	3,428,250	-	3,428,250
	3,428,250	43,849,893	47,278,143

	2012		
	Level 1	Level 2	Total
	$	$	$
Provincial government bonds	-	11,572,530	11,572,530
Municipal government bonds	-	10,664,505	10,664,505
Corporate bonds	-	11,498,872	11,498,872
Investment funds	-	8,893,426	8,893,426
Preferred shares	4,364,352	-	4,364,352
	4,364,352	42,629,333	46,993,685

Investment maturities

	2013				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
	$	$	$	$	$
Provincial government bonds	-	6,914,187	2,755,424	-	9,669,611
Municipal government bonds	2,465,893	8,936,507	-	-	11,402,400
Corporate bonds	1,510,194	9,407,785	2,564,730	-	13,482,709
Investment funds	-	-	-	9,295,173	9,295,173
Preferred shares	-	-	-	3,428,250	3,428,250
	3,976,087	25,258,479	5,320,154	12,723,423	47,278,143

	2012				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
	$	$	$	$	$
Provincial government bonds	-	9,922,846	1,649,684	-	11,572,530
Municipal government bonds	2,052,887	8,611,618	-	-	10,664,505
Corporate bonds	380,244	7,349,270	3,769,358	-	11,498,872
Investment funds	-	-	-	8,893,426	8,893,426
Preferred shares	-	-	-	4,364,352	4,364,352
	2,433,131	25,883,734	5,419,042	13,257,778	46,993,685

4. Investments (cont'd)

Unrealized investment gains (losses)

	2013			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	9,666,957	23,083	(20,429)	9,669,611
Municipal government bonds	11,312,605	153,300	(63,505)	11,402,400
Corporate bonds	13,367,785	133,592	(18,668)	13,482,709
Investment funds	9,879,250	-	(584,077)	9,295,173
Preferred shares	3,644,966	7,053	(223,769)	3,428,250
	47,871,563	317,028	(910,448)	47,278,143

	2012			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	11,536,716	38,314	(2,500)	11,572,530
Municipal government bonds	10,457,938	247,180	(40,613)	10,664,505
Corporate bonds	11,294,707	217,339	(13,174)	11,498,872
Investment funds	8,993,764	-	(100,338)	8,893,426
Preferred shares	4,314,481	73,727	(23,856)	4,364,352
	46,597,606	576,560	(180,481)	46,993,685

Investment and other income

	2013	2012
	$	$
Interest income	974,330	934,020
Dividend income	486,552	466,601
Amortization of premiums and discounts	(144,243)	(155,216)
Gain from disposal of investments	62,397	658,549
	1,379,036	1,903,954
Investment management and custody fees	165,790	141,610
Investment income	1,213,246	1,762,344
Other income	-	20,052
INVESTMENT AND OTHER INCOME	1,213,246	1,782,396

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.

Financial instrument interest rates by maturity

	2013			
	Floating rate	Under 12 months	1 to 5 years	Over 5 years
	%	%	%	%
Assets				
Fixed-income securities	-	1.35 to 5.74	1 to 5.8	2.85 to 5.54
Reinsurance and deductibles	-	2.21	2.21	2.21
Liabilities				
Claims liabilities	-	2.21	2.21	2.21

	2012			
	Floating rate	Under 12 months	1 to 5 years	Over 5 years
	%	%	%	%
Assets				
Fixed-income securities	-	1.75 to 5.2	1.40 to 5.28	2.5 to 8.25
Reinsurance and deductibles	-	1.93	1.93	1.93
Liabilities				
Claims liabilities	-	1.93	1.93	1.93

5. Additional information about financial instruments (cont'd)

A 1% change in interest rates would result in a $1,536,329 decrease (increase) in investment income ($1,502,570 in 2012).

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+ as at June 14, 2013. The Insurance Fund uses AM Best ratings agency.

Maximum credit risk exposure arising from financial instruments

	2013	2012
	$	$
Cash	1,270,966	145,195
Treasury bills	349,398	-
Canadian, provincial and municipal government bonds	21,072,011	22,237,035
Corporate bonds	13,482,709	11,498,872
Investment funds	9,295,173	8,893,426
Preferred shares	3,428,250	4,364,352
Investment income receivable	185,223	171,186
Premiums receivable	42,055	126,446
Amounts recoverable from reinsurers for claims liabilities	2,394,000	2,575,000
Deductibles recoverable from policyholders for claims liabilities	397,984	528,627
TOTAL	51,917,769	50,540,139

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 (cont'd)

Debt securities by industry

	2013	2012
	%	%
Federal, provincial and municipal governments – Canada	69.44	72.30
Financials	18.50	17.37
Industrials	3.31	1.52
Energy	2.28	1.55
Infrastructure	2.38	2.71
Real estate	3.11	2.60
Telecommunication	0.98	1.95
	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 $485 in 2012, was decreased to $420 in 2013. 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 resolution and administration. 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

6. Insurance risk (cont'd)

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.

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

	2013		
	Cost	Accumulated amortization	Carrying value
	$	$	$
Telephone system	22,927	22,927	-
Leasehold improvements	55,343	37,159	18,184
Furniture and equipment	82,575	77,081	5,494
Computer hardware	41,105	29,896	11,209
TOTAL	201,950	167,063	34,887

	Carrying value December 31, 2012	Additions/ (disposals)	Amortization	Carrying value December 31, 2013
	$	$	$	$
Reconciliation of carrying value				
Telephone system	4,458	-	4,458	-
Leasehold improvements	29,253	-	11,069	18,184
Furniture and equipment	11,907	-	6,413	5,494
Computer hardware	12,505	7,687	8,983	11,209
TOTAL	58,123	7,687	30,923	34,887

7. Property, plant and equipment (cont'd)

	2012		
	Cost	Accumulated amortization	Carrying value
	$	$	$
Telephone system	22,927	18,469	4,458
Leasehold improvements	55,343	26,090	29,253
Furniture and equipment	82,575	70,668	11,907
Computer hardware	33,418	20,913	12,505
TOTAL	194,263	136,140	58,123

	Carrying value December 31, 2011	Additions/ (disposals)	Amortization	Carrying value December 31, 2012
	$	$	$	$
Reconciliation of carrying value				
Telephone system	12,100	-	7,642	4,458
Leasehold improvements	40,321	-	11,068	29,253
Furniture and equipment	20,939	776	9,808	11,907
Computer hardware	15,783	3,869	7,147	12,505
TOTAL	89,143	4,645	35,665	58,123

8. Intangible assets

	2013			2012
	Cost	Accumulated amortization	Carrying value	Carrying value
	$	$	$	$
Software	535,286	402,664	132,622	169,288

	Carrying value December 31, 2012	Additions/ (disposals)	Amortization	Carrying value December 31, 2013
	$	$	$	$
Reconciliation of carrying value				
Software	169,288	-	36,666	132,622

General and administrative expenses include amortization for the year of $20,662 ($14,117 in 2012), included in general and administrative expenses, and $16,004 ($8,318 in 2012), 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 $357,232 as at December 31, 2013 ($299,000 in 2012) to reflect the time value of money, using an average discount rate of 2.21% (1.93% in 2012) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $693,707 as at December 31, 2013 ($916,000 in 2012).

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 $169,716 negative impact on the fair value of unpaid claims as at the statement of financial position date ($202,000 in 2012), while a 1% decrease in the discount rate would have a $174,957 positive impact on the fair value of unpaid claims as at the statement of financial position date ($208,000 in 2012).

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.

Prior year claims development

Ultimate incurred claims estimate	2006	2007	2008	2009	2010	2011	2012	2013	TOTAL
	$	$	$	$	$	$	$	$	$
As at end of underwriting year	508,900	3,207,940	6,526,460	6,562,559	6,673,910	6,073,405	5,608,678	5,283,626	
One year later	538,200	5,073,644	7,023,718	6,424,801	6,033,124	4,671,308	4,468,644		
Two years later	260,762	5,285,586	5,651,971	4,772,070	4,790,220	4,077,761			
Three years later	227,329	4,034,785	4,585,239	3,220,954	4,076,860				
Four years later	240,641	2,984,691	3,439,944	2,761,601					
Five years later	222,240	2,778,007	3,073,062						
Six years later	233,275	2,728,906							
Seven years later	220,914								
Total liabilities	220,914	2,728,906	3,073,062	2,761,601	4,076 860	4,077,761	4,468,644	5,283,626	26,691,374
Paid claims	(220,914)	(2,674,145)	(2,802,958)	(1,989,149)	(2,529,303)	(1,968,215)	(1,453,208)	(351,815)	(13,989,707)
Unpaid claims	-	54,761	270,104	772,452	1,547,557	2,109,546	3,015,436	4,931,811	12,701,667
Prior years									-
Effect of discounting and margins									1,193,956
Other									1,580,631
Final unpaid Claims									15,476,254

Note: These amounts exclude $397,984 in deductibles recoverable from policyholders for claims liabilities.

9. Claims liabilities (cont'd)

Movement of net claims liabilities

	2013			2012		
	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	17,192	2,575	14,167	20,094	4,579	15,515
Changes in estimated losses and expenses for claims incurred in prior years	(5,253)	(1,385)	(3,868)	(7,394)	(3,829)	(3,565)
Losses and expenses on claims incurred in the current year	6,878	1,204	5,674	7,795	1,825	5,970
Less recoveries received (amounts paid) in respect of incurred claims						
During the current year	(579)	-	(579)	(746)	-	(746)
During prior years	(2,762)	-	(2,762)	(2,557)	-	(2,557)
BALANCE, END OF YEAR	15,476	2,394	13,082	17,192	2,575	14,617

Note: This table excludes $397,984 in deductibles recoverable from policyholders for claims liabilities ($528,627 in 2012).

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.

11. Net earned premiums

	2013	2012
	$	$
Earned premiums	7,946,885	9,021,625
Reinsurance premiums written	510,104	473,110
Change in unearned reinsurance premiums	(18,497)	20,643
Reinsurance premiums ceded	491,607	493,753
Net earned premiums	7,455,278	8,527,872

No allowance for doubtful accounts was deducted from net earned premiums in 2013 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 2013, 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:

	2013	2012
	$	$
	(in thousands of dollars)	
Capital available	33,808	29,786
Capital required	4,413	3,980
Excess of capital available over capital required	29,395	25,806
MCT (as a %)	766.10 %	748.39 %

13. Transactions with the OACIQ

By various agreements with OACIQ, the Insurance Fund received certain management services and provided sponsorship, totaling $227,355 ($59,802 in 2012), in addition to rent expenses of $84,166 ($91,669 in 2012). To these amounts are added the compensatory tax $126,122 ($186,000 in 2012, included in accounts payable at December 31, 2012) and other paid expenses totaling $38,225 (nil in 2012). These transactions were concluded in the normal course of business and measured at the value agreed between parties. As at December 31, 2013, an amount of $15,929 is payable ($70,143 in 2012) in connection with these transactions. Premiums and other receivables include an amount of $11,555 ($7,690 in 2012) for the premiums collected by the OACIQ on behalf of the Fund.

14. Premiums and other receivables

	2013	2012
	$	$
Deductibles receivable	41,968	51,175
QST receivable	87	75,271
TOTAL	42,055	126,446

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 2013 amounted to $507,099 ($395,349 for 2012).

16. Commitments

The Insurance Fund is committed under a subletting arrangement with the OACIQ under a lease expiring in July 2015. Future minimum payments under the contract are as follows:

	$
2014	65,502
2015	38,209

17. Comparative figures

Following an analysis of the internal loss adjustment expenses, FARCIQ conducted a reclassification of $46,234 in General and administrative expenses which was previously presented in the claims and loss adjustment expenses.

Opinion of the Actuary

I have valued the policy liabilities and reinsurance recoverable of *Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec* for its statement of financial position at December 31, 2013 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 firm's financial records.

The results of my valuation together with amounts carried in the Annual Return are the following:

Claims Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Direct unpaid claims and adjustment expenses	**15,476**	**15,476**
(2) Assumed unpaid claims and adjustment expenses	**0**	**0**
(3) Gross unpaid claims and adjustment expenses (1) + (2)	**15,476**	**15,476**
(4) Ceded unpaid claims and adjustment expenses	**2,394**	**2,394**
(5) Other amounts to recover	**398**	**398**
(6) Other net liabilities	**398**	**398**
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	**13,082**	**13,082**

Premium Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Gross policy liabilities in connection with unearned premiums		**2,452**
(2) Net policy liabilities in connection with unearned premiums		**1,917**
(3) Gross unearned premiums	**2,528**	
(4) Net unearned premiums	**2,273**	
(5) Premium deficiency	**0**	**0**
(6) Other net liabilities	**0**	**0**
(7) Deferred policy acquisition expenses	**0**	
(8) Maximum policy acquisition expenses deferrable reportés [(4) + (5) + (9)] col. 1 – (2) col. 2		**356**
(9) Unearned Commissions	**0**	

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

Xavier Bénarosch, FCAS, FCIA

February 17, 2014
Date opinion was rendered

Eckler