ANNUAL REPORTS 2016

To better protect the public

LEADERSHIP | COMPETENCE | INTEGRITY

OACIQ FARCIQ

In this document the masculine gender includes the feminine and is used to facilitate reading.

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Mr. Richard Boivin
Assistant Deputy Minister,
Policies regarding
Financial Institutions and Corporate law
Department of Finance
Government of Québec

QUÉBEC

Dear Mr. Boivin,

We are pleased to submit the Annual Report of the Organisme d'autoréglementation du courtage immobilier du Québec for the fiscal year ended December 31, 2016.

Yours very truly,

Me Michel Léonard
Chartered Real Estate Broker AEO
Chairman of the Board of Directors

Ministère des Finances
Québec

Mr. Carlos Leitão
Minister of Finance
Government of Québec

QUÉBEC

Dear Mr. Leitão,

Allow us to present the Annual Report of the Organisme d'autoréglementation du courtage immobilier du Québec for the fiscal year ended December 31, 2016.

Yours sincerely,

Mr. Richard Boivin
Assistant Deputy Minister
Policies regarding Financial Institutions and Corporate law

Ministère des Finances
Québec

Mr. Jacques Chagnon
President of the National Assembly
Government of Québec

QUÉBEC

Mr. President,

I have the honour of submitting the Annual Report of the Organisme d'autoréglementation du courtage immobilier du Québec for the fiscal year ended December 31, 2016.

Respectfully yours,

Mr. Carlos Leitão
Minister of Finance


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TABLE OF CONTENTS

PROFILE OF THE ORGANIZATION

MISSION

The Organisme d'autoréglementation du courtage immobilier du Québec (OACIQ) ensures the protection of members of the public who enlist the services of real estate and mortgage brokerage professionals governed by the *Real Estate Brokerage Act*.

VISION

The OACIQ is the authority of real estate and mortgage brokerage in Québec. It protects and assists the public by ensuring sound broker practices.

VALUES

The directors and staff of the OACIQ fully embrace the Organization's values in their professional activities:

- » Leadership
- » Competence
- » Integrity

GOVERNANCE

The governance framework in which the OACIQ's Board of Directors, management and staff operate is designed to ensure cohesive and effective interventions while promoting engagement and adherence to the highest ethical standards in order to better carry out the Organization's public protection mission.


LEAD
ER
SHIP

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

In 2016, the Board of Directors, management and staff of the Organisme d'autoréglementation du courtage immobilier du Québec (**OACIQ**) undertook an analysis and action plan aimed at improving the efficiency with which it carries out its primary mission of protecting consumers when they do business with real estate or mortgage brokers.

The **OACIQ** will maintain this approach, the product of a thought process focused on the interests of consumers.

Revision of the *Real Estate Brokerage Act* (REBA)

An evaluation of the application of the *Real Estate Brokerage Act* must be conducted every five years. Since 2010, the **OACIQ,** in collaboration with the Minister of Finance, has an obligation to review legislative and regulatory provisions against changing consumer needs as relates to real estate and mortgage transactions.

The **OACIQ** Board of Directors completed its evaluation and formulated its priorities, which include, primarily:

- clarifying what constitutes a brokerage act: It is essential for consumers buying, selling, leasing or financing property to know how and when the *Real Estate Brokerage Act* applies and protects them;
- confirming self-regulation as the **OACIQ**'s governance model. Self-regulation is a proven model and must be maintained in order to ensure better public protection.

These parameters guided the **OACIQ**'s reflection and served as a basis for the Organization's 2017-2019 Strategic Plan. This plan was ratified by the Board of Directors in November 2016, and the **OACIQ**'s activities in 2017 are already showing positive and promising outcomes as a result.

MICHEL LÉONARD
Chairman of the Board of Directors

"THE MEASURES WHICH THE ORGANIZATION HAS PUT IN PLACE SHOW THAT THE OACIQ IS DETERMINED TO BE FULLY ACCOUNTABLE FOR PROTECTING CONSUMERS WHEN THEY CARRY OUT THEIR TRANSACTIONS WITH THE HELP OF REAL ESTATE AND MORTGAGE BROKERS."

Elections to the Board

September 23, 2016 is an important milestone for me, as it is the date on which brokers elected me as a Director. At the subsequent Board meeting on November 11, 2016, I was nominated as Chairman by the Board's Directors. This is a great honour for me, and I wish to thank the Board members for this mark of confidence.

2017: Fully accountable leadership

The measures which the Organization has put in place show that the **OACIQ** is determined to be fully accountable for protecting consumers when they carry out their transactions with the help of real estate and mortgage brokers.

The Board of Directors is confident that with the arrival of its new President and Chief Executive Officer, the **OACIQ** will be better positioned to pursue its actions aimed at protecting the public and strengthening the oversight of authorized professionals.

Me Michel Léonard
Chairman of the Board of Directors
OACIQ

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Over the course of 2016, we worked to advance our goal of ensuring that the public has access to information and assistance. We also pursued our actions to oversee the evolution of broker and agency practices.

Public-focused actions

The real estate and mortgage brokerage industry in Québec is undergoing rapid change. With the advent of new tools and resources, consumer expectations and needs are evolving. These realities became clear during the revision process of the *Real Estate Brokerage Act*. In fact they helped us adapt the way we do things so that we can continue to carry out our public protection mission to its full extent.

With support from the Board of Directors, in 2016 we assumed our role as regulator and acted on several fronts to get closer to the public and refocus the **OACIQ**'s actions on its mission.

To achieve this major organizational goal, we simplified our business processes in order to make prevention information more accessible.

We got closer to consumers by increasing our presence in the field as well as in traditional and social media. We also maintained our collaboration with our partners in order to better communicate and promote the services we make available to the public.

NADINE LINDSAY
President and Chief Executive Officer

"THE OACIQ'S PRIORITY IS TO STRENGTHEN THE ENFORCEMENT OF THE *REAL ESTATE BROKERAGE ACT* TO MAINTAIN PUBLIC TRUST IN REAL ESTATE AND MORTGAGE BROKERAGE."

Closer oversight

The key to a healthy industry rests on the competence and integrity of its stakeholders; the renewal of knowledge on the part of the professionals authorized by the OACIQ directly contributes to ensuring public protection. For this reason we worked to promote ongoing development of broker skills and compliance with the rules of professional conduct and ethics.

To foster a culture of compliance in real estate and mortgage brokers, we continued the implementation of the Mandatory continuing education program (MCEP).

We also pursued our efforts to encourage the use of electronic forms, which help simplify procedures, reduce the risk of error, and give brokers more time to fulfil their advisory role with the public.

To ensure compliance with the rules of professional conduct and ethics, we also began improving our inspection and complaint handling procedures.

Effective governance

Our determination to increase the organization's efficiency and performance was evident throughout 2016. A renewal of our governance and a redistribution of tasks and personnel to accommodate our strategic directions enabled us to enhance our organizational agility.

Alongside this process, to reinforce the OACIQ's efficiency and sustainability, in November 2016, we adopted our 2017-2019 Strategic Plan to:

1. reinforce the oversight of real estate and mortgage brokerage;
2. foster a culture of compliance;
3. strengthen the efficiency and sustainability of the OACIQ; and
4. increase the OACIQ's outreach and visibility.

In keeping with these commitments, we met with industry stakeholders and took time to share on our respective practices. These meetings helped us understand the different challenges facing the real estate and mortgage brokerage and thus make the best decisions regarding the enforcement of the *Real Estate Brokerage Act* and the protection of the public.

2017: Fully accountable leadership

I am proud of the groundwork we have laid to reach our public protection objectives. Over the coming year, we will have several more opportunities to pursue our efforts and carry out our strategic directions and mission.

Like the Organization's Board of Directors, management team and staff, whose collaboration and commitment I salute, I am confident that our efforts will maintain the **OACIQ** as the most trusted source for consumers when it comes to buying, financing, leasing or selling property.

I am also convinced that by continuing to strengthen professional oversight, under the governance of an effective and influential **OACIQ**, we will create a real estate and mortgage brokerage industry of which we can all be proud.

Me Nadine Lindsay
President and Chief Executive Officer
OACIQ

"COMPLIANCE BY AUTHORIZED PROFESSIONALS WITH THE HIGHEST STANDARDS OF COMPETENCE AND ETHICS IS AN ABSOLUTE MUST IN REAL ESTATE AND MORTGAGE TRANSACTIONS."

MANAGEMENT COMMITTEE

FROM LEFT TO RIGHT:

Dominique Derome, Adm. A, ASC, FCPA, FCMA
Vice-President – Finance and IT

Claudie Tremblay, LL. B. Adm. A
Executive Vice-President – Corporate Affairs

Nadine Lindsay, LL. B.
President and Chief Executive Officer

Hélène Morand, LL. B.
Certified Real Estate Broker AEO
Vice-President – Enforcement of Practices

Sofy Bourret
Vice-President – Communications

2016 IN NUMBERS

OACIQ'S ACTIVITIES

CERTIFICATION
1,685
exams

1,728
licence applications

CONTINUING EDUCATION
363
training activities available under the Continuing Education Program of the **OACIQ** (MCEP)

102
new accredited training activities

85
training activities of the **OACIQ**

1,834
training sessions attended

INSPECTIONS
2,639
inspections

1,625
self-inspections

OACIQ.COM
356,135
users

SYNBAD.COM
117
new or updated articles

355,495
visits

PRO@CTIVE
250
articles

PUBLIC ASSISTANCE
1,915
requests

INFO OACIQ
54,484
requests

SYNDIC
546
investigations opened

DISCIPLINE COMMITTEE
Fines on **345** violation counts, totalling **$371,300**

ILLEGAL PRACTICE
162
investigations opened

FORMS
45
modified or updated

5
new forms

ELECTRONIC FORMS
11,843
subscribers

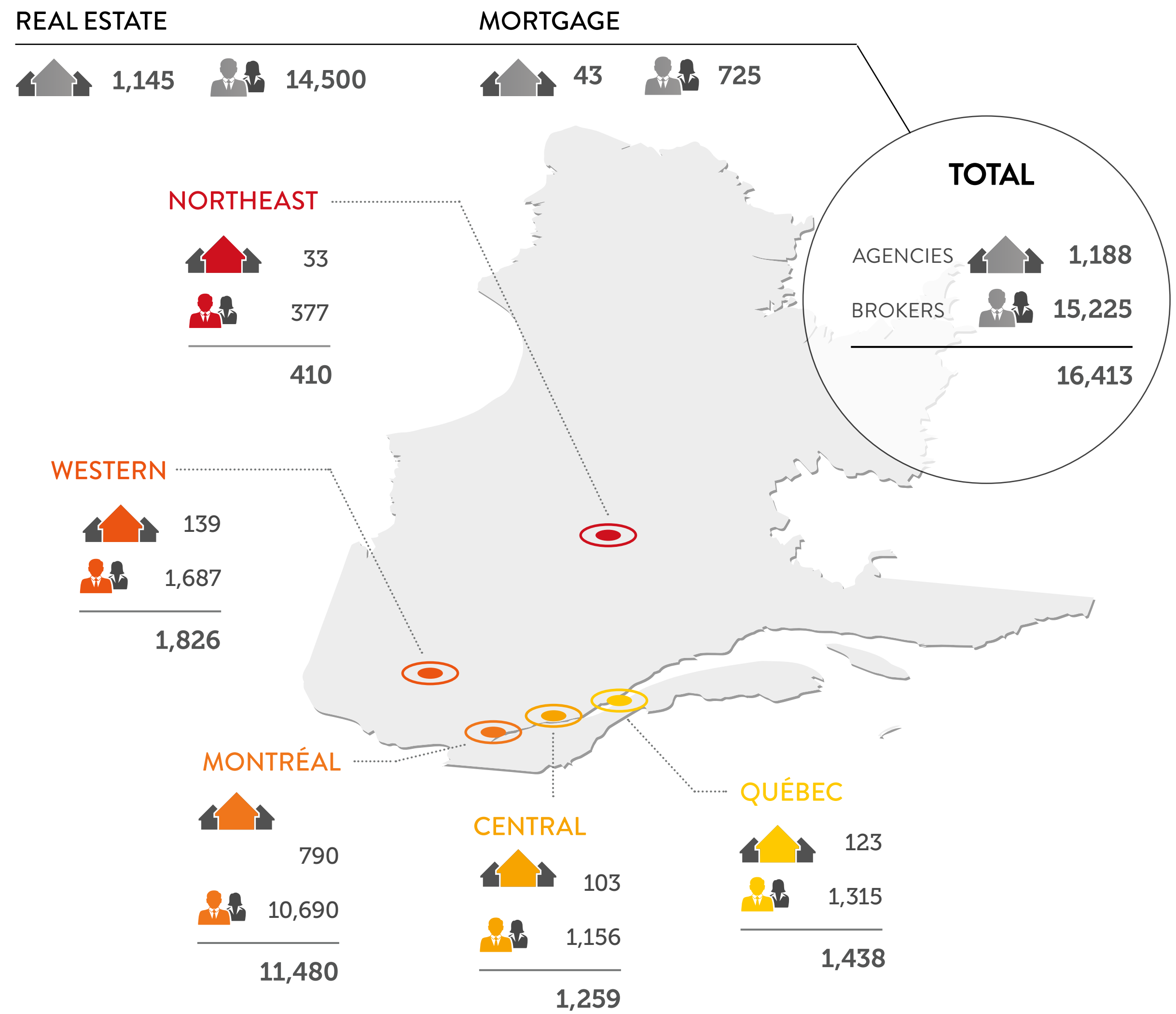
INDEMNITY
23
claims approved

$363,401
in indemnities

PARTNERSHIPS
Protégez-Vous, lacopropriété.info
22 capsules published

CURRENT STATE OF REAL ESTATE AND MORTGAGE BROKERAGE

The number of real estate or mortgage agencies and brokers with a valid licence to practice stood at **16,413** at the **end of 2016**.



ACTIVITY REVIEW

PUBLIC INFORMATION AND ASSISTANCE

To fulfil its public protection mission when it comes to real estate or mortgage transactions carried out with the help of an authorized professional, the OACIQ makes the services and resources permitted under the *Real Estate Brokerage Act* available to consumers.

Information

In 2016 the OACIQ provided consumers with information to help them make informed decisions, via:

- The **oaciq.com** website, which contains important things to know before, during and after a real estate or mortgage transaction.
- Online guides for buyers and sellers, which serve as quick reference guides and set out the broker's obligations.
- The "Check a broker's record" tool on the website, which provides a list of professionals authorized by the OACIQ along with essential information such as training completed, field(s) of practice and disciplinary records, if any.
- The media, such as the capsules disseminated in collaboration with Protégez-Vous magazine and on the lacopropriété.info website.
- Social media, as well as at events such as the National Home Show and the HomeExpo show.

Publications and interventions on current topics have helped the OACIQ disseminate its mission and promote its public information and assistance services.

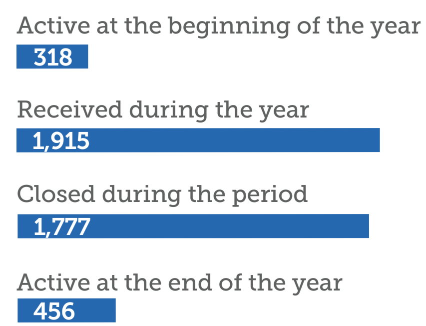
Agents from the Info OACIQ Information Centre shared their knowledge with the public each day by responding to a total of 54,484 requests for information received by phone or email. Providing assistance to brokers is another way in which our information agents contribute to the quality of the services we provide to the public.

Public assistance

The OACIQ makes a number of services and tools available to the public relating to the various steps of a real estate or mortgage transaction.

When someone wishes to file a complaint against a real estate or mortgage brokerage professional authorized by the OACIQ, the Public Assistance Department takes over from Info OACIQ. A total of 1,915 such requests were received in 2016. An analyst reviews the nature of the complaint, identifies and decides on the appropriate course of action, and guides the plaintiff through the process. He also provides information concerning possible recourses, and intervenes with the broker or agency in order to find a solution.

Complaints processed – 2016



Indemnity

A consumer who is the victim of fraud, fraudulent tactics or misappropriation of funds in the course of a real estate or mortgage transaction involving a broker may file a claim with the Real Estate Brokerage Indemnity Fund (FICI). This fund, which provides financial protection for consumers, is created under the *Real Estate Brokerage Act* and is funded by the annual contributions of all real estate and mortgage agencies and brokers in Québec.

The task of ruling on the eligibility of claims and deciding on the amount of compensation to be paid, in accordance with the rules set by regulation, is entrusted to the Indemnity Committee.

Of note in 2016:

70
open files

65
claims processed (including 7 claims closed for administrative reasons)

40%
of processed claims were approved

$363,401
in indemnities paid for an average claim amount of $15,800

Access to information

The OACIQ is governed by the *Act respecting access to documents held by public bodies and the protection of personal information*. This year, the Organization received 44 access-to-information requests. The OACIQ acts proactively by making documents and information of interest to consumers and authorized professionals available on its website.

ENFORCEMENT OF PRACTICES

The **OACIQ** oversees brokers and agencies and ensures that the activities of these authorized professionals are in compliance with the *Real Estate Brokerage Act*, which includes the rules of professional ethics. In 2016, emphasis was placed on improving the file processing time and efficiency of practices despite an overall increase in the activity level.

Certification and education

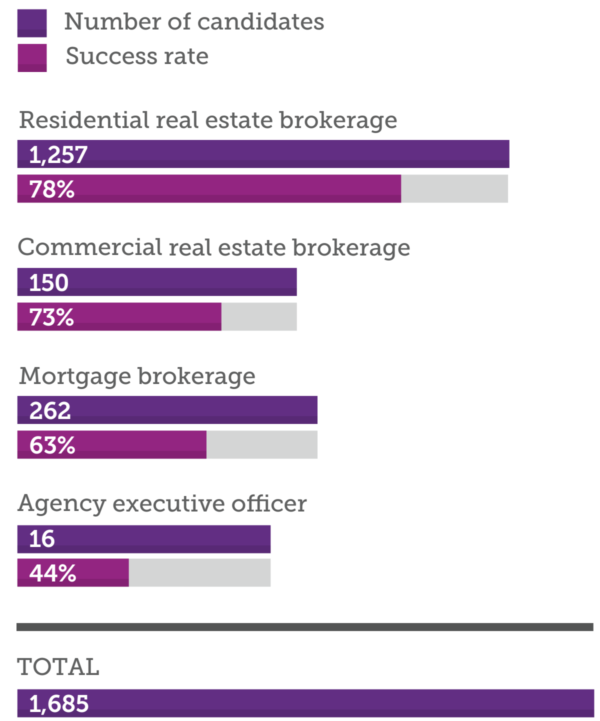
The Certification Department handles the issuance of and changes to licences according to the *Real Estate Brokerage Act* that governs real estate and mortgage agencies and brokers authorized by the **OACIQ.** It also processes the applications of future licence holders. These operations are conducted in accordance with a strict regulatory framework with which applicants must comply. A total of 1,728 licence applications were processed in the course of the year. As at December 31, **OACIQ** licence holders numbered 16,413.

The role of the Education Department is to ensure that the skills of professionals authorized by the **OACIQ** are optimal and regularly updated. This is done in two ways.

The first is by ensuring that any candidate to an **OACIQ** certification examination has successfully completed a basic training program recognized by the **OACIQ.** To this end, the Department has continued to reinforce professional ties with education establishments, in an effort to contribute to the ongoing improvement of training programs.

Among key achievements in this area is an increase of more than 20% in the total number of certification examinations, and the optimization of several internal processes to improve efficiency. This year the **OACIQ** administered 1,685 certification examinations.

Certification examinations – 2016



The second is by accrediting training activities offered by third parties, and by developing and implementing a variety of training activities on topics such as ethics, compliance with the *Real Estate Brokerage Act*, and key skills needed to practice the profession. These training activities are offered in webinar, online and classroom formats.

Under the Mandatory Continuing Education Program (MCEP), which extends from May 2015 to April 2017, professionals authorized by the **OACIQ** must accumulate at least 18 continuing education units (CEU) per two-year period.

With the first cycle of the MCEP ending on April 30, 2017, a lot of effort was made to develop, certify and disseminate training activities, and actions were undertaken to encourage brokers to complete the Program by the deadline.

The achievements in this area include an increase in new webinars and online training activities; the accreditation of over 102 new training activities from authorized providers; and a 55% increase in the number of activities offered directly by the **OACIQ**.

Continuing education activities

** Includes activities accredited by the OACIQ and those developed directly by the Organization.*

Inspection

The role of the Inspection Department is to oversee the activities and skills of professionals authorized by the **OACIQ**. During an inspection, the team verifies transactions, records, accounts, books and registers, then makes appropriate recommendations to ensure that activities and skills are in compliance with the *Real Estate Brokerage Act* and its regulations.

In 2016 the **OACIQ** conducted 2,639 inspections of real estate and mortgage agencies and brokers. **OACIQ** inspectors visited 301 establishments, including 243 agencies and brokers acting on their own account in residential real estate brokerage, 38 in commercial real estate brokerage, and 20 in mortgage brokerage. Following these inspections, 75 files were submitted to the Inspection Committee. Of these 25 were referred to the Syndic or to the Public Assistance Department for further investigation.

Given the direct impact they have on public protection, inspections of broker skills have intensified. Thus the brokerage contract and transaction records completed by 2,280 brokers were the subject of a skills-based verification.

Some 1,625 online self-inspection questionnaires were completed by licence holders. This questionnaire is completed each year by agencies and brokers acting on their own account. It is then analyzed by the **OACIQ** to determine whether any intervention is needed to ensure that any risk is properly managed.

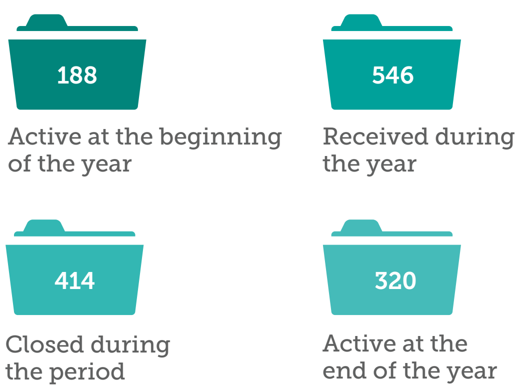
A close look was also taken at trust accounts to ensure that deposits are rigorously managed. Finally, 58 agency executive officers or brokers acting on their own account took part in start-up sessions, which serve as initial inspections. These sessions allow participants to review the responsibilities of agency executive officers and brokers acting on their own account.

Syndic

Where the Public Assistance Department has reason to believe that a violation to the *Real Estate Brokerage Act* – including to the rules of professional ethics – has been committed by a broker, a request is submitted to the Syndic, who investigates.

The Syndic plays a key role in the oversight of professionals authorized by the OACIQ. He acts as a guardian of the professional integrity of brokers. Once his investigation is complete, the Syndic determines whether a complaint will be filed with the OACIQ Discipline Committee. In order to promote better compliance this year, the Syndic encouraged deterrent sanctions.

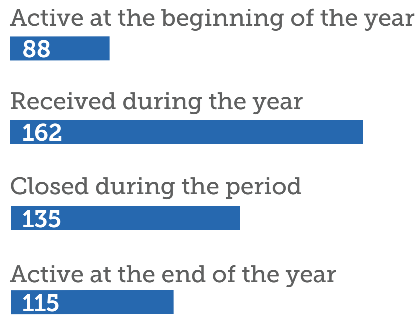
Investigations involving brokers and agencies – 2016



Illegal brokerage

When the OACIQ becomes aware of a potential case of illegal brokerage, the file is sent to the Office of the Syndic for investigation. Once the investigator has completed his work and the evidence shows that a violation was committed, the file is referred to the Court of Québec.

Cases of illegal brokerage processed – 2016



GOVERNANCE AND ADMINISTRATION

Board of Directors as at December 31, 2016

DIRECTORS ELECTED AMONG LICENCE HOLDERS (BY THEIR PEERS)

Michel Léonard
Chairman
Montréal

Georges Bardagi
Vice-Chairman
Montréal

Roger Doré
Treasurer
Commercial real estate brokerage

Mario Chouinard
Northeast region

Mario Lamirande
Central region

Luc Mailloux
Québec City

Pierre Martel
Mortgage brokerage

Diane Ménard
Montréal

Bernard Savard
Montréal

Carole Strasbourg
Western region

DIRECTORS APPOINTED BY THE MINISTER OF FINANCE

Pierre Carrier
Nathalie Ebnoether
Jacques Nantel (until November 23, 2016)

CORPORATE SECRETARY

Claude Barsalou

FROM LEFT TO RIGHT

SEATED:

Roger Doré,
Certified Real Estate Broker

Michel Léonard, B. Comm., B.C.L., C.Dir

Georges Bardagi, B.A.A., Marketing,
Certified Real Estate Broker

STANDING:

Claudie Tremblay, LL. B. Adm. A

Claude Barsalou, LL.M.

Carole Strasbourg,
Certified Real Estate Broker AEO

Mario Chouinard,
Certified Real Estate Broker

Bernard Savard,
Certified Real Estate Broker AEO

Pierre Carrier, FCPA FCMA

Nadine Lindsay, LL. B.

Pierre Martel, CHA

Nathalie Ebnoether, M.A.

Luc Mailloux,
Certified Real Estate Broker

Diane Ménard,
Certified Real Estate Broker AEO

Mario Lamirande,
Certified Real Estate Broker

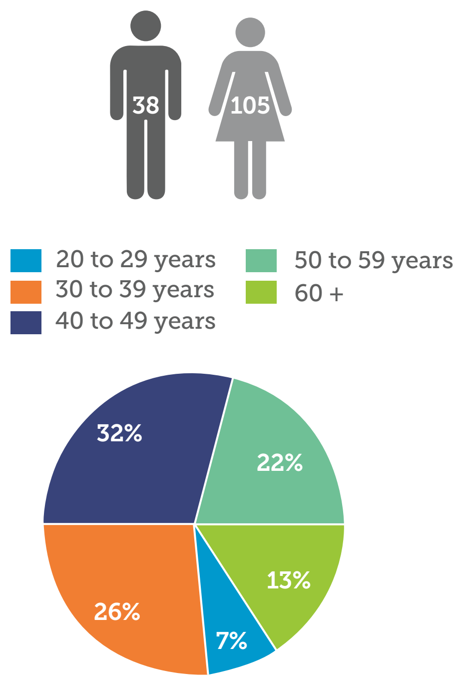
Human Resources

The OACIQ has 143 permanent employees. To maintain their expertise, employees have access to professional development programs. During the year, employees attended over 1,300 hours of training in 90 different activities.

In order to align these with the OACIQ's mission, vision and values, a review of the performance management process and skills profiles was initiated. This initiative will continue in order to provide strategic support to the Organization while helping employees and management be better equipped to carry out their mandates.

The OACIQ cares about quality of life at work. It also offers a number of incentive measures that provide flexibility. During the year, each employee complied with the Organization's code of ethics by signing a loyalty and confidentiality pledge.

Workforce distribution



REPORTS FROM THE STANDING COMMITTEES

Inspection Committee

The Inspection Committee oversees broker and agency activities using a prevention-based approach, helping to improve professional practices while having a direct impact on the profession's quality standards. This approach used by the Committee guides all of the activities and operations conducted by the Inspection Department.

Skills-based verification

Inspections of broker skills were intensified in 2016, with the brokerage contract and transaction records of a total of 2,280 brokers being the subject of a skills-based verification. The inspector's observations and required improvements, in the form of a personal report sent to each broker inspected, are specifically aimed at the way a broker maintains his records and carries out the transaction proposals he has drafted and negotiated, according to his specific field of practice. The supervisory role of agency executive officers is also used. The inspection reports of inspected brokers are also sent to agency executive officers who must read them and ensure that the observations and required improvements are respected by the brokers under their supervision. This has a direct impact on public protection.

Inspection Committee recommendations

The Inspection Committee can make any recommendation it deems appropriate. In addition, if the Committee notes a violation to the *Real Estate Brokerage Act* or its regulations, it notifies the Syndic.

In 2016, the Committee issued 311 commitments, 105 of which included attending one or more training activities. This year, the most common violation for a broker is failing to disclose to his clients his remuneration agreements with financial institutions regarding mortgage referrals.

Other recommendations issued by the Committee to certain brokers or agency executive officers following inspections pertained mainly to three problems:

- For a broker, failing to send to his agency the documents necessary to maintain the records and registers and supporting the information contained on detailed description sheets. Most brokers who were imposed a training session had to attend the continuing education activity "Record documentation";
- Receipt of remuneration when the broker was not entitled to;
- Failing to collaborate with the Inspection Committee by not sending the 2015 self-inspection questionnaire within the specified period.

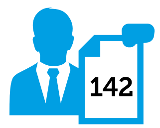
In 2016, 75 files were submitted to the Inspection Committee, 25 of which were forwarded to the Syndic or the Public Assistance Department, or both, for further investigation.

Discipline Committee

The Discipline Committee reviews all complaints made against **OACIQ** licence holders for violations to the provisions of the *Real Estate Brokerage Act* and its regulations. The Discipline Committee is constituted pursuant to this Act and is fully autonomous and independent form the Organization's Board of Directors and staff. The Chair and Vice-Chairs must be lawyers with at least 10 years of practice and are appointed by the Minister of Finance.

The complaints heard by the Discipline Committee usually relate to serious offences. As at December 31, 2016, the **OACIQ** Syndic had filed 121 complaints with the Discipline Committee. During the year, the Committee held 188 hearing days and rendered 142 decisions in the same number of cases; this concerned 138 licence holders (four of whom were each involved in two decisions).

In 2016:



decisions concerning 138 licence holders resulted, per violation count, in:

- **128** reprimands
- **345** fines, totalling $371,300
- **29** orders to attend a course or training session
- **20** cases with licence conditions or restrictions or other orders
- **390** licence suspensions
- **61** licence revocations

The *Real Estate Brokerage Act* allows for certain decisions by the Committee to be appealed before the Court of Québec. In 2016:

- 23 Discipline Committee decisions were appealed before the Court of Québec;
- 11 decisions were rendered by the Court of Québec on appeals of Discipline Committee decisions;
- 1 decision rendered by the Court of Québec on an appeal of a Discipline Committee decision is currently undergoing judicial review before the Superior Court.

The various measures and procedures implemented led to a marked decrease in review and processing times:

- Files under review: 53 days as at December 31, 2016, compared to 237 days as at January 1, 2016.
- Processing before the Committee: the time lapse between the filing of the complaint and the decision on penalty was reduced by 23%, from 657 days in 2015 to 507 days in 2016.

Syndic Decision Review Committee

In a case where the Syndic decides not to file a complaint, the plaintiff may request an opinion from the Syndic Decision Review Committee. After reviewing the complete file from the Syndic as well as the applicant's and the Syndic's comments, the members of the Review Committee render a decision and issue an opinion.

The Committee held 11 sessions during which it issued 11 opinions in 11 cases.

In this opinion, the Review Committee may conclude that the filing of a complaint before the Discipline Committee is not justified, suggest that the Syndic complete his investigation and render a new decision as to the validity of filing a complaint, or conclude that the filing of a complaint before the Discipline Committee is justified and suggest the appointment of an ad hoc syndic who, after investigating the case, will decide whether or not to file a complaint. The Committee may also suggest that the Syndic refer the case to the Inspection Committee.

In all files reviewed, the Committee confirmed the Syndic's decision and concluded that there were no grounds to file a complaint before the Discipline Committee.

Licence Issue and Maintenance Committee

The role of the Licence Issue and Maintenance Committee is to make decisions regarding the issuance or maintenance of a licence, for example where an applicant or a licence holder was found guilty of or pleaded guilty to a penal or disciplinary offence or a criminal act, or has assigned property. The Committee may also issue an advance opinion, i.e., it may also issue an opinion on the decision it could render if a person or company were to apply for a broker or agency licence, this before steps are taken regarding such an application.

Depending on circumstances, the Committee may refuse to issue a licence to an applicant, or may issue it by imposing restrictions or conditions thereon. The Committee may also take measures against a licence holder, including suspending or revoking a licence or making it subject to restrictions or conditions.

There was an increase in the number of licences issued with conditions or restrictions further to a decision by the Committee, which represented 31% of licences issued versus 6% in 2015.

In addition, the Committee processed 93 cases over the course of 15 sessions in 2016. The Committee reviewed the cases of 41 individuals applying for a real estate or mortgage brokerage licence, the cases of 46 licence holders and 6 applications for advance decisions. These cases involved the following situations: 37 penal offences or criminal acts and 62 assignments of property. It should be noted that 6 cases involved 2 situations, which explains a total of 99 situations. Excluding the situations concerning requests for opinion, the Committee rendered the following decisions: 31 licences issued without conditions or restrictions; 14 licences issued with conditions or restrictions; 37 licences maintained without conditions or restrictions; 10 licences maintained with conditions or restrictions; 1 licence suspended.

Indemnity Committee

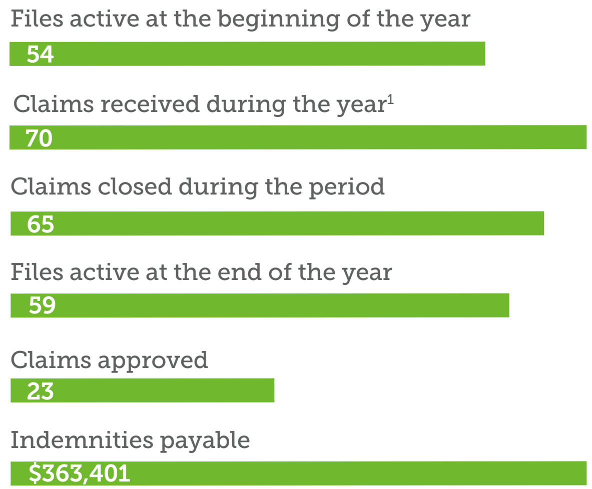
The Indemnity Committee decides on the amount of compensation to be paid by the Real Estate Brokerage Indemnity Fund (FICI). The Fund is dedicated to the payment of indemnities to victims of fraud, fraudulent tactics or misappropriation of funds for which a broker or agency is responsible. The maximum indemnity payable by the Committee for each brokerage transaction concerned by a claim is $35,000.

During the year, the Committee processed and rendered decisions on 58 claims; 64 new files were opened; and 6 were reopened following a request for review. As at December 31, 2016, a total of 59 files were under review.

Highlights:

- Increase in the number of files opened, from 49 in 2015 to 70 in 2016;
- 40% of claims processed were approved;
- $363,401 was paid in indemnities, for an average payment of $15,800 per claim.

Indemnisation



[1]This figure includes new files and files reopened following a request for review.

FINANCIAL RESULTS

In 2016, the General Operating Fund registered a surplus of $571,136. The sources of this accomplishment are the review of processes, the tightening of expenditures, the adequacy of human resources and the efforts related to the Continuing Education Program, to name a few.

To allow better decision-making, the process for budgetary analysis by activity and variance analysis has been improved. For a better control, different policies have also been updated and clarified.


COM
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INDEPENDENT AUDITOR'S

REPORT

pwc

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

We have audited the financial statements of the Organisme d'autoréglementation du courtage immobilier du Québec ("**OACIQ**"), which comprise the statement of financial position as at December 31, 2016 and the statements of income, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the OACIQ as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matter

The financial statements of the OACIQ as at and for the year ended December 31, 2015 were audited by another auditor, who expressed an unmodified opinion of those financial statements dated March 18, 2016.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit n° A128779

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of income · Year ended December 31, 2016

	General Operating Fund	Indemnity Fund	TOTAL 2016	General Operating Fund	Indemnity Fund	TOTAL 2015
	$	$	$	$	$	$
REVENUE						
Fees and memberships	16,079,580	957,732	17,037,312	15,830,374	952,392	16,782,766
Continuing education – Appendix	1,697,462	-	1,697,462	943,801	-	943,801
Basic training and examinations – Appendix	1,157,614	-	1,157,614	883,945	-	883,945
Discipline and syndic – Appendix	510,318	-	510,318	620,082	-	620,082
Forms – Appendix	972,427	-	972,427	916,635	-	916,635
Illegal brokerage practices – Appendix	80,889	-	80,889	62,061	-	62,061
Outreach – Appendix	5,887	-	5,887	6,897	-	6,897
Investment income (Note 14)	44,759	79,857	124,616	74,206	146,875	221,081
Limited partnership, net income share (Note 7)	170,241	-	170,241	136,056	-	136,056
Other (Note 15)	430,710	44,814	475,524	206,771	39,342	246,113
	21,149,887	1,082,403	22,232,290	19,680,828	1,138,609	20,819,437

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of income · Year ended December 31, 2016 (continued)

	General Operating Fund	Indemnity Fund	TOTAL 2016	General Operating Fund	Indemnity Fund	TOTAL 2015
	$	$	$	$	$	$
EXPENSES						
Administration						
Salaries and employee benefits	9,220,625	197,668	9,418,293	8,208,025	434,983	8,643,008
Training and membership fees	161,028	4,871	165,899	205,994	4,586	210,580
Professional fees	294,466	50,081	344,547	270,791	49,390	320,181
Board of Directors and committees	822,628	25,487	848,115	1,224,956	28,382	1,253,338
Meetings and travel	484,268	-	484,268	645,238	-	645,238
Office expenses	385,460	32,245	417,705	392,989	20,622	413,611
Occupancy expenses	1,125,428	6,056	1,131,484	923,278	50,172	973,450
Contribution to the ministère des Finances du Québec	253,709	-	253,709	116,105	-	116,105
Publications and public relations	65,166	-	65,166	89,685	-	89,685
Financial expenses	422,957	21,411	444,368	416,375	47,870	464,245
Indemnities	-	363,401	363,401	-	161,585	161,585
Amortization of capital assets (Notes 8 and 9)	246,395	-	246,395	271,060	-	271,060
Continuing education – Appendix	1,369,003	-	1,369,003	1,512,756	-	1,512,756
Basic training and examinations – Appendix	1,371,365	-	1,371,365	1,131,428	-	1,131,428
Discipline and syndic – Appendix	3,321,730	-	3,321,730	3,266,096	-	3,266,096
Forms – Appendix	318,841	-	318,841	454,927	-	454,927
Illegal brokerage practices – Appendix	342,819	-	342,819	649,916	-	649,916
Outreach – Appendix	372,863	-	372,863	547,701	-	547,701
	20,578,751	701,220	21,279,971	20,327,320	797,590	21,124,910
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	571,136	381,183	952,319	(646,492)	341,019	(305,473)

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of changes in net assets · Year ended December 31, 2016

	General Operating Fund				
	Invested in capital and intangible assets	Internally restricted	Unrestricted	Indemnity Fund	TOTAL
	$	$	$	$	$
Balance as at December 31, 2014	2,248,337	-	3,039,212	4,690,806	9,978,355
Excess (deficiency) of revenue over expenses	(431,506)*	(540,804)	325,818	341,019	(305,473)
Investment in capital and intangible assets	202,257**	-	(202,257)	-	-
Internally restricted	-	540,804	(540,804)	-	-
Balance as at December 31, 2015	2,019,088	-	2,621,969	5,031,825	9,672,882
Excess (deficiency) of revenue over expenses	(375,557)*	(366,976)	1,313,669	381,183	952,319
Investment in capital and intangible assets	125,687**	-	(125,687)	-	-
Internally restricted – Appendix	-	366,976	(366,976)	-	-
BALANCE AS AT DECEMBER 31, 2016	1,769,218	-	3,442,975	5,413,008	10,625,201

* Represents the amortization of capital and intangible assets of $586,878 ($637,184 in 2015), net of lease inducement amortization of $211,321 ($207,100 in 2015) for leasehold improvements, plus loss on writeoff and disposal of capital assets of nil ($1,422 in 2015).

** Represents the investment in capital assets of $125,687 ($310,157 in 2015), net of increase in deferred lease inducement amortization of nil ($107,900 in 2015).

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of financial position · As at December 31, 2016

	General Operating Fund	Indemnity Fund	TOTAL 2016	General Operating Fund	Indemnity Fund	TOTAL 2015
	$	$	$	$	$	$
ASSETS						
Current assets						
Cash	1,727,679	321,450	2,049,129	2,581,202	201,855	2,783,057
Investments (Note 3)	4,850,048	5,593,145	10,443,193	3,303,276	5,514,393	8,817,669
Accrued interest receivable	3,042	11,813	14,855	14,421	8,657	23,078
Accounts receivable (Note 4)	466,920	-	466,920	481,969	-	481,969
Interfunds advance (Note 5)	-	173,237*	-	4,461*	-	-
Forms inventory (Note 6)	153,244	-	153,244	143,329	-	143,329
Prepaid expenses	303,312	-	303,312	243,083	-	243,083
	7,504,245	6,099,645	13,430,653	6,771,741	5,724,905	12,492,185
Investment in a limited partnership (Note 7)	3,999,969	-	3,999,969	4,079,728	-	4,079,728
Capital assets (Note 8)	4,473,166	-	4,473,166	4,923,420	-	4,923,420
Intangible assets (Note 9)	148,879	-	148,879	159,816	-	159,816
	16,126,259	6,099,645	22,052,667	15,934,705	5,724,905	21,655,149
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities (Note 10)	2,222,490	40,749	2,263,239	2,644,625	38,008	2,682,633
Interfunds advance (Note 5)	173,237*	-	-	-	4,461*	-
Provision for claims (Note 11)	-	324,608	324,608	-	334,029	334,029
Deferred revenue	5,665,512	321,280	5,986,792	5,584,875	316,582	5,901,457
	8,061,239	686,637	8,574,639	8,229,500	693,080	8,918,119
Deferred lease inducement, at net book value	2,852,827	-	2,852,827	3,064,148	-	3,064,148
	10,914,066	686,637	11,427,466	11,293,648	693,080	11,982,267
Commitments and contingencies (Notes 12 and 13)						
NET ASSETS						
Invested in capital and intangible assets	1,769,218	-	1,769,218	2,019,088	-	2,019,088
Unrestricted	3,442,975	-	3,442,975	2,621,969	-	2,621,969
Indemnity Fund	-	5,413,008	5,413,008	-	5,031,825	5,031,825
	5,212,193	5,413,008	10,625,201	4,641,057	5,031,825	9,672,882
	16,126,259	6,099,645	22,052,667	15,934,705	5,724,905	21,655,149

* These amounts are not included in the "Total" column as they cancel each other out.

Approved by the Board

Michel Léonard
Chairman of the Board of Directors

Georges Bardagi
Vice-Chaiman

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of cash flows · Year ended December 31, 2016

	General Operating Fund	Indemnity Fund	TOTAL 2016	General Operating Fund	Indemnity Fund	TOTAL 2015
	$	$	$	$	$	$
OPERATING ACTIVITIES						
Excess (deficiency) of revenue over expenses	571,136	381,183	952,319	(646,492)	341,019	(305,473)
Items not affecting cash:						
Realized and unrealized loss (gain) on investments (Note 14)	66,030	11,824	77,854	56,295	(51,341)	4,954
Limited partnership, net income share	(170,241)	-	(170,241)	(136,056)	-	(136,056)
Amortization of capital and intangible assets	586,878	-	586,878	637,184	-	637,184
Amortization of lease inducements	(211,321)	-	(211,321)	(207,100)	-	(207,100)
Loss on writeoff of capital assets	-	-	-	1,422	-	1,422
	842,482	393,007	1,235,489	(294,747)	289,678	(5,069)
Change in non-cash operating working capital items	(207,516)	(182,836)	(390,352)	947,519	(131,197)	816,322
	634,966	210,171	845,137	652,772	158,481	811,253
INVESTING ACTIVITIES						
Refund of advance in capital of a limited partnership (Note 7)	250,000	-	250,000	-	-	-
Acquisition of investments	(27,212,940)	(3,646,986)	(30,859,926)	(28,674,314)	(3,003,465)	(31,677,779)
Proceeds on sale of investments	25,600,138	3,556,410	29,156,548	28,550,578	2,910,818	31,461,396
Acquisition of capital and intangible assets	(125,687)	-	(125,687)	(310,157)	-	(310,157)
	(1,488,489)	(90,576)	(1,579,065)	(433,893)	(92,647)	(526,540)
FINANCING ACTIVITIES						
Increase in lease inducement	-	-	-	107,900	-	107,900
Net increase (decrease) in cash	(853,523)	119,595	(733,928)	326,779	65,834	392,613
Cash, beginning of year	2,581,202	201,855	2,783,057	2,254,423	136,021	2,390,444
CASH, END OF YEAR	1,727,679	321,450	2,049,129	2,581,202	201,855	2,783,057

ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

Notes to the financial statements · December 31, 2016

1. Incorporation and nature of activities

The Organisme d'autoréglementation du courtage immobilier du Québec (the "OACIQ"), incorporated under the *Real Estate Brokerage Act* (R.S.Q., c. C 73.2) (the "Act"), has a primary role in protecting the public in real estate and mortgage brokerage dealings by enforcing rules of professional conduct and by inspecting the activities of brokers and agencies, mainly by ensuring that the professional activities engaged in by brokers and agencies are in compliance with the Act.

It may also provide training courses for brokers and agency executive officers, with the exception of basic training courses, and award the titles referred to in Section 48 of the Act.

2. Accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the OACIQ becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for investments, which are recognized at fair value at the balance sheet date. The fair value of investments is based on quoted bid prices. Fair value fluctuations, interest earned, accrued interest, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in excess of revenue over expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the OACIQ recognizes in excess of revenue over expenses an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to excess of revenue over expenses in the period the reversal occurs.

2. Accounting policies (continued)

Fund accounting

The General Operating Fund is used for all current operations of the OACIQ. Revenue and expenses related to services and administration are presented in the General Operating Fund.

The Real Estate Indemnity Fund ("Indemnity Fund") is dedicated to the payment of indemnities to victims of fraud, fraudulent tactics or misappropriation of funds for which a broker or an agency is responsible. This fund is established in accordance with Section 108 of the Act. The assets of the Indemnity Fund are not part of the OACIQ's general operating fund assets and may not be used to fulfill the OACIQ's obligations.

Revenue recognition

The OACIQ follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Forms inventory

The forms inventory held for sale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the regular course of business less the estimated costs necessary to make the sale.

Capital and intangible assets

Capital and intangible assets are recorded at cost and are amortized based on their estimated useful life using the straight-line method over the following terms:

Computer equipment	3 years
Software and license	3 years
Office equipment	4 years
Furniture	10 and 20 years
Leasehold improvements	Term of the lease

Impairment of long-lived assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying value of the assets to the estimated value of future cash flows directly related to the use of the assets. Impaired assets are recorded at their fair value, which is determined primarily by using estimates of discounted future cash flows directly related to the use and eventual disposal of the assets.

Controlled entity

The OACIQ holds the right to appoint all members of the board of the Fonds d'assurance responsabilité professionnelle (FARCIQ). The FARCIQ, considered as a separate non-profit entity for accounting purposes, has the mission to provide professional liability insurance for real estate brokers of Quebec, and the end date of its fiscal year is December 31. The FARCIQ is considered a non-profit organization for tax purposes. Since the benefits and advantages of the FARCIQ are reserved for members participating in the FARCIQ, they are not included in the financial statements of the OACIQ but are briefly presented in Note 15.

2. Accounting policies (continued)

Investment in a limited partnership

The OACIQ holds a 50% interest in a limited partnership that owns the building that the OACIQ uses for its activities.

The OACIQ has decided to account for its investment in a limited partnership using the equity method, adjusted for depreciation of the rental property calculated using the straight-line method over a period of 40 years.

Under the equity method, the OACIQ initially records the investment at cost and then adjusts the carrying value by including the limited partnership's pro rata share of post-acquisition income computed by the consolidation method. The OACIQ includes the share of income in determining its net income and increases or decreases the balance of its "Investment" account. Profit distributions received from an investee reduce the carrying value of the investment. The share in balance sheet items is not recognized by the OACIQ in the statement of financial position, but is disclosed in Note 7 "Investment in a limited partnership".

The OACIQ recognizes an impairment loss, if any, in excess of revenue over expenses when it determines that a significant adverse change has occurred during the period in the expected timing or amount of the investee's future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in excess of revenue over expenses in the period the reversal occurs.

Deferred revenue

Revenue from annual fees from license holders is charged to the statement of income on a monthly basis over the duration of the broker licenses, which is 12 months. In accordance with Section 22 of the *Regulation respecting the issue of broker's and agency licences*, they are not refundable to license holders and they will be applicable on the income of the next year-end.

Deferred lease inducement

The deferred lease inducement represents the amounts collected from the landlord as lease inducements, made up of an allowance for leasehold improvements and free rent. This advantage is amortized on a straight-line basis over the original term of the lease, which expires in July 2030, i.e., 20 years. Amortization is applied against occupancy expenses in the statement of income.

Income taxes and other taxes

As a not-for-profit organization for income tax purposes, the OACIQ is not subject to income taxes.

2. Accounting policies (continued)

Disclosure of allocated expenses

A unique coding system is used for each of the OACIQ's services and activities. The OACIQ's general support expenses and overhead are allocated as follows:

Proportionately on the basis of hours allocated to the activity by human resources:

- Salaries and employee benefits;

Proportionately on the basis of number of employees in the department:

- Amortization of capital and intangible assets,
- Insurance,
- Maintenance of equipment,
- Printing and photocopy,
- Stationery,
- Computer supplies,
- Telecommunications;

Proportionately on the basis of square footage occupied by the department:

- Rent,
- Operating costs,
- Property taxes,
- Electricity,
- Maintenance of premises,
- Amortization of leasehold improvements,
- Amortization of rent allocation;

Proportionately on the basis of user services:

- Shredding,
- Information sources,
- Cellular phone,
- Membership fees,
- Trainings and seminars,
- Attendance fees,
- Travelling expenses,
- Reception,
- Hall rental and equipment,
- Archive,
- Shipping costs,
- Professional fees,
- Advertising,
- Donations and promotions.

The amounts charged to the various activities are presented in the statement of income and the Appendix.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Key components of the financial statements requiring management to make estimates include the allowance for doubtful accounts in respect of receivables, the estimated useful life of capital and intangible assets, the provision for claims and accrued liabilities. Actual results could differ from these estimates.

3. Investments

General Operating Fund investments consist of Provincial bonds and treasury bills, which earn interest from 0.46% to 4.40% (0.47% to 4.50% in 2015), and mature between January 2017 and June 2019.

Indemnity Fund investments consist of Provincial bonds and treasury bills, which earn interest from 0.48% to 5.00% (1.90% to 5.00% in 2015), and mature between October 2017 and January 2023.

Investments are short-term because they are redeemable at any time.

4. Accounts receivable

	2016	2015
	$	$
General Operating Fund		
Trade	643,501	763,856
Allowance for doubtful accounts	(191,994)	(347,700)
	451,507	416,156
Sales taxes	15,413	65,813
	466,920	481,969

5. Interfunds advance

Interfunds advance is non-interest-bearing.

6. Forms inventory

The cost of forms inventory sold, which is recognized as an expense during the year, amounts to $168,192 ($254,441 in 2015).

7. Investment in a limited partnership

The **OACIQ**'s share in a limited partnership's net assets as at December 31, 2016 is as follows:

	2016	2015
	$	$
Balance sheet		
Assets		
Rental property, at cost	10,478,366	10,478,366
Other assets	2,063,656	2,162,206
	12,542,022	12,640,572
Liabilities		
Bank loans	8,944,834	9,205,674
Other liabilities	474,199	533,501
	9,419,033	9,739,175
Net equity	3,122,989	2,901,397
	12,542,022	12,640,572

The **OACIQ**'s share in a limited partnership's net income for the period from January 1 to December 31, 2016 is as follows:

	2016	2015
Statement of income		
Revenue	1,539,885	1,496,962
Expenses	1,068,293	1,059,555
Income before amortization	471,592	437,407
Amortization	(301,351)	(301,351)
Share in net income of a limited partnership	170,241	136,056

The **OACIQ**'s share in a limited partnership's cash flows for the period from January 1 to December 31, 2016 is as follows:

	2016	2015
Cash flows		
Operating activities	461,362	510,748
Investing activities	(6,865)	(144,775)
Financing activities	(529,378)	(270,388)
	(74,881)	95,585

The financial statements of the limited partnership are prepared in accordance with Canadian accounting standards for private enterprises. There are no material differences resulting from the application of different accounting standards between the limited partnership and the **OACIQ**, except for the fact that the limited partnership did not recognize any amortization expense.

There were no transactions between these two parties except for the payment of the $1,830,611 lease and related costs in 2016 ($1,868,162 in 2015). An amount of $19,060 is included in accounts payable (No amount in 2015). Related party transactions occurred in the normal course of operations and were measured at the exchange amount.

The total value of the investment in a limited partnership as at December 31, 2016 is as follows:

	2016	2015
	$	$
Balance, beginning of year	4,079,728	3,943,672
Refund of capital	(250,000)	-
Share in net income after amortization	170,241	136,056
Balance, end of year	3,999,969	4,079,728

8. Capital assets

	2016			2015
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
General Operating Fund				
Computer equipment	1,445,163	1,345,067	100,096	115,133
Office equipment	491,160	449,900	41,260	52,622
Telephone equipment	283,530	258,016	25,514	65,773
Furniture	2,023,059	1,005,447	1,017,612	1,167,172
Leasehold improvements	4,764,477	1,475,793	3,288,684	3,522,720
	9,007,389	4,534,223	4,473,166	4,923,420

Amortization of capital and intangible assets for the year ended December 31, 2016 amounts to $586,878 ($637,184 in 2015), of which $236,395 ($271,060 in 2015) is presented separately in the statement of income of the General Operating Fund. The remaining balance is allocated to the cost centers of the General Operating Fund.

9. Intangible assets

	2016			2015
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
General Operating Fund				
Software and license	386,647	237,768	148,879	159,816

10. Accounts payable and accrued liabilities

	2016		
	General Operating Fund	Indemnity Fund	Total
	$	$	$
Accounts payable	320,765	-	320,765
Accrued liabilities	215,175	40,749	255,924
Salaries and vacations payable	1,199,973	-	1,199,973
Government remittances payable	486,577	-	486,577
	2,222,490	40,749	2,263,239

	2015		
	General Operating Fund	Indemnity Fund	Total
	$	$	$
Accounts payable	198,560	-	198,560
Accrued liabilities	116,878	38,008	154,886
Salaries and vacations payable	1,708,916	-	1,708,916
Government remittances payable	620,271	-	620,271
	2,644,625	38,008	2,682,633

11. Provision for claims

Upon receipt of a claim duly sworn, the Indemnity Fund's policy is to recognize a provision of 25% of the amount claimed. Since May 1, 2010, the maximum compensation payable from the Fund is $35,000, whereas before, the amount was $15,000. This provision is maintained until the final decision of the Indemnity Committee.

12. Commitments

The OACIQ is committed for the rental of office space from the limited partnership owning the building in which the OACIQ operates its activities under a lease that expires in July 2030. In addition, the OACIQ contracted various commitments, particularly under the lease for vehicles, expiring between November 2017 and December 2018. Minimum future rent payments aggregate $28,277,184 and include the following amounts over the next five years:

	$
2017	1,962,220
2018	1,943,077
2019	1,921,147
2020	1,978,012
2021	2,057,622

13. Contingencies

In the normal course of business, the OACIQ is involved in various claims. Though the outcome of these various pending claims as at December 31, 2016 cannot be determined with certainty, OACIQ Management believes that their outcome will have no significant adverse effect on the OACIQ's financial position, operating results or cash flows.

14. Investment income

	2016			2015		
	General Operating Fund	Indemnity Fund	Total	General Operating Fund	Indemnity Fund	Total
	$	$	$	$	$	$
Interest revenues	110,789	91,681	202,470	130,501	95,534	226,035
Realized gain (loss) on investments	(32,384)	(124,915)	(157,299)	(33,760)	(106,545)	(140,305)
Unrealized gain (loss) on investments	(33,646)	113,091	79,445	(22,535)	157,886	135,351
	(66,030)	(11,824)	(77,854)	(56,295)	51,341	(4,954)
INVESTMENT INCOME	44,759	79,857	124,616	74,206	146,875	221,081

15. OACIQ's Professional Liability Insurance Fund

The summary financial statements as at December 31, 2016 of the **FARCIQ** are as follows:

	2016	2015
	$	$
Balance sheet		
Assets	57,412,050	56,615,416
Liabilities	17,267,229	17,820,364
Accumulated surplus	40,144,821	38,795,052
	57,412,050	56,615,416
Statement of income		
Revenue	5,697,406	6,965,028
Expenses	5,780,178	5,313,979
Earnings (loss) for the year	(82,772)	1,651,049
Unrealized (loss) gain on available-for-sale securities	766,476	(631,366)
Portion reclassified to income from available-for-sale securities	666,065	(113,613)
Comprehensive income	1,349,769	906,070
Cash flows		
Operating activities	(466,953)	(18,803)
Investing activities	64,032	(2,507,200)

The financial statements of the **FARCIQ** are prepared in accordance with International Financial Reporting Standards ("IFRS"). With respect to the application of accounting policies, the main difference between the **FARCIQ** and the **OACIQ** concerns the measurement and disclosure of financial instruments. The **FARCIQ** complies with IFRS disclosure requirements, while the **OACIQ** complies with Part III of the *CPA Canada Handbook – Accounting*.

During the year, the **OACIQ** received from the **FARCIQ** management fees and sponsorship totalling $143,287 ($122,877 in 2015), and occupancy expenses for an amount of $104,117 ($91,669 in 2015). These amounts are in addition to other income totalling $239,745 ($35,921 in 2015). These transactions were carried out in the ordinary course of business and were measured at the exchange amount agreed to by the parties. As at December 31, 2016, an amount of $3,838 is included in accounts receivable ($17,333 in 2015) in connection with these transactions. Accounts payable and accrued liabilities include an amount payable of $9,715 ($12,684 in 2015) for the premiums collected by the **OACIQ** for the **FARCIQ**.

16. Financial instruments

Market risk

Market risk is the risk that the fair value or future cash flows of the OACIQ's financial instruments will fluctuate because of changes in market prices. Market risk comprises interest rate risk. The OACIQ is exposed to this risk, as described below:

i) Interest rate risk

Investments bear interest at fixed rates. Consequently, a change in the market interest rate will have an impact on the fair value of the investments.

Credit risk

The OACIQ extends credit to license holders in the normal course of business. Ongoing credit checks are conducted, and the statement of financial position includes an allowance for doubtful accounts.

In addition, credit risk arises because the OACIQ holds investments in bonds. Therefore, there is a risk that a bond issuer could fail to meet its obligations toward the OACIQ, which would affect the assets of the OACIQ.

Liquidity risk

The OACIQ's objective is to have sufficient liquidity to meet its liabilities when due. The OACIQ monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2016, the most significant financial liabilities are accounts payable and accrued liabilities.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

APPENDIX

Revenue and expenses · Year ended December 31, 2016

	2016	2015
	$	$
CONTINUING EDUCATION		
Revenue		
Continuing education activities	1,697,462	943,801
Direct expenses		
Salaries and employee benefits	881,674	1,080,398
Training and membership fees	1,122	3,433
Professional fees	200,946	131,915
Occupancy expenses	164,274	185,496
Travel	74,113	64,150
Publications	1,182	2,635
Office expenses	28,576	27,964
Doubtful accounts (recovered)	(1,448)	(3,020)
Amortization of capital and intangible assets	18,564	19,785
	1,369,003	1,512,756
Excess (deficiency) of revenue over expenses	328,459	(568,955)
BASIC TRAINING AND EXAMINATIONS		
Revenue		
Revenue related to examinations and basic training	1,157,614	883,945
Direct expenses		
Salaries and employee benefits	1,088,662	834,753
Training and membership fees	1,046	758
Professional fees	159	4,886
Occupancy expenses	186,634	191,823
Travel	45,141	46,794
Office expenses	23,734	25,077
Amortization of capital and intangible asset	25,989	27,337
	1,371,365	1,131,428
Deficiency of revenue over expenses	(213,751)	(247,483)

APPENDIX (CONTINUED)

Revenue and expenses · Year ended December 31, 2016 (continued)

	2016	2015
	$	$
DISCIPLINE AND SYNDIC		
Revenue		
Fines and disbursements	510,318	620,082
Direct expenses		
Discipline committee	652,160	667,057
Salaries and employee benefits	1,821,713	1,694,197
Training and membership fees	20,204	22,521
Trustee decision review committee	63,614	145,682
Doubtful accounts	134,564	11,268
Bailiff fees	67,735	111,802
Professional fees	67,976	144,005
Occupancy expenses	307,524	305,004
Office expenses	81,409	76,580
Public notices	17,580	15,270
Travel	32,920	17,735
Amortization of capital and intangible assets	54,331	54,975
	3,321,730	3,266,096
Deficiency of revenue over expenses	(2,811,412)	(2,646,014)
FORMS		
Revenue		
Sales of forms	972,427	916,635
Direct expenses		
Cost of sales	240,496	279,752
Salaries and employee benefits	39,639	108,430
Other fees	40,111	65,226
Doubtful accounts (recovered)	(1,405)	1,519
	318,841	454,927
Excess of revenue over expenses	653,586	461,708

APPENDIX (CONTINUED)

Revenue and expenses · Year ended December 31, 2016 (continued)

	2016	2015
	$	$
ILLEGAL BROKERAGE PRACTICES		
Revenue		
Penalties received	80,889	62,061
Direct expenses		
Salaries and employee benefits	227,876	404,824
Training and membership fees	10,219	6,677
Penal investigations	17,240	15,714
Legal fees	70,270	169,164
Occupancy expenses	10,244	31,756
General administration	2,020	11,310
Amortization of capital and intangible assets	4,950	10,471
	342,819	649,916
Deficiency of revenue over expenses	(261,930)	(587,855)
OUTREACH		
Revenue		
Interest on income held in trust accounts	5,887	6,897
Direct expenses		
Advertising	240,470	378,609
Salaries and employee benefits	94,962	138,838
Professional fees	2,759	18,628
Office expenses	22,225	120
Travel	3,122	2,328
Bank charges	9,325	9,178
	372,863	547,701
Deficiency of revenue over expenses	(366,976)	(587,855)

The Outreach Fund of the OACIQ was established in accordance with Section 47 of the Act. The Fund is made up of interest earned on cash held in trust accounts by brokers under the Act. The Fund must be used in particular to produce and disseminate information on the public's rights in real estate brokerage and to promote the quality of services provided by brokers and agencies.

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ANNUAL REPORT 2016

FARCIQ

Fonds d'assurance responsabilité professionnelle
du courtage immobilier du Québec

TABLE OF CONTENTS

OUR MISSION

Protect our policyholders' assets through professional liability insurance.

OUR ROLE IS DIVIDED INTO THREE COMPONENTS.

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.

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

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

FARCIQ DIRECTORS

As at December 31, 2016

CHAIRMAN OF THE BOARD OF DIRECTORS

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

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

VICE-CHAIR OF THE BOARD OF DIRECTORS

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

Member of the Professional Ethics Committee

TREASURER

Mr. Bernard Deschamps, MPA, CPA, CMA
Chief Executive Officer, Groupe Ultima

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

DIRECTORS

Mr. Xavier Lecat
Real Estate Broker, L'Expert Immobilier PM inc.

Member of the Audit Committee and the Investments Committee

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

Member of the Claims and Prevention Committee

Mr. Louis-Georges Pelletier, CIP
Damage Insurance Broker

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

Me Marc Simard
Partner, Bélanger Sauvé

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

FROM LEFT TO RIGHT

Standing:
Alain Chouinard
Louis-Georges Pelletier
Christine Lemieux
Marc Simard
Xavier Lecat

Seated:
Bernard Deschamps
Martin Dupras
Christiane St-Jean


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MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

As Chairman of the Board of Directors of the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (**FARCIQ**), it is my pleasure to present our results for 2016, which are in accordance with expectations and the Fund's mission.

Stability and creativity

The main focus for the directors of the Fund has always been to maintain a balance between the premiums paid by policyholders, the insurance coverage and the cost of claims. Thanks to the success we have achieved year after year, we can continue to offer coverage that is better tailored to brokers while benefitting consumers in their transactions – often the most important financial decision they will make in their lives.

With this in mind, since I took office in September 2016, I also undertook to preserve the ground covered by my predecessors, which allowed the Fund to celebrate its 10th anniversary in 2016.

We marked this milestone notably by unveiling a new and dynamic brand image and by taking part in a large number of events..

A challenging and stimulating process

The number of insured brokers was maintained in 2016, standing at 16,429 at the end of the year, compared to 16,438 as at December 31, 2015. During the same period, the number of claims received by the Fund decreased slightly, going from 659 in 2015 to 614 in 2016, but like last year, an increase in claim amounts was recorded. It is important to note that the **FARCIQ** awarded some $1,053,698 in indemnities in 2016.

MR. MARTIN DUPRAS
Chairman of the Board of Directors

"WE ACCOMPLISHED A LOT IN 2016 TO STAY IN TUNE WITH OUR POLICYHOLDERS"

The premium payable on May 1, 2016 for each licence category remained unchanged, i.e. $345 for real estate brokers and real estate and mortgage agencies, and $245 for brokers restricted to mortgage brokerage. In addition, since May 1, 2016, agencies are protected when a broker sells his own property.

We ended the year with an operating loss of $82,772. Thanks to the anticipated (but unrealized) return on our investments, the **FARCIQ** has a comprehensive income of $1,349,769 for fiscal year 2016. The Fund's accumulated surplus remains comfortable at $40,144,821, one of the highest insurance reserve funds in Québec. This is reassuring for our policyholders and for the public, since it means that the **FARCIQ** has the necessary resources to process, approve and settle any legitimate claim.

Another sign of the **FARCIQ**'s excellent financial health: the Fund's solvency level continues again this year above the internal target of 375%, while meeting the criteria established by the Autorité des marchés financiers (AMF) and our actuary.

Secure in our ability to control and manage risks, we have undertaken prevention efforts that will intensify in 2017.

After a decade of operation, I am proud to be able to say that our goal of offering the broadest possible coverage to our policyholders, at a fair premium, while adequately compensating the public has been achieved. Better yet, we have set down the necessary foundation to ensure that this goal will continue to be met in coming years.

2017: The importance of prevention

The increase in the number and severity of claims is a notable trend. Because we are determined to keep premiums down, this will present some challenges going forward, but we will be ready to face them. Thanks to the initial vision of its founders, the Fund has enough of a reserve fund to be able to make it through the most difficult periods.

"THE FUND'S GOOD FINANCIAL HEALTH GUARANTEES ITS ABILITY TO COMPENSATE CONSUMERS."

However, because of the relatively modest rate of return on our assets based on financial market long-range forecasts, maintaining the Fund will require diligent risk management, and this includes better prevention at the broker level.

Prevention is everything, which is why the Board of Directors has approved an action plan to setup initiatives aimed at educating brokers and preventing claims. These efforts will continue, including with the introduction of a new dynamic online continuing education activity.

We are confident that these measures will have a positive long-term impact, which it will be our challenge to gauge.

I wish to thank outgoing Chairman of the Board of Directors Michel Léonard for the professionalism he brought to the post from 2011 to 2016. His leadership and deep understanding of Fund issues allowed the FARCIQ to consolidate its assets and cement its legitimacy.

I would also like to thank all the members of the Board, especially new Vice-Chair Christiane St-Jean and Treasurer Bernard Deschamps. Their continued involvement greatly contributes to the Fund's success.

And lastly, I would like to congratulate General Manager Alain Chouinard and his team, who work closely with us in a climate of collaboration and trust.

We accomplished a lot in 2016 to stay in tune with our policyholders. The new governance implemented on the Board of Directors will allow us to maintain our momentum and our focus, and ensure that the FARCIQ can fulfil its role effectively.

The Chairman of the Board of Directors,

Martin Dupras, A.S.A., F. Pl., M. Tax., ASC

MANAGEMENT REPORT FROM THE GENERAL MANAGER

The past year was marked by new challenges for the FARCIQ team, both at the operational and the organizational levels. In addition to changes in the makeup of the Board of Directors, I was officialized in my position as General Manager in July 2016, after serving as Interim General Manager.

Proactive prevention

The year 2016 saw the implementation of proactive initiatives to promote prevention with brokers. They included:

- publication of a reference guide for brokers targeted by a claim in Small Claims Court;
- ongoing dissemination of information capsules in the brokers' newsletter (PRO@CTIVE);
- increased presence at some 20 field events;
- input in the new broker's kit;
- airing of a video capsule as part of online trainings on the OACIQ website;
- development of a new online training activity.

Claims and organizational policies

The increase in the frequency and severity of claims observed in 2015 continued in 2016. There was also an increase in claim values, with more than 50 claims involving amounts in excess of $250,000.

As part of our sustained efforts to offer protection adapted to the realities of the profession, we were able to maintain at their current level the premiums payable on May 1, 2016 for all policyholder categories.

The coverage for agencies went from $2 million to $5 million this year. In addition, agencies are now covered in cases where one of their brokers sells his own property.

Me ALAIN CHOUINARD
General Manager

As a good manager, the **FARCIQ** has guarded against any unforeseen hike in the number and total value of claims by opting for an increased level of reinsurance. This allows the Fund to benefit from total reinsurance coverage of $11 million instead of $4.5 million.

Finally, this year we again reviewed and updated our organizational policies to ensure compliance with the guidelines set by the Autorité des marchés financiers. In 2016 we also added a capital management program, which is a new requirement of the AMF.

> “THE PAST YEAR WAS MARKED BY NEW CHALLENGES FOR THE FARCIQ TEAM, BOTH AT THE OPERATIONAL AND THE ORGANIZATIONAL LEVELS.”

A symbolic anniversary

The year 2016 marked the **FARCIQ**’s 10th anniversary. The entire organization took part in celebrating this milestone, which solidifies the purpose of the Fund. Several staff members went out in the field and took part in numerous events where they exchanged with various real estate industry stakeholders. This initiative helped us get closer to brokers and agencies to ensure they are well informed about the services available to them.

"WE WILL MAINTAIN OUR EFFORTS TO PROMOTE PREVENTION IN 2017."

2017

As mentioned by our Chairman, we will maintain our efforts to promote prevention in 2017. To this end, we have developed a training activity to help licence holders prevent professional errors. In case of dispute, these recommendations will help them be better prepared to defend themselves and justify their actions.

As part of our prevention efforts we plan to hire an additional resource, so that we can provide more conferences on insurance coverages and better educate policyholders about professional liability. Prevention is an ally for brokers and agencies: it benefits everyone.

I would like to thank all **FARCIQ** Directors for their support and cooperation, and all the staff for their dedication and professionalism. Without them the Fund could not achieve the same success. Our results for 2016 show that everyone is committed to the Fund's mission. You may be assured that we will continue to strive towards this goal in 2017.

Me Alain Chouinard
General Manager, MBA


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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Fonds d'assurance reponsabilité professionnelle du courtage immobilier du Québec (the "Fund"), which comprise the statement of financial position as at December 31, 2016 and the statements of income and comprehensive income, statement of changes in accumulated surplus and statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements of the Fund for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on February 23, 2016.

PricewaterhouseCoopers LLP[1]

February 21, 2017

[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, 2016

(In Canadian dollars)

	2016	2015
	$	$
Assets		
Cash	839,901	1,199,715
Treasury bills (interest rate of 0.46%; 0.1% as at December 31, 2015) and banker's acceptance	499,400	49,954
Investments (note 4)	53,552,782	52,716,372
Investment income receivable	227,805	194,623
Premiums and other receivables (note 14)	74,875	105,139
Amounts recoverable from reinsurers for claims liabilities (note 9)	1,471,000	1,617,000
Deductibles recoverable from policyholders for claims liabilities	693,424	624,722
Prepaid expenses	21,509	33,311
Property, plant and equipment (note 7)	3,980	6,785
Intangible asset (note 8)	27,374	67,795
	57,412,050	56,615,416
Liabilities		
Accounts payable and accrued liabilities	222,965	303,108
Due to OACIQ (note 13)	3,838	17,333
Unearned premiums	1,927,002	1,931,201
Claims liabilities (note 9)	15,113,424	15,568,722
	17,267,229	17,820,364
Accumulated surplus		
Accumulated surplus, end of year	38,948,717	39,031,489
Accumulated other comprehensive income	1,196,104	(236,437)
	40,144,821	38,795,052
	57,412,050	56,615,416

Commitments (note 16)

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

Approved by the Board,

Martin Dupras
President

Bernard Deschamps
Treasurer

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of income and comprehensive income · Year ended December 31, 2016

(In Canadian dollars)

	2016	2015
	$	$
Revenues		
Earned premiums (note 11)	5,650,999	6,066,574
Reinsurance premiums ceded (note 11)	(414,700)	(374,067)
Net earned premiums	5,236,299	5,692,507
Expenses		
Claims and loss adjustment expenses	4,209,970	3,954,517
General expenses	1,570,208	1,359,462
	5,780,178	5,313,979
Underwriting (loss) profit	(543,879)	378,528
Investment and other income (note 4)	461,107	1,272,521
Net income (loss) for the year	(82,772)	1,651,049
Other comprehensive income		
Items that will be subsequently reclassified to profit or loss		
Unrealized gain on available-for-sale securities	766,476	(631,366)
Portion reclassified to income from available-for-sale securities	666,065	(113,613)
Other comprehensive income for the year	1,432,541	(744,979)
COMPREHENSIVE INCOME	1,349,769	906,070

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of changes in accumulated surplus · Year ended December 31, 2016

(In Canadian dollars)

			2016	2015
	Accumulated surplus	Accumulated other comprehensive income	Net amount	Net amount
	$	$	$	$
Balance, beginning of year	39,031,489	(236,437)	38,795,052	37,888,982
Net income (loss) for the year	(82,772)	-	(82,772)	1,651,049
Other comprehensive income	-	1,432,541	1,432,541	(744,979)
BALANCE, END OF YEAR	38,948,717	1,196,104	40,144,821	38,795,052

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Statement of cash flows · Year ended December 31, 2016

(In Canadian dollars)

	2016	2015
	$	$
Cash flows from (used in):		
Operating activities		
Net income (loss) for the year	(82,772)	1,651,049
Adjustments for:		
Amortization of property, plant and equipment	2,805	12,669
Amortization of intangible asset	40,420	40,420
Amortization of premiums and investment discounts	205,801	218,281
Loss (gain) on disposal of investments	666,065	(113,613)
Income of reinvested dividends	(339,766)	(309,653)
	492,553	1,499,153
Change in non-cash working capital items		
Investment income receivable	(33,182)	(2,048)
Premiums and other receivables	30,264	(42,878)
Prepaid expenses	11,802	(19,105)
Amounts recoverable from reinsurers for claims liabilities	146,000	(862,000)
Prepaid reinsurance	-	374,067
Deductibles recoverable from policyholders for claims liabilities	(68,702)	(151,460)
Accounts payable and accrued liabilities	(80,143)	120,367
Due to OACIQ	(13,495)	5,037
Unearned premiums	(4,199)	(364,243)
Claims liabilities	(455,298)	923,460
	(466,953)	(18,803)
Investing activities		
Acquisition of investments	(34,057,006)	(38,590,834)
Proceeds on disposal of investments	34,121,038	36,083,634
	64,032	(2,507,200)
(Decrease) increase in cash and cash equivalents during the year	89,632	(1,026,850)
Cash and cash equivalents, beginning of year	1,249,669	2,276,519
Cash and cash equivalents, end of year	1,339,301	1,249,669
Cash and cash equivalents consist of:		
Cash	839,901	1,199,715
Treasury bills and banker's acceptance	499,400	49,954
	1,339,301	1,249,669

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

FONDS D'ASSURANCE RESPONSABILITÉ PROFESSIONNELLE DU COURTAGE IMMOBILIER DU QUÉBEC

Notes to the financial statements · December 31, 2016

(In Canadian dollars)

1. Incorporation and nature of operations

Governed by the *Insurance Act*, the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (**FARCIQ**) ("Insurance Fund" or "Corporation") 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 Insurance Fund started its operations on July 21, 2006. Its mission is to provide professional liability insurance for all agencies, real estate 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") 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 21, 2017.

The Insurance 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 Insurance Fund agrees to compensate a policyholder if an uncertain future event specified in the contract adversely affects the policyholder. All contracts issued by the Insurance Fund transfer significant insurance risk and are therefore treated as insurance contracts.

Claims liabilities

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

Unearned premiums

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

3. Main accounting policies (continued)

Reinsurance

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

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

Financial instruments

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

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

The investments, all classified as AFS, are carried at fair value on the statement of financial position as of the trade date, and changes in fair value are recorded in other comprehensive income until the financial asset is disposed of or has become other-than-temporarily impaired. Transaction costs related to financial instruments are capitalized and 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 income as investment and other income and, accordingly, the amount is deducted from other comprehensive income. Gains and losses on the sale of AFS assets are calculated using the average cost method.

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

Financial liabilities at amortized cost

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

Fair value of financial instruments

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

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

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

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

3. Main accounting policies (continued)

Revenue and expense recognition related to financial instruments

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

Determination of fair value of financial instruments

The fair value of a financial instrument 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 bid price for bonds and net asset value for mutual fund units.

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 asset

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

Impairment of long-lived assets

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

Standards issued but not yet effective

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

A. **Financial instruments: Classification and measurement**

   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 a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

3. Main accounting policies (continued)

Standards issued but not yet effective (continued)

A. Financial instruments: Classification and measurement (continued)

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

B. 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 the forthcoming new insurance contracts IFRS standard.

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 1, 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 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 **Insurance Fund** is currently assessing the impact of the options proposed by these amendments, which will have to be implemented. If one of the two options is selected, it shall be applied for annual periods beginning on or after January 1, 2018.

C. Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which introduces a single, comprehensive accounting model for all contracts with clients, with the exception of those falling within the scope of other standards such as financial instruments, insurance contracts and leases. IFRS 15 supersedes the two major revenue recognition standards, namely IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The basic principle of this standard is that the recognition of a revenue must reflect the transfer of goods or services in an amount that reflects the value of the consideration received or expected to be received in exchange for such goods or services. The new standard also provides more guidance on certain types of transactions and will result in increased disclosure of revenue information.

In September 2015, the IASB issued an amendment to IFRS 15 to postpone its effective date to January 1, 2018.

3. Main accounting policies (continued)

D. Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace the current IAS 17 Leases. 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 unchanged. The **Insurance Fund** is currently assessing the impact of the adoption of IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

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 for bonds and net asset value for mutual fund units.

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 for the same instrument nor based on available market data [Level 3]. The Insurance Fund held no Level 3 securities as at December 31, 2016. During the year, there have been no transfers of amounts between Level 1 and Level 2.

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

4. Investments (continued) · Fair value hierarchy

	2016		
	Level 1	Level 2	Total
	$	$	$
Provincial government bonds	-	7,672,960	7,672,960
Municipal government bonds	-	20,430,097	20,430,097
Corporate bonds	-	13,700,319	13,700,319
Investment funds	-	11,749,406	11,749,406
	-	53,552,782	53,552,782

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

4. Investments (continued) · Investment maturities

2016	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
	$	$	$	$	$
Provincial government bonds	-	2,108,611	5,564,349	-	7,672,960
Municipal government bonds	4,040,652	15,852,112	537,333	-	20,430,097
Corporate bonds	2,469,946	9,222,830	2,007,543	-	13,700,319
Investment funds	-	-	-	11,749,406	11,749,406
	6,510,598	27,183,553	8,109,225	11,749,406	53,552,782

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

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

	2016			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	7,551,152	134,918	(13,110)	7,672,960
Municipal government bonds	20,391,526	95,298	(56,727)	20,430,097
Corporate bonds	13,609,844	115,476	(25,001)	13,700,319
Investment funds	10,804,156	945,250	-	11,749,406
	52,356,678	1,290,942	(94,838)	53,552,782

	2015			
	Amortized cost	Gains	Losses	Fair value
	$	$	$	$
Provincial government bonds	5,443,805	203,995	(661)	5,647,139
Municipal government bonds	16,956,917	133,991	(20,063)	17,070,845
Corporate bonds	13,955,493	158,277	(40,165)	14,073,605
Investment funds	9,892,507	-	(279,536)	9,612,971
Preferred shares	6,704,087	20,042	(412,317)	6,311,812
	52,952,809	516,305	(752,742)	52,716,372

4. Investments (continued) · Investment and other income

	2016	2015
	$	$
Interest income	1,045,625	1,027,355
Dividend income	467,120	536,071
Amortization of premiums and discounts	(205,801)	(218,281)
Gain (loss) from disposal of investments	(666,065)	113,612
Management fees	(179,772)	(186,236)
	461,107	1,272,521

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

A 1% change in interest rates would result in a $418,034 decrease (increase) in investment income ($1,754,029 in 2015).

Market price risk

Stock market price risk arises from uncertainty related to the fair value of assets traded on stock markets. The Insurance Fund's investment policy limits the acquisition of 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, 2016, the Insurance Fund holds $11,749,406 in securities traded on stock markets. As a result, a 1% change in the fair value of these assets would have an impact of $117,494 on the Insurance Fund's comprehensive income.

Credit risk

Credit risk is the risk that a party to a financial instrument causes a financial loss for the Insurance Fund by failing to discharge an obligation. Credit risk arises primarily from fixed-income securities, which comprise the majority 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 corporate securities with ratings of BBB or less. The Insurance Fund may not invest more than 10% of the fixed-income security portfolio in the securities of a single corporate issuer.

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

5. Additional information about financial instruments (continued)

Maximum credit risk exposure arising from financial instruments

	2016	2015
	$	$
Cash	839,901	1,199,715
Treasury bills and banker's acceptance	499,400	49,954
Canadian, provincial and municipal government bonds	28,103,057	22,717,984
Corporate bonds	13,700,319	14,073,605
Investment funds	11,749,406	9,612,971
Preferred shares	-	6,311,812
Investment income receivable	227,805	194,623
Premiums and other receivables	74,875	105,139
Amounts recoverable from reinsurers for claims liabilities	1,471,000	1,617,000
Deductibles recoverable from policyholders for claims liabilities	693,424	624,722
	57,359,187	56,507,525

5. Additional information about financial instruments (continued)

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 Insurance Fund's invested assets could have sensitivity to changes affecting a particular industry. All of the securities held are issued in Canada.

Liquidity risk

Liquidity risk is the risk that an entity will 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, 2016 and 2015, 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 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 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 $345 in 2015, was maintained at $345 in 2016 for real estate brokers and agencies and at $245 in 2016 for mortgage brokers. In addition, 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.

6. Insurance risk (continued)

B. Claims management and reinsurance

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

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

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 factors 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

			2016	2015
	Cost	Accumulated amortization	Net amount	Net amount
	$	$	$	$
Telephone system	22,927	22,927	-	-
Leasehold improvements	55,343	55,343	-	248
Furniture and equipment	88,090	84,110	3,980	5,897
Computer hardware	41,105	41,105	-	640
	207,465	203,485	3,980	6,785

	Additions (disposals)	Amortization	Total	Total
	$	$	$	$
Reconciliation of carrying value				
Leasehold improvements	-	247	247	248
Furniture and equipment	-	1,918	1,918	5,897
Computer hardware	-	640	640	640
	-	2,805	2,805	6,785

8. Intangible asset

			2016	2015
	Cost	Accumulated amortization	Net amount	Net amount
	$	$	$	$
Software	550,253	522,879	27,374	67,795
	Additions (disposals)	Amortization	Total	Total
	$	$	$	$
Reconciliation of carrying value				
Software	-	40,420	40,420	67,795

General and administrative expenses include amortization for the year of $20,210 ($20,210 in 2015), and the same amount of $20,210 ($20,210 in 2015), is 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 $345,768 as at December 31, 2016 ($357,239 in 2015) to reflect the time value of money, using an average discount rate of 1.81% (1.87% in 2015) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $1,071,503 as at December 31, 2016 ($935,469 in 2015).

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 $202,939 negative impact on the fair value of unpaid claims as at the statement of financial position date ($210,886 as at December 31, 2015), while a 1% decrease in the discount rate would have a $210,587 positive impact on the fair value of unpaid claims as at the statement of financial position date ($218,616 as at December 31, 2015).

Prior-year claims development

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

9. Claims liabilities (continued) · Ultimate incurred claims estimate

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	$	$	$	$	$	$	$	$		$
As at end of underwriting year	6,526,460	6,562,559	6,673,910	6,073,405	5,608,678	5,283,626	4,749,235	5,407,964	4,615,194	
One year later	7,023,718	6,424,801	6,033,124	4,671,308	4,468,644	4,069,840	4,607,025	5,439,827		
Two years later	5,651,971	4,772,070	4,790,220	4,077,761	4,144,194	3,301,052	4,552,032			
Three years later	4,585,239	3,220,954	4,076,860	3,245,717	3,543,060	3,288,660				
Four years later	3,439,944	2,761,601	3,660,691	3,125,725	3,551,053					
Five years later	3,073,062	2,428,397	3,509,608	3,247,652						
Six years later	2,976,026	2,578,027	3,278,447							
Seven years later	2,928,464	2,404,905								
Eight years after	2,926,892									
Ultimate incurred claims estimate	2,926,892	2,404,905	3,278,447	3,247,652	3,551,053	3,288,660	4,552,032	5,439,827	4,615,194	33,304,662
Paid claims	2,926,892	2,397,888	3,158,637	2,844,843	2,894,878	2,083,247	2,491,353	2,050,634	596,836	21,445,208
Unpaid claims	-	7,017	119,810	402,809	656,175	1,205,413	2,060,679	3,389,193	4,018,358	11,859,454
Prior years										
Effect of discounting and margins										1,134,322
Other										1,426,224
FINAL UNPAID CLAIMS										14,420,000

Note: These amounts exclude $693,424 in deductibles recoverable from policyholders for claims liabilities.

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

	2016			2015		
	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
	$	$	$	$	$	$
	(In thousands of dollars)					
Balance, beginning of year	14,944	1,617	13,327	14,172	755	13,417
Changes in estimated losses and expenses for claims incurred in prior years	(1,740)	(146)	(1,594)	(2,925)	(565)	(2,360)
Losses and expenses on claims incurred in the current year	5,894	-	5,894	7,631	1,427	6,204
Less recoveries received (amounts paid) in respect of incurred claims						
During the current year	(896)	-	(896)	(765)	-	(765)
During prior years	(3,782)	-	(3,782)	(3,169)	-	(3,169)
BALANCE, END OF YEAR	14,420	1,471	12,949	14,944	1,617	13,327

Note: This table excludes $693,424 in deductibles recoverable from policyholders for claims liabilities ($624,722 in 2015).

10. Reinsurance

The limit of coverage provided by the Insurance 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 $11,000,000 in overall annual coverage in excess of Insurance Fund retention of $6,000,000, between January 1, 2016 and January 1, 2017.

11. Net earned premiums

	2016	2015
	$	$
Earned premiums	5,650,999	6 066,574
Reinsurance premiums written	-	-
Change in unearned reinsurance premiums	414,700	374,067
Reinsurance premiums ceded	414,700	374,067
Net earned premiums	5 236,999	5 692,507

No allowance for doubtful accounts was deducted from net earned premiums in 2016 and 2015 determined by an overall analysis of premiums receivable at year-end to identify those that in all probability will not be recovered. Given that the insurance premium is billed together with OACIQ annual membership dues, the insured is not actually covered until OACIQ receives the premium, and therefore no allowance is required.

12. Capital required

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

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

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

In 2016, 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:

	2016	2015
	$	$
Capital available	**40,154**	38,656
Capital required	**5,475**	4,479
Excess of capital available over capital required	**34,679**	34,177
MCT (as a %)	**733,41%**	863,05%

13. Transactions with the OACIQ

By various agreements with OACIQ, the Insurance Fund received certain management services and provided sponsorship, totaling $143,287 ($122,877 in 2015), in addition to rent expenses of $104,117 ($91,669 in 2015). To these amounts are added other paid expenses totaling $239,745 ($35,921 in 2015). These transactions were concluded in the normal course of business and measured at the value agreed between parties. As at December 31, 2016, an amount of $3,838 is payable ($17,333 in 2015) in connection with these transactions. Premiums and other receivables include an amount of $9,715 ($12,684 in 2015) for the premiums collected by the OACIQ on behalf of the Insurance Fund.

14. Premiums and other receivables

	2016	2015
	$	$
Deductibles receivable	64,826	75,323
Premiums receivable	9,715	12,684
Other accounts receivable	334	17,132
	74,875	105,139

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 2016 amounted to $290,263 ($412,241 for 2015).

16. Commitments

The Insurance Fund is committed under a subletting arrangement with the OACIQ to make sublease payments in accordance with a lease expiring in July 2020. Future minimum payments under the contract totalling $219,039 are as follows:

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


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EXPRESSION OF OPINION

I have valued the policy liabilities and reinsurance recoverable of Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec for its statement of financial position at December 31, 2016 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods

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

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

Claim Liabilities ($'000)	Carried in Annual Return ($'000)	Actuary's estimate ($'000)
(1) Direct unpaid claims and adjustment expenses	14,420	14,420
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	14,420	14,420
(4) Gross unpaid claims and adjustment expenses	1,471	1,471
(5) Other recoverables on unpaid claims	693	693
(6) Other recoverables on unpaid claims	693	693
(7) Other recoverables on unpaid claims (3) – (4) – (5) + (6)	12,949	12,949

Premium liabilities ($'000)	Carried in Annual Return (col. 1) ($'000)	Actuary's estimate (col. 2) ($'000)
(1) Gross unearned premium liabilities		1,854
(2) Net unearned premium liabilities		1,966
(3) Gross unearned premiums	1,927	
(4) Net unearned premiums	1,927	
(5) Premium deficiency	39	39
(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.

Eckler

Xavier Bénarosch, FCAS, FICA

February 14, 2017
Date opinion was rendered

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