Grant Thornton

Financial Statements

Real Estate Errors and Omissions Insurance Corporation

February 28, 2017

Contents

Independent Auditor's report

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To the Insureds of
Real Estate Errors and Omissions Insurance Corporation

We have audited the accompanying financial statements of Real Estate Errors and Omissions Insurance Corporation, which comprise the statements of financial position as at February 28, 2017 and February 29, 2016 and the statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

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We believe that the evidence we have obtained in our audits 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 Real Estate Errors and Omissions Insurance Corporation as at February 28, 2017 and February 29, 2016 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Vancouver, Canada
May 12, 2017

Chartered Professional Accountants

Real Estate Errors and Omissions Insurance Corporation
Statements of Operations and Comprehensive Income

Years ended	February 28, 2017	February 29, 2016
Revenue		
Earned premiums	**$ 9,987,179**	$ 9,156,502
Expenses		
Claims and underwriting expenses	**5,844,797**	3,494,354
Increase in provisions for unpaid claims and adjusting expenses	**1,222,000**	632,000
Administrative expenses	**1,110,883**	1,009,081
Policy acquisition expenses	**273,373**	239,633
	8,451,053	5,375,068
Net underwriting income	**1,536,126**	3,781,434
Other income (expense)		
Investment income (Note 6)	**1,468,505**	1,505,259
Investment management fees	**(100,919)**	(93,449)
	1,367,586	1,411,810
Earnings before income taxes	**2,903,712**	5,193,244
Income tax expense (Note 9)	**718,625**	1,320,854
Net earnings	**2,185,087**	3,872,390
Other comprehensive income		
Items that will be classified subsequently to profit or loss		
Unrealized gain (loss) on investments of the Real Estate Errors and Omissions Insurance Fund, net of income taxes of $87,870 (2016 - recovery of $169,257)	**250,062**	(481,697)
Reclassification adjustment for realized losses (gains) included in net earnings, net of income taxes of $15,175 (2016 - $67,934)	**43,161**	(193,350)
Comprehensive income	**$ 2,478,310**	$ 3,197,343

Real Estate Errors and Omissions Insurance Corporation
Statements of Changes in Equity

Years ended February 28, 2017 and February 29, 2016

	Accumulated Surplus	Accumulated Other Comprehensive Income	Total Equity
Balance, February 28, 2015	$ 14,214,830	$ 1,145,226	$ 15,360,056
Net earnings	3,872,390	-	3,872,390
Unrealized loss on investments of the Real Estate Errors and Omissions Insurance Fund, net of income taxes	-	(481,697)	(481,697)
Reclassification adjustment for realized gains/losses included in net earnings, net of income taxes	-	(193,350)	(193,350)
Balance, February 29, 2016	18,087,220	470,179	18,557,399
Net earnings	2,185,087	-	2,185,087
Unrealized gain on investments of the Real Estate Errors and Omissions Insurance Fund, net of income taxes	-	250,062	250,062
Reclassification adjustment for realized gains/losses included in net earnings, net of income taxes	-	43,161	43,161
Balance, February 28, 2017	**$ 20,272,307**	**$ 763,402**	**$ 21,035,709**

See accompanying notes to the financial statements.

Real Estate Errors and Omissions Insurance Corporation
Statements of Financial Position

	February 28, 2017	February 29, 2016
Assets		
Real Estate Errors and Omissions Insurance Fund investments (Note 7)	**$ 49,666,625**	$ 44,750,933
Cash	**582,654**	1,107,201
Deductibles and other receivable	**66,214**	23,026
Income taxes receivable	**256,713**	158,048
Prepaid expenses	**54,148**	47,799
Equipment (Note 8)	**87,660**	85,577
Deferred income taxes (Note 9)	**249,538**	233,501
Total assets	**$ 50,963,552**	$ 46,406,085
Liabilities		
Accounts payable and accrued liabilities	**$ 226,868**	$ 180,686
Provisions for policy and claims liabilities (Note 10)	**19,554,000**	18,332,000
Unearned premiums (Note 11)	**10,146,975**	9,336,000
Total liabilities	**29,927,843**	27,848,686
Equity		
Accumulated surplus	**20,272,307**	18,087,220
Accumulated other comprehensive income	**763,402**	470,179
Total equity	**21,035,709**	18,557,399
Total liabilities and equity	**$ 50,963,552**	$ 46,406,085

Commitments (Note 13)

On behalf of the Board of Directors,

____________ Director ____________ Director

See accompanying notes to the financial statements.

Real Estate Errors and Omissions Insurance Corporation
Statements of Cash Flows

Years ended	February 28, 2017	February 29, 2016
Cash provided by (used in)		
Operating activities		
Earnings before income taxes	**$ 2,903,712**	$ 5,193,244
Adjustments for items not affecting cash		
Depreciation	**29,186**	29,641
Realized gains on investment	**(90,246)**	(237,147)
Increase in provisions for unpaid claims and adjusting expense	**1,222,000**	632,000
Loss on disposal of equipment	**4,255**	-
Net changes in non-cash working capital		
(Increase) decrease in deductibles receivable	**(43,188)**	13,588
Increase in prepaid expenses	**(6,349)**	(5,904)
Increase (decrease) in accounts payable and accrued liabilities	**46,182**	(12,047)
Increase in unearned premiums	**810,975**	868,286
	4,876,527	6,481,661
Income taxes paid, net	**(937,274)**	(1,776,504)
Net cash provided by operating activities	**3,939,253**	4,705,157
Investing activities		
Purchase of investments, net	**(5,130,022)**	(7,045,957)
Purchase of equipment	**(35,524)**	(20,054)
Sale/redemption of investments	**701,746**	2,420,124
Net cash used in investing activities	**(4,463,800)**	(4,645,887)
Net (decrease) increase in cash	**(524,547)**	59,270
Cash, beginning of year	**1,107,201**	1,047,931
Cash, end of year	**$ 582,654**	$ 1,107,201

See accompanying notes to the financial statements.

1. General information

Real Estate Errors and Omissions Insurance Corporation (the "Corporation") is a special act corporation incorporated as a corporation without share capital under the Real Estate Services Act. The Corporation is taxable under the Income Tax Act (Canada). The Corporation pools the insurance premiums paid by real estate licensees in a fund that is used to pay the costs of defending and indemnifying licensees against professional liability claims. The address of the Corporation's registered office and its principal place of business is 1604 – 700 West Pender Street, Vancouver, British Columbia, Canada.

During the year, legislative changes were made to remove the real estate industry's ability to self-regulate and the government of British Columbia appointed a new Board of Directors to the Real Estate Council of British Columbia ("RECBC"). Those changes resulted in the RECBC becoming a government reporting entity. The government of British Columbia have also concluded that the RECBC, who appoints four out of the seven members of the Corporation's Board of Directors, has the ability to exercise control over the Corporation.

2. Statement of compliance with IFRS

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies that have been applied in the preparation of these financial statements are summarized in Note 3. These accounting policies have been used throughout all periods presented in the financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on May 12, 2017.

3. Summary of significant accounting policies

Basis of presentation

The functional and presentation currency of the Corporation is the Canadian dollar.

The financial statements have been prepared on a historical cost basis, except for certain financial assets which are measured at fair value.

Insurance contracts

The Corporation has applied the IFRS 4 *Insurance Contracts* accounting policies and the actuarial practices supporting them, as required by the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Corporation agrees to compensate a policy holder on the occurrence of an adverse specified uncertain future event. The Corporation determines whether it has significant insurance risks by comparing the benefits that could become payable under various circumstances facing the policy holder as a result of receiving a premium for insuring the risk.

3. Summary of significant accounting policies (continued)

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Premium revenue

Insurance premiums are earned on a pro rata basis over the life of the policy period. Unearned premiums represent the portion of premiums written which are applicable to the unexpired terms of the policy in force.

Provisions for policy and claims liabilities

The provisions for policy and claims liabilities are calculated based on Canadian accepted actuarial practice. The provision consists of case estimates, a provision for further development of losses that have been reported but for which not enough has been recorded as paid or reserved, and a margin for adverse deviation. The estimates include related investigation, settlement and adjusting expenses. The valuation of claim liabilities is measured on a discounted basis.

Liability adequacy test

At year end, a liability adequacy test is performed to validate the adequacy of unearned premiums. A premium deficiency would exist if unearned premiums were deemed insufficient to cover estimated future loss and expenses associated with the unexpired portion of insurance coverage. If the liability is inadequate, the entire deficiency is recognized in profit or loss.

Financial instruments

All financial instruments are classified into one of five categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are measured are initially measured at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- fair value through profit and loss financial assets are measured at fair value and changes in fair value are recognized in in profit or loss;
- available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired at which time the amounts would be recorded in profit or loss; and
- loans and receivables, held-to-maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation has classified its financial instruments as follows:

Real Estate Errors and Omissions Insurance Fund investments	available-for-sale
Cash and other	loans and receivables
Deductibles receivable	loans and receivables
Accounts payable and accrued liabilities	other financial liabilities

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognized in net earnings (loss) for the year.

In respect of available-for-sale equity instruments (i.e. the Real Estate Errors and Omissions Insurance Fund investments), impairment losses previously recognized through net earnings (loss) are not reversed through net earnings (loss) for the year. Any increase in fair value subsequent to an impairment loss is recognized directly in other comprehensive income (loss) for the year.

Investment income

Realized gains and losses arising from the sale of investments in the Real Estate Errors and Omissions Insurance Fund is the difference between the proceeds received, net of transaction costs, and its original cost using the average cost basis. Dividend income is recognized when the rights to receive payment have been established.

Unrealized gains and losses

Unrealized gains or losses on the investments of the Real Estate Errors and Omissions Insurance Fund represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

Foreign currency translation

Any transactions of the Real Estate Errors and Omissions Insurance Fund in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the dates of such transactions. Any such investments in foreign currencies are translated into Canadian dollars at the closing exchange rates on each valuation date. Investment income and unrealized gains include those that result from foreign currency changes.

Comprehensive income (loss)

Comprehensive income (loss) includes the change in the Corporation’s net assets that results from transactions, events and circumstances from sources other than the corporation’s equity and includes items that would not normally be included in net earnings (loss), such as unrealized gains and losses on available-for-sale financial assets.

3. Summary of significant accounting policies (continued)

Equipment

Equipment is recorded at cost less accumulated depreciation and any accumulated impairment. Depreciation is charged so as to write-off the cost or valuation of equipment over their estimated useful lives, using the declining balance method on the following rates:

Computer equipment and software	25%
Furniture	20%
Office equipment	20%

Leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write-off the cost or valuation of leasehold improvements using the straight-line method over the term of the lease.

The gain or loss arising on the disposal or retirement of equipment is determined as the difference between the sales proceeds and the carrying amount of the equipment and is recognized in income.

Impairment of long-lived assets

At each balance sheet date, the Corporation reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the asset's useful life.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

3. Summary of significant accounting policies (continued)

Taxation

The income tax expense represents the sum of the income tax currently payable and deferred income tax.

The income tax currently payable is based on taxable income for the year. Taxable income (loss) differs from net income (loss) as reported in the statement of operations and comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Corporation's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred income tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the Corporation intends to settle its current income tax assets and liabilities on a net basis.

Standards that are not yet effective and have not been adopted early by the Corporation

IFRS 16 *Leases*

The IASB released IFRS 16 Leases, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

3. Summary of significant accounting policies (continued)

Standards that are not yet effective and have not been adopted early by the Corporation (continued)

In addition, IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as
- non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements; and
- introduces new disclosure requirements.

The standard is effective for reporting periods beginning on or after January 1, 2019.

IFRS 9 *Financial Instruments*

The IASB recently released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets, introduces a new 'expected credit loss' model for the impairment of financial assets, and provides new guidance on the application of hedge accounting.

The standard is effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 4 *Insurance Contracts*

In September 2016, the IASB issued amendments which address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an “overlay approach” and a “deferral approach”. The amended Standard will give all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility. The new insurance contracts Standard is currently being drafted and will have an effective date of January 1, 2021.

The Corporation is assessing the impact of these amendments.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Corporation's accounting policies, which are described in Note 3, management and the board of directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or, in the period of the revision and future periods, if the revision affects both current and future periods.

Critical judgments in applying the Corporation's accounting policies

Management and the board of directors have made critical judgments regarding significant or prolonged decline in fair value of available-for-sale investments and estimations (which are dealt with separately below) in the process of applying the Corporation's accounting policies that have a significant effect on the amounts recognized in these financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of the provisions for policy and claims liabilities
Determining the provisions for unpaid items and adjusting expenses involves an assessment of the future development of claims. The process takes into account the consistency of the Corporation's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims. These provisions for unpaid claims and adjusting expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates.

The estimates are principally based on the Corporation's historical experience. Methods of estimation have been used that the Corporation believes produce reasonable results given current information. As additional experience and other data become available, the estimates could be revised. Any future changes in estimation would be reflected in the statement of operations and comprehensive income (loss) for the year in which the change occurred.

Valuation is determined using actuarial assumptions, although some of the assumptions are not supported by observable market prices or rates. There is no active market for such liabilities.

Fair value of financial instruments using valuation techniques
Management and the board of directors use their judgment in selecting an appropriate valuation technique. Where possible, the investments in the Real Estate Errors and Omissions Insurance Fund are valued at prices quoted in active markets. For any of those investments not traded in an active market, management seeks the assistance of its professional investment manager to assist in determining estimated value of such investments using valuation methods and techniques generally recognized as standard within the industry.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Recognition of deferred tax assets
The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Corporation's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required is assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

5. Financial instruments

For certain of the Corporation's financial instruments, including cash, deductibles and other receivable, and accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short-term nature. The investments in the Real Estate Errors and Omissions Insurance Fund are measured at fair value.

The carrying value and fair value of financial instruments as at February 28, 2017 and February 29, 2016 are summarized as follows:

	February 28, 2017		February 29, 2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Available-for-sale	**$ 49,666,625**	**49,666,625**	$ 44,750,933	44,750,933
Loans and receivables	**648,868**	**648,868**	1,130,227	1,130,227
Other financial liabilities	**(226,868)**	**(226,868)**	(180,686)	(180,686)
	$ 50,088,625	**50,088,625**	$ 45,700,474	$ 45,700,474

The Corporation's financial instruments measured at fair value have been categorized based upon a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lower priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs that are not considered active.

Level 3 Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment or estimation.

The following fair value hierarchy table presents information about the Corporation's financial assets measured at fair value as at February 28, 2017 and February 29, 2016.

5. Financial instruments (continued)

	Financial instruments measured at fair value as at February 28, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Real Estate Errors and Omissions Insurance Fund investments				
Pooled bond fund	**$ -**	**$ 41,866,899**	**$ -**	**$ 41,866,899**
Pooled marketable securities funds	**-**	**7,799,726**	**-**	**7,799,726**
	$ -	**$ 49,666,625**	**$ -**	**$ 49,666,625**

	Financial instruments measured at fair value as at February 29, 2016			
	Level 1	Level 2	Level 3	Total
Real Estate Errors and Omissions Insurance Fund investments				
Pooled bond fund	$ -	$ 37,818,066	$ -	$ 37,818,066
Pooled marketable securities funds	-	6,932,867	-	6,932,867
	$ -	$ 44,750,933	$ -	$ 44,750,933

Investments in underlying funds are valued at their net asset value calculated by the manager of the underlying fund in accordance with the constating documents of the underlying fund. If the net asset value is unavailable, underlying funds are valued using the last published net asset value or at the fair value as determined by the manager maximizing the use of observable market inputs, whichever is deemed to be the best representation of fair value of the underlying funds.

6. Investment income

	February 28, 2017	February 29, 2016
Interest and other investment income	**$ 1,245,546**	$ 1,164,026
Dividend income	**132,713**	104,086
Realized capital gains	**90,246**	237,147
	$ 1,468,505	$ 1,505,259

7. Real Estate Errors and Omissions Insurance Fund

Pursuant to the incorporating legislation contained in the Real Estate Services Act, the Corporation is required to deposit premiums for insurance collected in a savings institution in the Province of British Columbia. In addition, the legislation makes provision for investment of any part of the fund in any security in which trustees are permitted to invest trust funds under the Trustee Act. The money deposited or so invested constitutes the Real Estate Errors and Omissions Insurance Fund investments (the “Fund”).

The Corporation manages its investments according to the directives outlined in its Statement of Investments Policies and Procedures, which is reviewed and approved by the board of directors on an annual basis. This statement was written in order to assist the Corporation’s Finance/Audit Committee in establishing the investment procedures and guidelines of the Fund and in monitoring and evaluating the investment performance achieved on the Fund.

The investments in the Fund are measured at fair value and consist of the following:

	February 28, 2017	February 29, 2016
Pooled bond fund	**$ 41,866,899**	$ 37,818,066
Pooled marketable securities funds	**7,799,726**	6,932,867
Total investments, at fair value	**$ 49,666,625**	$ 44,750,933
Total investments, at cost	**$ 48,634,960**	$ 44,115,557

8. Equipment

	Computer Equipment and Software	Furniture	Office Equipment	Leasehold Improvements	2017 Total
Cost					
Balance, February 29, 2016	$ 164,536	$ 144,449	$ 109,997	$ 130,914	$ **549,896**
Additions	17,957	-	17,567	-	**35,524**
Disposals	(10,086)	-	-	-	**(10,086)**
Balance, February 28, 2017	**172,407**	**144,449**	**127,564**	**130,914**	**575,334**
Depreciation and impairment					
Balance, February 29, 2016	129,309	134,571	89,068	111,371	**464,319**
Depreciation	9,316	1,976	7,698	10,196	**29,186**
Disposals	(5,831)	-	-	-	**(5,831)**
Balance, February 28, 2017	**132,794**	**136,547**	**96,766**	**121,567**	**487,674**
Carrying amount, February 28, 2017	**$ 39,613**	**$ 7,902**	**$ 30,798**	**$ 9,347**	**$ 87,660**

	Computer Equipment and Software	Furniture	Office Equipment	Leasehold Improvements	2016 Total
Cost					
Balance, February 28, 2015	$ 160,420	$ 144,449	$ 94,059	$ 130,914	$ 529,842
Additions	4,116	-	15,938	-	20,054
Balance, February 29, 2016	164,536	144,449	109,997	130,914	549,896
Depreciation and impairment					
Balance, February 28, 2015	117,566	132,102	83,835	101,175	434,678
Depreciation	11,743	2,469	5,233	10,196	29,641
Balance, February 29, 2016	129,309	134,571	89,068	111,371	464,319
Carrying amount, February 29, 2016	$ 35,227	$ 9,878	$ 20,929	$ 19,543	$ 85,577

The Corporation did not record any impairment charges or reversals during the years then ended.

9. Income taxes

The provision for income tax expense (recovery) is as follows:

	February 28, 2017	February 29, 2016
Current income tax expense	$ 734,662	$ 1,331,319
Deferred income tax recovery	(16,037)	(10,465)
	$ 718,625	$ 1,320,854

Income tax expense attributable to taxable income differs from the amounts computed by applying the combined federal and provincial income tax rate of 26% (2016 – 26%) to earnings (loss) before income taxes as a result of the following:

	February 28, 2017	February 29, 2016
Earnings before income taxes	$ 2,903,712	$ 5,193,244
Income tax expense at the statutory rate	$ 754,958	$ 1,350,243
Changes in income taxes resulting from the following:		
Non-taxable dividend income	(34,505)	(27,062)
Other	(1,828)	(2,327)
	$ 718,625	$ 1,320,854

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

	February 28, 2017	February 29, 2016
Policy and claims liabilities provision for accounting purposes in excess of their carrying value for income tax purposes	$ 254,202	$ 238,316
Net book value of equipment over their undepreciated capital cost for income tax purposes	(4,664)	(4,815)
	$ 249,538	$ 233,501

10. Provisions for policy and claims liabilities	**February 28, 2017**	February 29, 2016
Provisions for unpaid claims and adjusting expenses	**$ 19,554,000**	$ 18,332,000

The provisions represent an actuarial evaluation of the ultimate net cost of all losses from the claims which remain unsettled and the actuarial evaluation of the deficiency of unearned premiums over anticipated future claims, both as at the balance sheet date.

Provisions for policy and claims liabilities have been discounted to reflect future investment income in accordance with Canadian accepted actuarial practice at a rate of 1.2% (2016 - 1.4%). Further, a provision for adverse developments has been included of $2,807,000 (2015 - $2,531,000).

The following is a summary of the significant assumptions used by the Corporation's actuary in the valuation of the provisions:

- 2.56% increase for claims capped at $100,000
- 1.2% future rate of investment return
- 57% increase in claim costs in connection with post 2002/2003 policy years and unearned premiums for average claim costs under a $1,000,000 limit compared to the average claim cost under a $100,000 limit.

11. Unearned premiums	**February 28, 2017**	February 29, 2016
Balance, beginning of year	**$ 9,336,000**	$ 8,467,714
Premiums written	**10,798,154**	10,024,788
Premiums earned	**(9,987,179)**	(9,156,502)
Balance, end of year	**$ 10,146,975**	$ 9,336,000

12. Employee remuneration

Key management of the Corporation are officers and members of the board of directors. Key management personnel remuneration includes the following expenses:

	February 28, 2017	February 29, 2016
Short-term employee benefits		
Salaries, bonuses and directors' fees	**$ 277,241**	$ 264,777
Benefits	**7,918**	7,606
Total remuneration	**$ 285,159**	$ 272,383

13. Commitments

The Corporation has lease agreements for its office premises to 2025. Future annual minimum lease payments for the next five years and thereafter are estimated as follows:

2018	$ 198,315
2019	172,994
2020	177,124
2021	181,255
2022	185,386
Thereafter	580,942
	$ 1,496,016

14. Financial risk management

The Corporation has exposure to the following financial risks: credit risk, market risk, other price risk, and liquidity risk.

Credit risk

Management is of the opinion that the Corporation is not exposed to credit risks from the real estate licensees as the payment of premiums and deductibles is a condition of their being covered under their policies. As a result, the Corporation does not record any allowance for doubtful accounts.

The credit risk for cash is considered negligible as the counterparties are all reputable banks with high quality external credit ratings.

Maximum exposure to credit risk is the sum of cash and receivables totalling $648,868 as at February 28, 2017 (February 29, 2016 – $1,130,227).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other price risks will affect the Corporation’s income or the value of its financial instruments.

Market risk is managed by the Corporation retaining professional investment managers pursuant to a written Statement of Investment Policies and Procedures, setting out clear investment objectives. This statement establishes a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

14. Financial risk management (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, other than those arising from foreign exchange rates and interest rates.

All investments represent a risk of loss of capital. Investments held in the Real Estate Errors and Omissions Insurance Fund (Note 7) are susceptible to other price risk arising from uncertainties about future prices of the investments. The maximum risk resulting from these investments is determined by the fair value of these financial instruments, which total $49,666,625 at February 28, 2017 (February 29, 2016 - $44,750,933). For each one percent (1%) decrease in investments caused by other price risk, the fair value of the Corporation's Real Estate Errors and Omissions Insurance Fund would decrease by approximately $496,700 (February 29, 2016 - $447,500) (holding all other variables constant), which would decrease comprehensive income for the year, accordingly.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient working capital and cash flow generated from operations to fund the operations and settle liabilities when due. The Corporation's financial liabilities as at February 28, 2017 consist of accounts payable and accrued liabilities and all will be settled within the next fiscal year.

The following tables provide summaries of the estimated payments relating to policy and claims liabilities as at February 28, 2017 and February 29, 2016, valued on an undiscounted cash flow basis:

Less than 1 Year	**1 - 3 Years**	**3 - 5 Years**	**Greater than 5 Years**	**February 28, 2017 Total**
$ 7,451,000	**$ 9,838,000**	**$ 4,168,000**	**$ 1,295,000**	**$ 22,752,000**

Less than 1 Year	1 - 3 Years	3 - 5 Years	Greater than 5 Years	February 29, 2016 Total
$ 6,347,000	$ 7,820,000	$ 3,435,000	$ 1,026,000	$ 18,628,000

15. Insurance risk management

The Corporation has exposure to the following insurance risks: adverse loss experience risk and adverse loss development risk.

Adverse loss experience risk

The Corporation is exposed to volatile year-to-year claims experience: i.e. one or two full limit claims in a policy year could significantly impact the value of the Real Estate Errors and Omissions Insurance Fund (Note 7). Both the number of real estate transactions and real estate price fluctuations have a direct impact on loss experience, particularly if changes are abrupt. Provisions for policy and claims liabilities are based on longer term averages and may prove to be inadequate over any shorter term. For each one percent (1%) increase in claims and underwriting expenses, net earnings and comprehensive income for the year would decrease by approximately $58,000 (2016 - $35,000).

This risk is managed by the Corporation having the ability to assess appropriate insurance premiums over the life of the policy period.

Adverse loss development risk

A large portion of the provisions for policy claims and liabilities are in respect of claims for which little information is available at the valuation date. As the claims develop over time, the reserve for individual claims and the overall provisions may be found to be inadequate. For each one percent (1%) increase in provisions for policy and claims liabilities, net earnings and comprehensive income for the year would decrease by approximately $195,000 (2016 - $183,000).

The risk is managed by monitoring claims trends, legal costs and settlement patterns, utilizing in-house lawyers to minimize defence costs, and engaging professional actuaries to compute provisions representing an actuarial evaluation of the ultimate net cost of all losses from the claims which remain unsettled and conducting an actuarial evaluation of the deficiency of any unearned premiums over anticipated future claims.

16. Capital disclosure

The capital of the Corporation consists of equity, totalling $21,035,709 as at February 28, 2017 (2016 - $18,557,399). The Corporation has no debt or share capital.

The Corporation’s objectives with respect to capital management are to:

- provide adequate insurance coverage to real estate licensees (“policy holders”)
- maintain claims-paying ability for policy holders
- provide adequate and efficient funding for operations
- remain in compliance with all regulatory requirements

Capital policies of the Corporation are overseen by the board of directors through the Finance/Audit Committee and include active management of capital initiatives and long-term planning, including review of key financial sensitivities, asset mix, policy liabilities and other factors, in order to ensure the long-term adequacy of the Corporation’s capital. There have been no changes in the years presented.

16. Capital disclosure (continued)

In its assessment of capital adequacy, the Corporation must comply with regulatory requirements and measurements. The regulators measure the financial strength of property and casualty insurers using a minimum capital test. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the company's assets. At February 28, 2017, the Corporation was in compliance with its regulatory requirements and capital adequacy tests.

17. Related party transactions

During the year, the Corporation paid administration fees to Real Estate Council of BC relating to policy acquisition and credit card commission expenses totalling $273,373.

18. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.