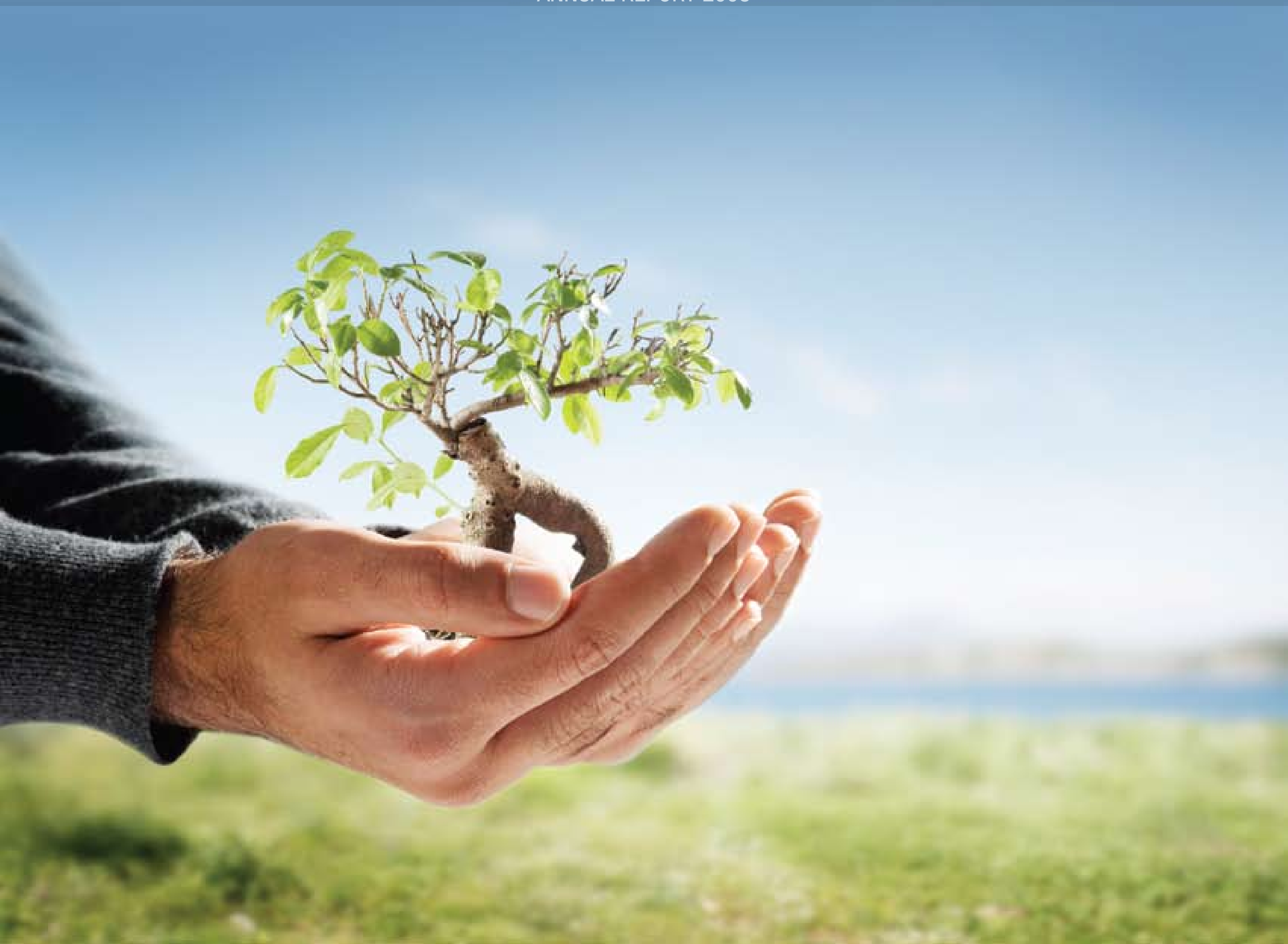
Fonds d'assurance responsabilité professionnelle

DE L'ASSOCIATION DES COURTIERS ET AGENTS IMMOBILIERS DU QUÉBEC

ANNUAL REPORT 2008



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Mission

The mission of the Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec is to provide professional liability insurance to all Québec real estate brokers and agents.

Adherence to the Fonds d'assurance responsabilité professionnelle de l'ACAIQ is mandatory. As such, all real estate brokers, their employees, representatives and persons authorized to act on their behalf are covered in connection with any fault, error, negligence or omission in the performance of their professional activities.

Jean Landry, CA, ASC
Chairman of the Board

Chairman's Message

Sound Governance, Risk Management, Support of the Profession and Longevity of the Fund

Activities of the Board of Directors

During the financial year, the Board of Directors held four regular meetings. A fifth meeting was devoted entirely to analyzing the impact of the new *Real Estate Brokerage Act* on the Fund's operations and planning its implementation. The Audit Committee and the Investment Committee each held two meetings while the Claims and Prevention Committee held three regular meetings. In addition to satisfying the Board's statutory and supervisory functions, these meetings address the Board's concerns regarding sound governance, risk management, support of the profession and the longevity of the Fund.

Financial Position

Without taking into account "other comprehensive income" which can vary significantly depending on market fluctuations, the 2008 financial year ended with income exceeding expenses by $5 million, bringing the surplus accumulated since the beginning of operations to $8.5 million. The significant variation in profits ($500,000 in 2007 versus $5 million in 2008) is due primarily to the "newness" of the Fund, making it difficult to definitively evaluate the cost of claims. Consequently, the Board will continue to monitor any changes in claims very closely, given that this is the only balance sheet item whose exact value will only be known over the next few years. Notwithstanding this fact, we are very satisfied with the Fund's results which fall within the range established by the regulatory authorities at the time the Fund was created. In conclusion, I would like to point out that thanks to the prudent investment policy established at the outset, the Fund has felt very little of the effects of the current serious financial crisis.

Prevention

The Claims and Prevention Committee held its first meeting this year, focusing essentially on prevention. The statistics collected to date, while still incomplete, have allowed us to identify certain factors on which we can take action.

The Year 2009

The coming into force of the new Act and related regulations will have numerous consequences for the profession as well as the Insurance Fund. In 2008, management of the Fund studied the new provisions in order to measure their impact from an insurance and operations perspective. The results of these analyses were submitted to the *Association des courtiers et agents immobiliers du Québec.*

The year 2009 will therefore be largely devoted to adapting the various systems, requiring significant human and financial resources. Furthermore, appropriate adjustments will have to be made to the insurance contract in order to ensure its harmonization with the new provisions so that members continue to enjoy appropriate coverage.

A Word of Thanks

I would like to thank the directors for their contribution and availability and highlight the invaluable cooperation of all of the Fund's staff, particularly the support of our General Manager, Marie-Chantal Thouin. Thanks are also due to the members of the Board of Directors of the *Association des courtiers et agents immobiliers du Québec* for their confidence and support, as well as to Robert Nadeau, President and CEO of the ACAIQ.

Jean Landry, CA, ASC
Chairman of the Board

Message from the General Manager

Quality Service That Meets Members' Needs and Expectations

Marie-Chantal Thouin, lawyer
General Manager

It is with great pride that we present the Insurance Fund's third report, a report that is positive on all fronts, be it the Fund's financial position, operating structure, processing of claims or preparations for the coming into force of the new *Real Estate Brokerage Act.*

Financial Position

We believe the Fund's current financial position is sound. Contributions for the year were $10 million and, taking reinsurance costs into account, net premiums were $9.2 million. Annual operating costs remained stable in relation to the previous financial year. The resulting increase in the Fund's equity will allow the Fund to guarantee the solvency of members of the *Association des courtiers et agents immobiliers du Québec* in the event of a professional fault.

Claims

There were 666 claims filed in 2008, representing a slight increase over the 501 claims filed in the preceding financial year. It is important to note, however, that in the 2007 financial year, not all members of the Association had yet subscribed to the Insurance Fund. We do not know, however, whether this frequency of claims is representative of what the future holds, given the changes the real estate markets are currently experiencing and the potential impact of the *Real Estate Brokerage Act.*

A total of 1,214 claims were received from July 4, 2006 to December 31, 2008, of which 618 were still being processed as at December 31, 2008. Since the Insurance Fund began its operations, legal proceedings before one or the other of Québec's tribunals (Small Claims Division of the Court of Québec[1], Court of Québec, Superior Court) were instituted in 357 cases.

The foregoing figures, particularly the high number of files that were closed, are an indication of the Insurance Fund's willingness to quickly analyze the claims submitted to it. The Fund also strives to treat the public fairly, while nonetheless vigorously defending insureds who are the victims of unfounded proceedings.

Moreover, in order to maintain the speed and quality of interactions with its insureds, while rationalizing the cost of outsourced investigations, it was necessary to hire an additional staff member in the Claims Department.

With a view to providing insureds targeted by a claim with high quality service that meets their needs and expectations, a survey to measure their level of satisfaction is sent to them once a file is closed. The numerous replies received indicate that our objectives are being met, given that over 97% of respondents were extremely satisfied with the services received, on all fronts.

[1] The Insurance Fund offers assistance to insureds who have been sued before the Small Claims Division of the Court of Québec in order to help them prepare to contest the proceedings and, if required, prepare for the hearing.

Prevention

Our experience over a period of less than three years has already taught us much about the practice of real estate brokerage and the risks it entails. The work of the Claims and Prevention Committee has allowed the Fund to identify the subjects that most often lead to complaints.

In addition, an analysis of the files indicated that they have common factors, regardless of the type of brokerage involved. The Insurance Fund shared its findings with the Association, although personal information was not disclosed. Linking the efforts of the Fund and the Association will provide everyone with a better understanding of the most frequent causes giving rise to claims and thereby make it possible to implement efficient preventive measures aimed at reducing risks.

Of course, the analysis work will continue, because the current findings are based on a rather limited bank of information given the Insurance Fund's minimal experience to date and given that the practice of real estate brokerage is constantly shifting. One of the Fund's ongoing concerns is to detect trends as quickly as possible in order to react rapidly.

The Upcoming Financial Year

The 2008 financial year saw sustained efforts and significant resources devoted to a review of the new *Real Estate Brokerage Act* which will come into force shortly. Of course, the next few months will be devoted to its application. The upcoming financial year is not without its challenges: the existing operational and organizational structures will have to be reviewed, or replaced, in many cases in order to satisfy the requirements of the new Act which includes major changes with respect to the rules for billing, the issuance of policies and other matters.

The financial health and longevity of the Fund will remain a central concern and will dictate the choices to be made.

We would like to extend our sincere thanks to all the directors of the Insurance Fund who generously give the organization the benefit of their expertise and knowledge in all spheres of the Fund's activities.

We would also like to thank those with whom we collaborate so closely for sharing our values and objectives and working with us in a true spirit of partnership. Finally, we must thank the Fund's permanent employees, without whose commitment none of this would be possible.

Marie Chantal Thouin

Marie-Chantal Thouin, lawyer
General Manager

Board of Directors

Chairman
Jean Landry, CA, ASC

Directors
François Léger (Vice-Chairman)
Chartered Real Estate Agent

Albert Arduini
Building Technologist
and Inspector

André Bois
Lawyer

David Gagnon
Chartered Real Estate Agent

Gaëtane Lafontaine
Actuary

Michel Lessard
Portfolio Manager

Carole Paré
Lawyer and Chartered Real Estate Broker

Jean-Guy Savoie (Treasurer)
Chartered Real Estate Agent

Marie-Chantal Thouin (Secretary)
Lawyer

Financial Statements 2008

Auditors' report

To the Association des courtiers et agents immobiliers du Québec

We have audited the balance sheet of Professional Liability Insurance Fund of the Association des courtiers et agents immobiliers du Québec [the "Insurance Fund"] as at December 31, 2008 and the statements of income and comprehensive income, changes in accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Insurance Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Insurance Fund as at December 31, 2008 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 16, 2009

[1] CA auditor permit no. 15504

Statement of income and comprehensive income

Years ended December 31

	2008	2007
INSURANCE OPERATIONS		
Premiums earned (Note 11)	$ 10,011,486	$ 7,991,438
Reinsurance premiums ceded (Note 11)	715,206	729,068
Net earned premiums	9,296,280	7,262,370
Claims and loss adjustment expenses	4,454,105	6,343,900
General and administrative expenses	768,272	870,044
Total claims and expenses	5,222,377	7,213,944
Underwriting profit	4,073,903	48,426
Investment and other income (Note 4)	991,902	410,658
INCOME FOR THE YEAR	5,065,805	459,084
Unrealized gain on available-for-sale securities	480,584	45,556
Portion reclassified to income from available-for-sale securities	(33,595)	–
COMPREHENSIVE INCOME	**5,512,794**	**504,640**

Statement of accumulated surplus

As at December 31

	Accumulated surplus	Accumulated other comprehensive income	Total
2008			
Balance as at December 31, 2007	$ 3,487,213	$ 45,556	$ 3,532,769
Income for the year	5,065,805	–	5,065,805
Other comprehensive income	–	446,989	446,989
Balance as at December 31, 2008	8,553,018	492,545	9,045,563
2007			
Balance as at December 31, 2006	$ 3,028,129	$ –	$ 3,028,129
Income for the year	459,084	–	459,084
Other comprehensive income	–	45,556	45,556
Balance as at December 31, 2007	3,487,213	45,556	3,532,769

See accompanying Notes to Financial Statements

Balance sheet

As at December 31

	2008	2007
ASSETS		
Cash and cash equivalents	$ 382,041 $	$ 839,488
Investment income receivable	165,527	116,252
Premiums and other receivables	182,777	143,215
Prepaid expenses	11,306	11,792
Reinsurance recoverable for unpaid claims (Note 9)	2,972,476	652,000
Prepaid reinsurance	352,706	362,500
Investments (Note 5)	22,168,391	13,036,775
Deductibles recoverable from insureds for unpaid claims	526,121	348,355
Property, plant and equipment (Note 7)	147,175	160,928
Deferred start-up costs (Note 8)	51,928	155,785
	26,960,448	15,827,090
LIABILITIES		
Accounts payable and accrued liabilities	127,277	180,059
Due to ACAIQ (Note 14)	–	52,333
Unearned premiums	5,037,235	4,868,574
Unpaid claims (Note 9)	12,750,373	7,193,355
	17,914,885	12,294,321
ACCUMULATED SURPLUS		
Accumulated surplus, end of year	8,553,018	3,487,213
Accumulated other comprehensive income	492,545	45,556
	9,045,563	3,532,769
	26,960,448	15,827,090

See accompanying Notes to Financial Statements

On behalf of the board of directors

Director

Director

Statement of cash flows

Years ended December 31

	2008	2007
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Income for the year	$ 5,065,805	$ 459,084
Adjustments for:		
Amortization of capital assets	87,462	62,384
Amortization of start-up costs	103,857	103,854
Amortization of premiums and investment discounts	198,349	26,194
Loss (gain) on disposal of investments	(368,140)	22,064
	5,087,333	673,580
Change in non-cash working capital		
Investment income receivable	(49,275)	(113,637)
Premiums and other receivables	(39,562)	518,870
Prepaid expenses	486	31,920
Reinsurance recoverable	(2,320,476)	(652,000)
Prepaid reinsurance	9,794	(142,142)
Deductibles recoverable	(177,766)	(338,355)
Accounts payable and accrued liabilities	(52,782)	9,966
Due to related parties	(52,333)	(407,955)
Unearned premiums	168,661	2,533,101
Prepaid premiums	–	(63,029)
Unpaid claims	5,557,018	6,650,355
	8,131,098	8,700,674
INVESTING ACTIVITIES		
Acquisition of investments	(49,987,927)	(37,570,131)
Proceeds on disposal of investments	41,473,091	24,530,654
Additions to property, plant and equipment	(73,709)	(79,218)
	(8,588,545)	(13,118,695)
Net decrease in cash and cash equivalents	(457,447)	(4,418,021)
Cash and cash equivalents, beginning of year	839,488	5,257,509
CASH AND CASH EQUIVALENTS, END OF YEAR	382,041	839,488
Cash and cash equivalents consist of:		
Cash	252,568	235,333
Treasury bills	129,473	604,155
	382,041	839,488

See accompanying Notes to Financial Statements

Notes to financial statements

As at December 31, 2008

1. Incorporation and nature of operations

The Association des courtiers et agents immobiliers du Québec (the "ACAIQ") incorporated the Professional Liability Insurance Fund of the Association des courtiers et agents immobiliers du Québec (the "Insurance Fund"), which is governed by the *Insurance Act*. The ACAIQ 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 ACAIQ.

2. Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which requires management to make 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 9). 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.

3. New accounting policies

The Insurance Fund adopted three new accounting policies regarding the disclosure and presentation of financial instruments: Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, *Financial Instruments – Disclosures*, Sections 3863, *Financial Instruments – Presentation*, and Section 1535, *Capital Disclosures*. The new standards regarding financial instruments place greater emphasis on disclosure of the nature and extent of the risks arising from financial instruments and how they are managed. See Note 6 to the Financial Statements for additional information. With respect to the new standard on capital, Section 1535 sets out the qualitative and quantitative information to be disclosed regarding an entity's capital and the way it manages it. See Note 12 to the Financial Statements for additional information.

4. Significant accounting policies

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 held for trading. 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 at 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.

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 ask 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities of three months or less.

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. Included in unpaid claims are 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 actuarial liabilities using appropriate actuarial techniques.

Reinsurance

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

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

Property, plant and equipment

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

Telephone system	3 years
Sign	3 years
Leasehold improvements	3 years
Furniture and equipment	5 years
Computer hardware and software	3 years

Deferred start-up costs

The Insurance Fund commenced operations on July 21, 2006. However, pre-operating costs were incurred prior to that date, which are amortized on a straight-line basis over a three-year period.

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, if any, is the amount by which the carrying amount of the asset exceeds its fair value and is charged to income.

Future accounting policy changes

Goodwill and intangible assets

In November 2007, Canada's Accounting Standards Board (AcSB) approved new Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. New Section 3064 establishes criteria for the recognition of internally generated intangible assets. Changes will also be made to certain *CICA Handbook* sections to reflect the changes made to Section 3064. Among other things, EIC-27, *Revenues and Expenditures During the Pre-operating Period*, will no longer be applicable to entities that have adopted Section 3064. The Insurance Fund does not expect the adoption of Section 3064 to have a significant impact on its financial statements.

International Financial Reporting Standards (IFRS)

The AcSB has developed a strategic plan regarding financial reporting in Canada to enable convergence of Canadian GAAP with IFRS during the period ending December 31, 2010. After this transition period, the Insurance Fund will cease using Canadian GAAP and adopt IFRS on January 1, 2011. The Insurance Fund is monitoring this transition and analyzing the impact that the adoption of IFRS will have on its financial statements.

5. Investments

The following tables summarize the Insurance Fund's investments:

Table 1.

Investment maturities 2008

	Maturity			
	Under 1 year	1 to 5 years	Over 5 years	Total
Government of Canada bonds	$ –	$ 5,790,281	$ 2,418,297	$ 8,208,578
Provincial government bonds	67,117	6,837,508	–	6,904,625
Municipal government bonds	–	514,547	–	514,547
Corporate bonds	903,141	4,524,706	1,007,624	6,435,471
Asset-backed commercial paper debt obligations	62,140	43,029	–	105,169
	1,032,398	17,710,071	3,425,921	22,168,390

Investment maturities 2007

	Maturity			
	Under 1 year	1 to 5 years	Over 5 years	Total
Government of Canada bonds	$ 20,009	$ 139,335	$ 848,776	$ 1,008,120
Provincial government bonds	66,235	7,741,362	–	7,807,597
Corporate bonds	150,107	2,672,027	780,813	3,602,947
Asset-backed commercial paper debt obligations	149,768	468,343	–	618,111
	386,119	11,021,067	1,629,589	13,036,775

Table 2.

Unrealized investment gains (losses) 2008

		Unrealized		
	Unamortized cost	Gains	Losses	Fair value
Government of Canada bonds	$ 7,910,740	$ 297,838	$ –	$ 8,208,578
Provincial government bonds	6,687,950	216,676	–	6,904,626
Municipal government bonds	503,374	11,173	–	514,547
Corporate bonds	6,468,561	–	33,090	6,435,471
Asset-backed commercial paper debt obligations	105,221	–	52	105,169
	21,675,846	525,687	33,142	22,168,391

Unrealized investment gains (losses) 2007

		Unrealized		
	Unamortized cost	Gains	Losses	Fair value
Government of Canada bonds	$ 1,008,529	$ –	$ 409	$ 1,008,120
Provincial government bonds	7,751,221	56,376	–	7,807,597
Corporate bonds	3,610,151	–	7,204	3,602,947
Asset-backed commercial paper debt obligations	621,319	–	3,208	618,111
	12,991,220	56,376	10,821	13,036,775

Table 3.

Investment income

	2008	2007
Interest income	$ 822,351	$ 446,048
Amortization of premiums and discounts	(198,348)	(26,194)
Gain (loss) on disposal of investments	368,140	(22,064)
	992,143	397,790
Investment management and custody fees	39,238	27,812
Investment income	952,905	369,978
Other income	38,997	40,680
Investment and other income	991,902	410,658

6. Additional information about financial instruments

The Insurance Fund's investments are managed by an external manager, who 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 not more than 9% of assets under management may be invested in the stocks, income trusts or corporate bonds of any one issuer.

Table 4.

Maximum credit risk exposure arising from financial instruments as at December 31, 2008

	Available-for-sale	Loans and receivables	Total
Cash and cash equivalents	$ 382,041	$ -	$ 382,041
Canadian, provincial and municipal government bonds	15,627,751	-	15,627,751
Corporate bonds	6,540,640	-	6,540,640
Investment income receivable	165,527	-	165,527
Premiums receivable	-	182,777	182,777
Reinsurance recoverable for unpaid claims	-	2,972,476	2,972,476
Other assets	-	526,121	526,121
Total	22,715,959	3,681,374	26,397,333

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 region, 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 5.

Debt securities by industry

	2008	2007
Federal, provincial and municipal governments – Canada	70.60 %	67.43 %
Financials	21.16	20.52
Industrials	1.04	1.74
Energy	2.31	3.21
Infrastructure	1.37	2.33
Real estate	0.50	0.82
Securitization	3.02	3.95
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 6.

Financial instrument interest rates by maturity

	Floating rate	Under 12 months	1 to 5 years	Over 5 years
Assets 2008	%	%	%	%
Short-term notes	1.14			
Fixed-income securities		3.46 to 5.57	2.35 to 5.93	2.24 to 5.50
Reinsurance and deductibles		2.60	2.60	2.60
Liabilities 2008				
Claim liabilities		2.60	2.60	2.60
Assets 2007	%	%	%	%
Short-term notes	2.20			
Fixed-income securities		4.41 to 4.71	3.77 to 5.64	3.92 to 5.50
Reinsurance and deductibles		4.12	4.12	4.12
Liabilities 2007				
Claim liabilities		4.12	4.12	4.12

Thus, a 1% decrease in interest rates would result in a $848,744 increase in the fair value of investments presented in the balance sheet ($445,300 in 2007) and a $32,786 decrease in investment income receivable ($20,981 in 2007). Conversely, a 1% increase in interest rates would result in a $848,744 decrease in the fair value of investments presented in the balance sheet ($445,300 in 2007) and a $32,786 increase in investment income receivable ($20,981 in 2007).

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.

7. Property, plant and equipment

	Cost	Accumulated amortization	Net book value 2008	Net book value 2007
Telephone system	$ 8,653	$ 6,849	$ 1,804	$ 4,689
Sign	2,065	1,721	344	1,033
Leasehold improvements	12,117	9,853	2,264	6,303
Furniture and equipment	65,910	22,027	43,883	32,016
Computer hardware	13,888	9,432	4,456	7,161
Software	214,482	120,058	94,424	109,726
	317,115	169,940	147,175	160,928

Amortization for the year, amounting to $87,462 ($62,384 in 2007), is included in general and administrative expenses.

8. Deferred start-up costs

Cost	Accumulated amortization	Net book value 2008	Net book value 2007
$ 311,568	$ 259,640	$ 51,928	$ 155,785

Amortization for the year, amounting to $103,857 ($103,854 in 2007), is included in general and administrative expenses.

9. Actuarial liabilities

Actuarial liabilities are established 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

Establishment of the provision for unpaid claims and the amount recoverable from reinsurers on unpaid claims is based on standard actuarial techniques using 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 $788,000 as at December 31, 2008 ($364,000 in 2007) to take into account the time value of money, using an average discount rate of 2.60% (4.12% in 2007) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $1,203,000 as at December 31, 2008 ($606,000 in 2007).

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. Thus, a 1% increase in the discount rate would have a $117,000 impact on the fair value of unpaid claims as at the balance sheet date, while a 1% decrease in the discount rate would have a $120,000 impact on the fair value of unpaid claims as at the balance sheet date.

10. 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 June 30, 2009 are summarized as follows:

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

11. Net earned premiums

	2008	2007
Premiums written	$ 10,180,147	$ 10,524,539
Change in unearned premiums	168,661	2,533,101
Earned premiums	10,011,486	7,991,438
Reinsurance premiums written	705,409	808,345
Change in unearned reinsurance premiums	(9,797)	79,277
Reinsurance premiums ceded	715,206	729,068
Net earned premiums	**9,296,280**	7,262,370

Net earned premiums were reduced by a $5,592 allowance for doubtful premium receivables in 2008 ($33,129 in 2007) established 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 $9,950 credit loss in 2008 (nil in 2007).

12. 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 exceeded both the minimum threshold and its own internal target for capital required.

In 2008, 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:

	2008 In thousands of $	2007 In thousands of $
Capital available	$ 8,994	$ 3,362
Capital required	2,100	1,527
Excess of capital available over capital required	6,894	1,835
MCT (in %)	**428.29 %**	220.17 %

13. Contribution of 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, within three months of the Insurance Fund's inception.

14. Transactions with the Association des courtiers et agents immobiliers du Quebec

The Insurance Fund has entered into an agreement with the ACAIQ regarding the payment of all pre-operating costs, as well as the payment of certain property, plant and equipment and other costs. Under the agreement, these amounts were to be repaid without interest in three instalments over a two-year period. The balance of $52,333 was repaid in July 2008 as per the agreement. A management service agreement, renewable annually, has also been entered into, for which a monthly instalment of $1,802 was invoiced and paid during the year.

All of the related party transactions were in the normal course of business and measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

15. Commitments

The Insurance Fund is committed under a lease maturing in 2010. Computer support services are also covered by an agreement that expired in 2008 and whose renewal terms will be similar but had yet to be finalized at the filing of these financial statements. Future minimum payments total $39,413 and are allocated as follows for the next two fiscal years:

2009	$ 36,381
2010	3,032
Total	39,413

16. Setting of premium

The amount of the annual premium payable to the Professional Liability Insurance Fund of the Association des courtiers et agents immobiliers du Québec was set via a by-law at $550 (Section 61.1 of the *By-law amending the By-law of the Association des courtiers et agents immobiliers du Québec*).

With regard to this provision, a broker must pay an annual individual premium for himself, for each holder of a chartered or affiliated real estate agent's certificate or a real estate broker's certificate in his employ or authorized to act on his behalf, for a representative referred to in Section 7 of the *Real Estate Brokerage Act* (the "Act") and for each person who manages an establishment or who acts as an assistant to the person managing an establishment referred to in Section 13 of the Act.

The purchase of professional liability insurance from the Insurance Fund occurred gradually, as brokers benefited from a 12-month transition period to purchase such insurance, i.e. no later than August 21, 2007. During this period, brokers were required to purchase insurance from the Insurance Fund upon expiry of their professional liability insurance policy purchased in the open market.

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, 2008 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, 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 company'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:	12,224	12,224
(2) Assumed unpaid claims and adjustment expenses:	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2):	12,224	12,224
(4) Ceded unpaid claims and adjustment expenses:	2,972	2,972
(5) Other amounts to recover:	526	526
(6) Other net liabilities:	526	526
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	9,252	9,252

Premium Liabilities ($'000)	Carried in Annual Return (Col. 1)	Actuary's Estimate (Col. 2)
(1) Gross policy liabilities in connection with unearned premiums:		3,534
(2) Net policy liabilities in connection with unearned premiums:		2,807
(3) Gross unearned premiums:	5,037	
(4) Net unearned premiums:	4,685	
(5) Premium deficiency:	0	0
(6) Other net liabilities:	0	0
(7) Deferred policy acquisition expenses:	0	
(8) Maximum policy acquisition expenses deferrable [(4) + (9) + (5)] col. 1 – (2) col. 2:		1,878
(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.

February 11, 2009

Xavier Bénarosch, FCAS, FCIA

Date of the opinion

Eckler

Fonds d'assurance responsabilité professionnelle
DE L'ASSOCIATION DES COURTIERS ET AGENTS IMMOBILIERS DU QUÉBEC