Annual Report 2010

Fonds d'assurance responsabilité professionnelle
DU COURTAGE IMMOBILIER DU QUÉBEC

FARCIQ Directors

AS AT DECEMBEE 31, 2010[1]

JEAN-GUY SAVOIE
Chairman of the Board
Real estate broker:
Royal LePage La Renaissance

MARTIN DUPRAS,
CLU, F.Pl., D. Fisc.
President of ConFor financiers inc.
Chair of the Investment Committee and
member of the Audit Committee

DAVID GAGNON
Chartered Real Estate Broker
Via Capitale Cité DG, real estate agency
Member of the Ethics, Claims and
Prevention and Audit Committees

GAËTANE LAFONTAINE
Actuary
Chair of the Audit Committee and
member of the Investment Committee

Me ANDRÉ BOIS
Lawyer: Tremblay, Bois, Mignault, Lemay
Chair of the Ethics and Claims and
Prevention Committees

Me CAROLE PARÉ
Lawyer and Real Estate Broker
Member of the Audit and Claims
and Prevention Committees

ALBERT ARDUINI, P.TECH., CIP
Manager, Building inspection
and expertise
Member of the Ethics and
Claims and Prevention Committees

Me MICHEL LÉONARD
Lawyer and Real Estate Broker
President of Fonds de
Placement Immobilier BTB
Chair of the Governance Committee
and member of the Ethics and
Investment Committees

Me LOUIS HAECK
Notary
General Manager

[1] **Jean Landry**, **Serge Brousseau** and **Michel Lessard** also sat on the Board of Directors for part of 2010.

Fonds d'assurance responsabilité professionnelle
DU COURTAGE IMMOBILIER DU QUÉBEC

MISSION

The Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ) is responsible for insuring Québec real estate and mortgage brokers and agencies against professional liability.

Subscription to the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec is mandatory. All real estate agencies, their employees, representatives and persons authorized to act on their behalf, and real estate and mortgage brokers must be insured against any fault, error, negligence or omission committed in their performance of their professional duties.

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Message
FROM THE CHAIRMAN OF THE BOARD

The Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec is now five years old. Despite our young age, we are proud of our results and of the quality of the human resources we have on our team.

The year 2010 was one of challenges and change. The new Real Estate Brokerage Act brought major changes to the structure and management of the FARCIQ. More than 20,000 individual insurance policies were processed via an individual billing system. This resulted in a substantial amount of additional work for our employees, who rose to the occasion and responded with great efficiency. Going to a mechanical billing system was a major challenge in itself.

I would like to commend the excellent job done by Me Marie-Chantal Thouin, the FARCIQ's first General Manager. Other departures among Board members also resulted from this year's transitions. I would like to thank Jean Landry, our very first Chairman, as well as Michel Lessard and Serge Brousseau. As a result of these vacancies, we are proud and happy to welcome new FARCIQ Board members Martin Dupras and Me Michel Léonard.

Thank you to all who contributed to the FARCIQ's success, including former and current Board members and FARCIQ employees. I would also like to highlight the recent appointment of our new General Manager, Me Louis Haeck.

Our purpose is to preserve the individual assets of our members while building a durable collective asset base for the entire Québec real estate industry.

Jean-Guy Savoie
Chairman of the Board

JEAN-GUY SAVOIE
Chairman of the Board

Fonds d'assurance responsabilité professionnelle
DU COURTAGE IMMOBILIER DU QUÉBEC

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Management Report

MESSAGE FROM THE GENERAL MANAGER

A Solid Foundation…

We are very proud to present our fifth annual management report containing the highlights of the 2010 financial year. The report is positive on all fronts.

The FARCIQ's current financial position is very solid. A strengthening of our assets will help us ensure sound long-term management of the financial risks incurred by our insureds in case or professional error or omission.

A prudent investment policy has yielded very satisfactory results given the current economic landscape. The actuarial report recommended a premium reduction from $550 to $485 for 2011 based on our excellent reserves.

These reserves are sufficient to cover claims and meet our future obligations. The reinsurance taken out in excess of annual claims allows us to better manage our risks as a professional liability insurer.

In 2010, 540 new claims were recorded compared to 597 in 2009. This brings to 2,351 the number of claims processed by the FARCIQ since it began operations. At the end of 2010, only 652 of these claims remained open and 1,699 had been closed.

Protection of our insureds against claims remains our primary concern and is at the very heart of the FARCIQ's mission, which is to serve and defend the interests of Québec real estate and mortgage agencies and brokers.

FARCIQ Operations

In July 2010, the FARCIQ moved to its new location at 4905, boul. Lapinière, bureau 2800, in Brossard, near Autoroutes 30 and 10. We are very proud to now be able to welcome our insureds in our own quarters within the OACIQ's new LEED-certified building. The offices in this environment are better adapted to our employees' needs and will allow us to continue providing high-quality services to our insureds.

FARCIQ's management has maintained a system of accounting and administrative controls aimed at providing reasonable insurance to allow the safeguarding of the fund's assets while reporting on our operations in a way that continues to present reliable and transparent financial statements.

LOUIS HAECK
General Manager

Human Resources

I would like to salute all my predecessors and highlight the important role they have played until my arrival in October. I also wish to thank those employees who left us in the course of the year for their continued efforts. I am confident in the ability of our new resources to maintain the continuity and quality of our professional services.

Heartfelt Appreciation

We would like to thank all our employees for their dedication, professionalism and perseverance, sometimes under difficult circumstances. Thanks to their loyalty, dependability and contribution to the FARCIQ's success, we were able to maintain the quality of our operations and services. For this reason, they have earned and continue to earn the admiration of the entire management team and Board.

Members of the Board of Directors

The Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ) is responsible for the sound management and safeguarding of its assets, which are distinct from those of the OACIQ. It acts as an insurer and is governed by its own Board of Directors, whose members are appointed for their specific expertise by the Board of Directors of the OACIQ. In order to reduce some of our costs, we are currently negotiating the outsourcing of various external services, including by looking at what can be combined with the OACIQ.

Also in the last few months, we developed several policies to meet the requirements of the Autorité des marchés financiers.

We are confident and unwavering in our defence of our insureds' interests in accordance with the rules of the Autorité des marchés financiers. Together, we can manage our assets efficiently in order to create an even better future.

Me Louis Haeck
General Manager

INDEPENDENT AUDITORS' REPORT

To the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ)

We have audited the accompanying financial statements of **Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ)** which comprise the balance sheet as at December 31, 2010 and the statements of income and comprehensive income, changes in accumulated surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ)** as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

Chartered Accountants

Montréal, Canada
February 25, 2011

[1] CA auditor permit no. 15504

ERNST & YOUNG

Financial Statements
AS AT DECEMBER 31, 2010

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31

	2010	2009 [Redressé - note 2]
	$	$
INSURANCE OPERATIONS		
Premiums earned (Note 10)	**10,492,202**	10,045,925
Reinsurance premiums ceded (Note 10)	**603,017**	670,143
Primes nettes acquises	**9,889,185**	9,375,782
Claims and loss adjustment expenses	**4,494,872**	5,234,584
General and administrative expenses	**1,097,350**	979,218
Total claims and expenses	**5,592,222**	6,213,802
Underwriting profit	**4,296,963**	3,161,980
Investment and other income (Note 4)	**961,437**	1,190,408
INCOME FOR THE YEAR	**5,258,400**	4,352,388
Unrealized gain (loss) on available-for-sale securities	**(101,065)**	241,447
Portion reclassified to income from available-for-sale securities	**(179,817)**	(317,028)
COMPREHENSIVE INCOME	**4,977,518**	4,276,807

STATEMENT OF ACCUMULATED SURPLUS
as at December 31

2010	Accumulated surplus	Accumulated other comprehensive income	Total
	$	$	$
Balance as at December 31, 2009 [Restated - Note 2]	13,564,478	416,964	**13,981,442**
Income for the year	5,258,400	–	**5,258,400**
Other comprehensive income	–	(280,882)	**(280,882)**
Balance as at December 31, 2010	**18,822,878**	**136,082**	**18,958,960**

2009 [restated – Note 2]			
Balance as at December 31, 2008	9,212,090	492,545	**9,704,635**
Income for the year	4,352,388	–	**4,352,388**
Other comprehensive income	–	(75,581)	**(75,581)**
Balance as at December 31, 2009	**13,564,478**	**416,964**	**13,981,442**

See accompanying Notes to Financial Statements

BALANCE SHEET
as at December 31

	2010	2009 [Restated - Note 2]
	$	$
ASSETS		
Cash	**390,385**	528,913
Treasury bills	**439,257**	2,803,662
Investment income receivable	**280,040**	213,079
Premiums and other receivables	**390,246**	280,300
Prepaid expenses	**11,855**	10,803
Reinsurance recoverable for unpaid claims (Note 9)	**6,922,000**	6,952,859
Prepaid reinsurance	**190,386**	317,438
Investments (Note 4)	**34,992,975**	27,020,504
Deductibles recoverable from insureds for unpaid claims	**450,133**	590,355
Property, plant and equipment (Note 6)	**99,561**	51,738
Intangible assets (Note 7)	**84,675**	34,900
	44,251,513	38,804,551
LIABILITIES		
Accounts payable and accrued liabilities	**166,086**	167,044
Due to OACIQ (Note 12)	**226,391**	135,000
Unearned premiums	**3,550,943**	5,225,602
Unpaid claims (Note 8)	**21,349,133**	19,295,463
	25,292,553	24,823,109
ACCUMULATED SURPLUS		
Accumulated surplus, end of year	**18,822,878**	13,564,478
Accumulated other comprehensive income	**136,082**	416,964
	18,958,960	13,981,442
	44,251,513	38,804,551

See accompanying Notes to Financial Statements

On behalf of the Board of Directors

JEAN-GUY SAVOIE
Chairman of the Board

GAËTANE LAFONTAINE
Actuary
Chair of the Audit Committee and
member of the Investment Committee

STATEMENT OF CASH FLOWS
Years ended December 31

	2010	2009 [Restated - note 2]
	$	$
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Income for the year	**5,258,400**	4,352,388
Adjustments for:		
Amortization of property, plant and equipment	**28,046**	24,238
Amortization of intangible assets	**92,931**	59,524
Amortization of premiums and investment discounts	**383,657**	127,797
Loss on write-off of property, plant and equipment	**2,571**	–
Gain on disposals of investments	**(157,328)**	(306,766)
	5,608,277	4,257,181
Change in non-cash working capital items		
Investment income receivable	**(66,961)**	(47,552)
Premiums and other receivables	**(109,946)**	(97,523)
Prepaid expenses	**(1,052)**	503
Reinsurance recoverable for unpaid claims	**30,859**	(3,269,383)
Prepaid reinsurance	**127,052**	35,268
Deductibles recoverable form insureds for unpaid claims	**140,222**	(64,234)
Accounts payable and accrued liabilities	**(958)**	39,767
Due to OACIQ	**91,391**	135,000
Unearned premiums	**(1,674,659)**	188,367
Unpaid claims	**2,053,670**	6,545,090
	6,197,895	7,722,484
INVESTING ACTIVITIES		
Acquisition of investments	**(33,001,131)**	(33,077,107)
Proceeds on disposal of investments	**24,521,449**	28,328,382
Proceeds on disposal of property, plant and equipment	–	225
Additions to property, plant and equipment	**(78,440)**	(23,450)
Additions to intangible assets	**(142,706)**	–
	(8,700,828)	(4,771,950)
Net increase (decrease) in cash and cash equivalents	**(2,502,933)**	2,950,534
Cash and cash equivalents, beginning of year	**3,332,575**	382,041
CASH AND CASH EQUIVALENTS, END OF YEAR	**829,642**	3,332,575
Cash and cash equivalents consist of:		
Cash	**390,385**	528,913
Treasury bills	**439,257**	2,803,662
	829,642	3,332,575

See accompanying Notes to Financial Statements

1. INCORPORATION AND NATURE OF OPERATIONS

The Organisme d'autoréglementation du courtage immobilier du Québec ("OACIQ") (previously the Association des courtiers et agents immobiliers du Québec, incorporated the FARCIQ (the "Insurance Fund") (previously the Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec), which is governed by the Insurance Act. The OACIQ obtained its insurer permit on July 4, 2006, and the Insurance Fund commenced operations on July 21, 2006. Its mission is to provide professional liability insurance coverage to real estate brokers and agents of the OACIQ.

2. ERROR CORRECTIONS

The Insurance Fund uses reinsurance to limit its total commitments over the duration of the reinsurance treaty. The provisions for net claims calculated by the actuary must reflect the application of the reinsurance agreements and include a margin for adverse deviation. This margin is necessary due to the uncertainty of claims settlement and is determined in accordance with accepted Canadian actuarial practice. For 2008 and 2009, this margin was overestimated on a net basis because the provisions for net claims retained was such that the reinsurance treaty retention limit had been reached. The margin should have been reduced by $711,000 and $1,072,000 as at December 31, 2008 and 2009, respectively.

The adjustments required to reflect the above-mentioned changes, applied retrospectively with restatement of prior periods, had the following impact on the financial statements:

	2009 increase (decrease)
	$
Balance sheet	
Reinsurance recoverable for unpaid claims as at December 31, 2009	**1,072,000**
Accumulated surplus, year-end 2009	**1,072,000**
Statement of income and comprehensive income	
Claims and loss adjustment expenses	**(361,000)**
Income for the year	**361,000**
Comprehensive income	**361,000**
Statement of accumulated surplus	
Balance as at December 31, 2008	**711,000**
Balance as at December 31, 2009	**1,072,000**
Statement of cash flows	
Income for the year	**361,000**
Reinsurance recoverable	**361,000**

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which require that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to uncertainty. The main estimate involves the determination of actuarial liabilities (Note 8). When changes in estimates are required, they are recognized in the year in which these changes are determined. The significant accounting policies used in preparing these financial statements, including those stipulated by the insurance regulators are, in all material respects, in accordance with Canadian GAAP and are summarized below.

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 or held-for-trading investments. 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 balance sheet as of the trade date, and changes in fair value are recorded in other comprehensive income until the financial asset is disposed of or has become other-than-temporarily impaired. As long as an AFS asset is held and not other-than-temporarily impaired, gains and losses are not recognized in the statement of income. When the asset is disposed of or other-than-temporarily impaired, gains and losses are recognized in the statement of income as net gains on invested assets and other gains 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.

Financial Instruments – Disclosures

Under CICA Handbook Section 3862, *Financial Instruments – Disclosure*, the three-level hierarchy of inputs to fair value measurement is as follows:

Level 1	-	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	-	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3	-	Inputs that are not based on observable market data.

All of the Insurance Fund's financial instruments are classified in Level 2 of the fair value hierarchy as at December 31, 2010.

Revenue and expense recognition related to financial instruments

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

Determination of fair value of financial instruments

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

Subsequent to initial recognition, fair value is determined based on available information. When an active market exists, the fair value of financial instruments is based on bid prices. When independent prices are not available, AFS securities are carried at cost.

Revenue and expense recognition not related to financial instruments

Premiums written are deferred as unearned premiums and recognized as revenue on a pro rata basis over the terms of the underlying policies. Insurance coverage generally runs from July 1 to June 30.

Actuarial liabilities

Actuarial liabilities consist of unearned premiums and unpaid claims and loss adjustment expenses ("unpaid claims"). Unearned premiums are calculated as the unexpired portion of the premiums written on a pro rata basis. 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. This estimate includes a provision 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 actuarial liabilities using appropriate actuarial techniques.

Reinsurance

Claims are recorded in income net of reinsurance recoverable. Estimated amounts recoverable from reinsurers for unpaid claims are recorded separately from estimated amounts payable for the claims.

Reinsurance recoverable is assessed in the same manner as unpaid claims and is recorded to reflect the time value of money.

Property, plant and equipment

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

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

Intangible assets

Intangible assets are recorded at cost, net of accumulated amortization, and consist of application and operating software. Amortization is calculated on a straight-line basis over the estimated useful life of software, which is three 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 not be recoverable by comparing their net undiscounted future cash flows from use together with their residual value. The impairment loss is the amount by which the carrying amount of the asset exceeds its fair value and, if any, is charged to income. During the current and previous years, no intangible assets or items of property plant and equipment were impaired.

4. INVESTMENTS

The following tables summarize the Insurance Fund's investments.

Table 1. Fair value hierarchy

2010	Level 1	Level 2	Level 3	**Total**
	$	$	$	$
Government of Canada bonds	–	8,707,891	–	**8,707,891**
Provincial government bonds	–	11,605,513	–	**11,605,513**
Municipal government bonds	–	5,363,886	–	**5,363,886**
Corporate bonds	–	9,315,685	–	**9,315,685**
	–	34,992,975	–	**34,992,975**

2009				
	$	$	$	$
Government of Canada bonds	–	5,091,092	–	**5,091,092**
Provincial government bonds	–	8,817,127	–	**8,817,127**
Municipal government bonds	–	5,173,926	–	**5,173,926**
Corporate bonds	–	6,671,423	–	**6,671,423**
Asset-backed commercial paper debt obligations	–	1,266,936	–	**1,266,936**
	–	27,020,504	–	**27,020,504**

Table 2. Investment maturities

2010	Maturity			
	Under 1 year	1 à 5 years	Over 5 years	**Total**
	$	$	$	$
Government of Canada bonds	194,266	8,513,625	–	**8,707,891**
Provincial government bonds	6,889,127	4,716,386	–	**11,605,513**
Municipal government bonds	303,345	5,060,541	–	**5,363,886**
Corporate bonds	161,635	8,240,598	913,452	**9,315,685**
	7,548,373	26,531,150	913,452	**34,992,975**

2009				
	$	$	$	$
Government of Canada bonds	–	5,091,092	–	**5,091,092**
Provincial government bonds	45,616	8,771,511	–	**8,817,127**
Municipal government bonds	–	5,173,926	–	**5,173,926**
Corporate bonds	343,063	5,726,801	601,559	**6,671,423**
Asset-backed commercial paper debt obligations	3,432	1,263,504	–	**1,266,936**
	392,111	26,026,834	601,559	**27,020,504**

Table 3. Unrealized investment gains (losses)

2010	Unamortized cost	Unrealized Gains	Unrealized Losses	**Fair value**
	$	$	$	$
Government of Canada bonds	8,746,458	40,181	(78,748)	**8,707,891**
Provincial government bonds	11,639,790	73,764	(108,041)	**11,605,513**
Municipal government bonds	5,290,400	95,174	(21,688)	**5,363,886**
Corporate bonds	9,180,245	202,494	(67,054)	**9,315,685**
	34,856,893	411,613	(275,531)	**34,992,975**

2009				
	$	$	$	$
Government of Canada bonds	5,076,398	26,147	(11,453)	**5,091,092**
Provincial government bonds	8,693,264	231,154	(107,291)	**8,817,127**
Municipal government bonds	5,159,407	26,440	(11,921)	**5,173,926**
Corporate bonds	6,457,176	261,315	(47,068)	**6,671,423**
Asset-backed commercial paper debt obligations	1,217,296	50,464	(824)	**1,266,936**
	26,603,541	595,520	(178,557)	**27,020,504**

Table 4. Investment income and other income

	2010	2009
	$	$
Interest income	**1,254,164**	1,028,523
Amortization of premiums and discounts	**(383,657)**	(127,797)
Gain on disposal of investments	**157,328**	306,766
	1,027,835	1,207,492
Investment management and custody fees	**68,829**	57,896
Investment income	**959,006**	1,149,596
Other income	**2,431**	40,812
Investment and other income	**961,437**	1,190,408

5. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS

The Insurance Fund's investments are managed by an external manager, which is 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. The fair value of investments is determined using market prices.

All other financial instruments are stated at fair value.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises primarily from fixed-income securities, which comprise substantially all of the investment portfolio.

The investment policy set out by the Insurance Fund determines the quality of portfolio securities, and investment managers are required to produce regular reports confirming their compliance with these guidelines. The policy also stipulates that the Insurance Fund may not invest more than 50% of assets under management in corporate bonds. The Insurance Fund may not invest more than 10% of the corporate bond portion in a single issuer and no single corporate bond position may exceed 5% of the total portfolio.

The Company assesses the financial strength of a reinsurer before signing any reinsurance treaty and monitors it on a regular basis. In addition, the Company has a minimum rating requirement for its reinsurers. As at December 31, 2010, the reinsurers had a minimum A+ rating. Ratings are by Standard & Poor's.

Table 5. Maximum credit risk exposure arising from financial instruments as at December 31

2010	Available for sale	Loans and receivables	Total
	$	$	$
Cash	390,385	–	**390,385**
Treasury bills	439,257	–	**439,257**
Canadian, provincial and municipal government bonds	25,677,290	–	**25,677,290**
Corporate bonds	9,315,685	–	**9,315,685**
Investment income receivable	280,040	–	**280,040**
Premiums receivable	–	390,246	**390,246**
Reinsurance recoverable for unpaid claims	–	6,922,000	**6,922,000**
Other assets	–	450,133	**450,133**
Total	**36,102,657**	**7,762,379**	**43,865,036**

2009 [Restated - Note 2]	Available for sale	Loans and receivables	Total
	$	$	$
Cash	528,913	–	**528,913**
Treasury bills	2,803,662	–	**2,803,662**
Canadian, provincial and municipal government bonds	19,082,145	–	**19,082,145**
Corporate bonds	7,938,359	–	**7,938,359**
Investment income receivable	213,079	–	**213,079**
Premiums receivable	–	280,300	**280,300**
Reinsurance recoverable for unpaid claims	–	6,952,859	**6,952,859**
Other assets	–	590,355	**590,355**
Total	**30,566,158**	**7,823,514**	**38,389,672**

Credit risk concentration

Concentrations of credit risk exist if a number of clients are engaged in similar activities or 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.

Table 6. Debt securities by industry

	2010	2009
	%	%
Federal, provincial and municipal governments – Canada	**73.38**	70.62
Financials	**18.69**	16.46
Industrials	**0.30**	1.14
Energy	**2.01**	2.81
Infrastructure	**4.51**	4.28
Real estate	**1,11**	–
Securitization	**–**	4.69
Total	**100.00**	100.00

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.

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

Table 7. Financial instrument interest rates by maturity

2010	Floating rate	Under 12 months	1 to 5 years	Over 5 years
		%	%	%
Assets				
Short-term notes	0.93	–	–	–
Fixed-income securities	–	3.25 to 6.50	1.93 to 5.58	3.10 to 6.15
Reinsurance and deductibles	–	2.38	2.38	2.38
Liabilities				
Claim liabilities	–	2.38	2.38	2.38

2009				
		%	%	%
Assets				
Short-term notes	0.17	–	–	–
Fixed-income securities	–	3.87 to 6.80	2.90 to 8.25	4.55 to 6.15
Reinsurance and deductibles	–	2.58	2.58	2.58
Liabilities				
Claim liabilities	–	2.58	2.58	2.58

The financial statement impact of a 1% decrease in interest rates would be a $60,143 decrease in investment income ($51,051 in 2009). Conversely, a 1% increase in interest rates would result in a $60,143 increase in investment income ($51,051 in 2009).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage its cash flow requirements, the Insurance Fund maintains a portion of its invested assets in liquid securities.

Cash flow risk

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

Foreign exchange risk

Foreign exchange risk is the risk of fluctuations in the value of a financial instrument denominated in foreign currencies due to changes in foreign exchange rates. Since all its financial instruments are denominated in Canadian dollars, the Insurance Fund is not exposed to foreign exchange risk.

6. PROPERTY, PLANT AND EQUIPMENT

2010	Cost	Accumulated amortization	**Net book value 2010**
	$	$	$
Telephone system	22,927	3,184	**19,743**
Leasehold improvements	50,400	4,200	**46,200**
Furniture and equipment	76,150	47,925	**28,225**
Computer hardware	14,825	9,432	**5,393**
	164,302	64,741	**99,561**

Amortization for the year, amounting to $28,046 ($24,238 in 2009), is included in general and administrative expenses. In addition, there was a total of $39,389 for write-off of property, plant and equipment.

2009	Cost	Accumulated amortization	**Net book value 2009**
	$	$	$
Telephone system	9,530	8,753	**777**
Sign	2 065	2 065	–
Leasehold improvements	12,117	11,985	**132**
Furniture and equipment	81,282	37,259	**44,023**
Computer hardware	18,375	11,569	**6,806**
	123,369	71,631	**51,738**

7. INTANGIBLE ASSETS

2010	Cost	Accumulated amortization	**Net book value 2010**
	$	$	$
Software	357,188	272,513	**84,675**

Amortization for the year, amounting to $92,931 ($59,524 in 2009), is included in general and administrative expenses.

2009	Cost	Accumulated amortization	**Net book value 2009**
	$	$	$
Software	214,482	179,582	**34,900**

8. ACTUARIAL LIABILITIES

Actuarial liabilities are determined to reflect the estimate of the full amount of all liabilities associated with the insurance policies at the balance sheet date, including claims incurred but not reported. 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 receivable from reinsurers

The provision for unpaid claims and reinsurance recoverable from reinsurers for 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 $338,741 as at December 31, 2010 ($303,922 in 2009) to take into account the time value of money, using an average discount rate of 2.38% (2.58% in 2009) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $60,000 as at December 31, 2010 ($138,000 in 2009 - Restated - Note 2).

Unearned premiums

Unearned premiums are calculated on a pro rata basis from the unexpired portion of the premiums written and must be sufficient to cover all the 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 non-proportional reinsurance pertaining to these policies. In the event that unearned premiums were insufficient 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 $153,000 impact of on the fair value of unpaid claims as at the balance sheet date ($142,000 in 2009), while a 1% decrease in the discount rate would have a $157,000 impact on the fair value of unpaid claims as at the balance sheet date ($145,000 in 2009).

9. REINSURANCE

The Insurance Fund limits the coverage provided to its insureds to $250,000 per claim, per insured, subject to an annual limit of $1,000,000.

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 such agreements may vary from year to year.
Reinsurance commitments from July 1, 2006 to June 30, 2007 are summarized as follows:

$150,000 per claim, per insured, in excess of Insurance Fund retention of $100,000, to a maximum of $2,500,000 per year; overall coverage of $2,500,000 in excess of Insurance Fund retention of $4,500,000.

Reinsurance arrangements from July 1, 2007 to June 30, 2008 are summarized as follows:

$100,000 per claim, per insured, in excess of Insurance Fund retention of $150,000, to a maximum of $4,500,000 per year; overall coverage of $4,500,000 in excess of Insurance Fund retention of $4,500,000.

Reinsurance arrangements from July 1, 2008 to May 1, 2011 are summarized as follows:

$4,500,000 in overall annual coverage in excess of Insurance Fund retention of $4,500,000.

10. NET EARNED PREMIUMS

	2010	2009
	$	$
Earned premiums	**10,492,202**	10,045,925
Reinsurance premiums written	**475,966**	634,875
Change in unearned reinsurance premiums	**(127,051)**	(35,268)
Reinsurance premiums ceded	**603,017**	670,143
Net earned premiums	**9,889,185**	9,375,782

Net earned premiums were reduced by a $172,525 allowance for doubtful premium receivables in 2010 ($6,500 in 2009) determined by an individual analysis of premiums receivable at year end to determine those that in all probability will not be collected. Similarly and using the same individual valuation method, recovered deductibles were reduced by a $19,910 credit loss in 2010 ($5,400 in 2009).

11. CAPITAL REQUIRED

Capital required is governed by the Autorité des marchés financiers (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. The Insurance Fund has exceeded both the minimum threshold and its own internal target for capital required.

In 2010, the Insurance Fund established a 250% 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's capital available and capital required are detailed as follows:

	2010	2009 [Restated - Note 2]
	In $'000	In $'000
Capital available	**18,874**	13,947
Capital required	**2,700**	2,712
Excess of capital available over capital required	**16,174**	11,235
MCT (as a %)	**699.04 %**	514.27 %

12. TRANSACTIONS WITH THE ORGANISME D'AUTORÉGLEMENTATION DU COURTAGE IMMOBILIER DU QUÉBEC

The Insurance Fund has entered into an agreement under which certain management services are provided by the OACIQ. The Insurance Fund recorded a total expense of $31,151 in general and administrative expenses for these services as a whole in 2010 (services invoiced in 2009, $145,417). In addition, the Insurance Fund recorded a total amount of $140,962 in assets for software development services supplied by the OACIQ, as well as a total amount of $77,609 in assets by the OACIQ. All related party transactions were in the ordinary course of business and measured at the exchange amount.

During the year, two members of the Board of Directors supplied services to the Insurance Fund for which they received a total amount of $24,043.

13. CONTRIBUTION FROM THE FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

Pursuant to the adoption of Bill 72 (An Act to amend the Securities Act and other legislative provisions) in December 2004, the Fonds d'indemnisation du courtage immobilier paid $3,231,300 to the Insurance Fund in September 2006, i.e. within three months of the Insurance Fund's incorporation.

14. COMMITMENTS

The Insurance Fund is committed under a lease expiring in 2015. Future minimum payments payable under the contract are detailed as follows:

	$
2011	60,201
2012	103,201
2013	106,752
2014	106,752
2015	106,752
	483,658

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation.

Opinion of the Actuary

I have valued the policy liabilities of *Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec* for its balance sheet at December 31, 2010 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

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

Claims Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Direct unpaid claims and adjustment expenses	20,899	20,899
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	20,899	20,899
(4) Ceded unpaid claims and adjustment expenses	6,922	6,922
(5) Other amounts to recover	450	450
(6) Other net liabilities	450	450
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	13,977	13,977

Premium Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Gross policy liabilities in connection with unearned premiums	–	2,838
(2) Net policy liabilities in connection with unearned premiums	–	2,328
(3) Gross unearned premiums	3,551	–
(4) Net unearned premiums	3,361	–
(5) Premium deficiency	0	0
(6) Other net liabilities	0	0
(7) Deferred policy acquisition expenses	0	–
(8) Maximum policy acquisition expenses deferrable [(4) + (5) + (9)] col. 1 – (2) col. 2	–	1,033
(9) Unearned Commissions	0	–

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Annual Return fairly presents the results of the valuation.

Xavier Bénarosch, FCAS, FICA

February 22, 2011
Date opinion was rendered

Eckler

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