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

Annual Report 2009

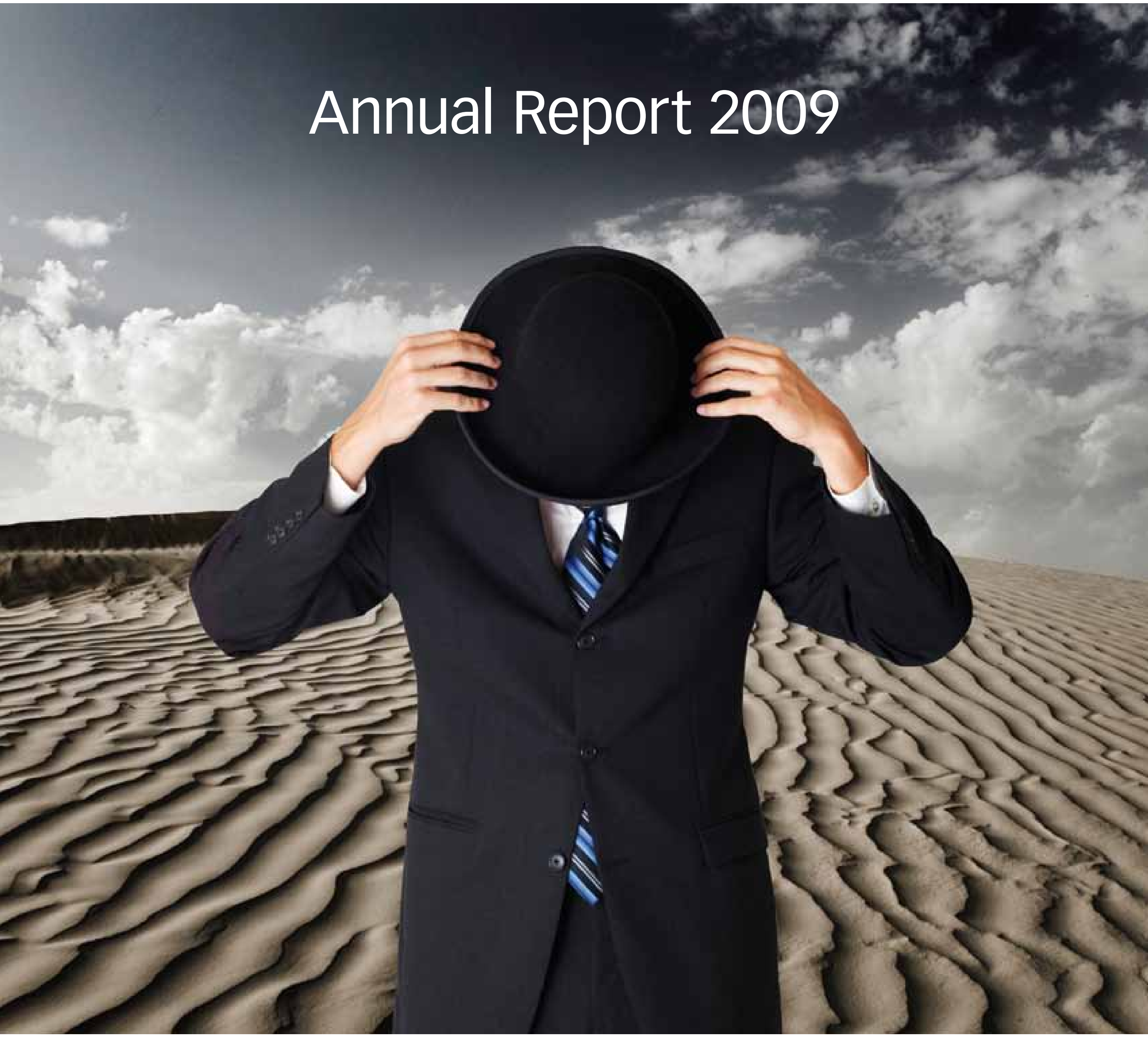


Table of Contents

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.

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

Management Report

Solid Foundation . . .

It is with great pride that we present the fourth annual management report setting out the highlights of the 2009 financial year. The report is positive on all fronts.

"An excellent financial performance, a well-established governance structure and top-notch service. The Insurance Fund for the real estate brokerage sector rests on a solid foundation."

Financial Position

The Insurance Fund's current financial position is sound. Contributions for the year were $10 million and, taking reinsurance costs into account, net premiums were $9.4 million. Annual operating costs for the insurance plan increased by approximately 47.38% as compared to the preceding financial year. The increase is due primarily to the expenses incurred to hire an additional staff member and the expenses incurred in order to satisfy the requirements imposed by the impending coming into force of the new *Real Estate Brokerage Act*, including the updating of our computer systems.

The 2009 financial year therefore ended with income, after comprehensive income, of $3.9 million, bringing the accumulated surplus to $12.9 million.

These results exceed the forecasts made at the time the Insurance Fund was launched. The increase in the Fund's equity will allow the Fund to guarantee, for the long term, the solvency of members of the *Association des courtiers et agents immobiliers du Québec* in the event of a professional fault.

Investments

One of the balance sheet items that merits particular attention is the investment line item. The investment portfolio reached $27 million at the end of the year, with investment income at 4.6%. A prudent investment policy allowed the Fund to achieve these results in the current economic context.

The investment policy that had been put into place when the Insurance Fund began its operations was revised. The principal changes made were aimed at reducing risk, in particular, by limiting the right to acquire certain securities, adding the obligation that the securities held be rated by two agencies and also limiting investments made in a single corporate issuer. Protection of equity is the priority of such a policy.

Claims

The Insurance Fund paid out $1.8 million in claims and settlement expenses during the 2009 financial year. Balance sheet reserves, amounting to $12.8 million, are sufficient to meet future obligations. The stop loss reinsurance subscribed by the Fund will allow the Fund to reduce the financial impact of such future obligations.

There were 597 new claims in 2009. Thus, since it began its operations, the Insurance Fund has processed 1,811 notices of claim. At the end of 2009, 663 files were still open.

An analysis of these claims confirms that, collectively, it will be possible, by merely changing certain work habits, to reduce the number of claims filed and facilitate the defence of the insureds against whom claims have been filed. We look forward to sharing our findings with you.

Since it began its operations, the Insurance Fund has obtained 12 judgments in favour of its insureds and 3 judgments against them. The percentage of favourable judgments is substantially the same as for proceedings instituted before the Small Claims Division of the Court of Québec.

The satisfaction and respect of the insureds against whom a claim has been filed remains one of the central concerns of the Fund's Board of Directors and permanent staff. In this regard, too, we can confidently say: *"Mission accomplished!"* The satisfaction surveys carried out indicate that over 95% of our insureds are extremely satisfied with the service offered to them.

Activities of the Board of Directors

During the financial year, there were 7 meetings of the Board of Directors and 13 meetings of various committees.

Given that governance of the Insurance Fund must comply at all times with *An Act respecting insurance* and meet the expectations of the *Autorité des marchés financiers*, the directors drafted the policies required to properly satisfy the new guidelines published in this regard. They therefore worked on the following policies: integrated risk management, regulatory compliance and outsourcing.

In addition, they also reviewed the investment policy, assessed the impact of the new legislation and regulations on liability insurance and worked on the new wording of the insurance policy. Moreover, members of the Board of Directors approved the plan for migrating to the International Financial Reporting Standards (IFRS).

Looking to the Future

The Insurance Fund's Board of Directors believes it is imperative that the Fund capitalize on the experience and achievements of its initial years of operation - its financial achievements as well as its operational successes, including that of providing high quality services to its insureds. Much can be built upon this solid foundation and the result will allow the Fund and its members, collectively, to face the vagaries of the future.

We would like to thank the directors who, through their unfaltering involvement during the term of their mandate and their devotion and expertise, have begun to build a Fund of which we can all be proud! We draw particular attention to the exceptional work carried out by Mr. François Léger, who left his position on the Board of Directors of the Insurance Fund in May in order to continue serving the profession by taking on new responsibilities. He had been a member of the provisional board that worked to establish the Insurance Fund and had been Vice-Chairman of the Board since the Fund began its operations in 2006.

To the team comprising our permanent staff, we also express our heartfelt thanks for the dedication and professionalism they bring to their duties on a daily basis. •

Jean Landry, CA, ASC
Chairman of the Board

Marie-Chantal Thouin, lawyer
General Manager

The Directors

Jean Landry, CA, ASC

Chairman of the Board

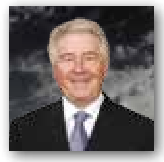
Jean-Guy Savoie
Chartered Real Estate Agent

Vice-Chairman of the Board and member of the Governance and Audit Committees

Gaëtane Lafontaine
Actuary

Treasurer

Chair of the Audit Committee and member of the Investment Committee



Albert Arduini
Building Technologist and Building Inspector

Member of the Ethics, and Claims and Prevention Committees

André Bois
Lawyer

Chair of the Ethics, and Claims and Prevention Committees

Serge Brousseau *
Chartered Real Estate Agent

David Gagnon
Chartered Real Estate Agent

Member of the Governance, and Claims and Prevention Committees

François Léger **
Chartered Real Estate Agent

Michel Lessard
Portfolio Manager

Chair of the Invesment Committee and member of the Audit Committee

Carole Paré
Lawyer and Chartered Real Estate Broker

Chair of the Governance Committee and member of the Investment and Ethics Committees

Marie-Chantal Thouin
Lawyer

General Manager

(*) from October 2009 to February 2010
(**) until the end of May 2009

Financial Statements 2009

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, 2009 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, 2009 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 11, 2010

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[1] CA auditor permit no. 15504

Statement of income and comprehensive income

Years ended December 31

	2009	2008 *(restated - Note 3)*
INSURANCE OPERATIONS		
Premiums earned (Note 11)	$ 10,045,925	$ 10,011,486
Reinsurance premiums ceded (Note 11)	670,143	715,206
Net earned premiums	9,375,782	9,296,280
Claims and loss adjustment expenses	5,595,584	4,454,105
General and administrative expenses	979,218	664,415
Total claims and expenses	6,574,802	5,118,520
Underwriting profit	2,800,980	4,177,760
Investment and other income (Note 5)	1,190,408	991,902
INCOME FOR THE YEAR	3,991,388	5,169,662
Unrealized gain on available-for-sale securities	241,447	480,584
Portion reclassified to income from available-for-sale securities	(317,028)	(33,595)
COMPREHENSIVE INCOME	**3,915,807**	**5,616,651**

Statement of accumulated surplus

As at December 31

	Accumulated surplus	Accumulated other com-prehensive income	Total
2009			
Balance as at December 31, 2008	$ 8,501,090	$ 492,545	$ 8,993,635
Income for the year	3,991,388	-	3,991,388
Other comprehensive income	-	(75,581)	(75,581)
Balance as at December 31, 2009	**12,492,478**	**416,964**	**12,909,442**
2008 (restated - Note 3)			
Balance as at December 31, 2007	$ 3,383,356	$ 45,556	$ 3,428,912
Retroactive write-off of deferred start-up costs	(51,928)	-	(51,928)
Income for the year	5,169,662	-	5,169,662
Other comprehensive income	-	446,989	446,989
Balance as at December 31, 2008	8,501,090	492,545	8,993,635

See accompanying Notes to Financial Statements

Balance sheet

As at December 31

	2009	2008 *(restated - Note 3)*
ASSETS		
Cash	$ 528,913	$ 252,568
Treasury bills	2,803,662	129,473
Investment income receivable	213,079	165,527
Premiums and other receivables	280,300	182,777
Prepaid expenses	10,803	11,306
Reinsurance recoverable for unpaid claims (Note 10)	5,880,859	2,972,476
Prepaid reinsurance	317,438	352,706
Investments (Note 5)	27,020,504	22,168,391
Deductibles recoverable from insureds for unpaid claims	590,355	526,121
Property, plant and equipment (Note 7)	51,738	52,751
Intangible assets (Note 8)	34,900	94,424
	37,732,551	26,908,520
LIABILITIES		
Accounts payable and accrued liabilities	167,044	127,277
Due to ACAIQ (Note 14)	135,000	-
Unearned premiums	5,225,602	5,037,235
Unpaid claims (Note 9)	19,295,463	12,750,373
	24,823,109	17,914,885
ACCUMULATED SURPLUS		
Accumulated surplus, end of year	12,492,478	8,501,090
Accumulated other comprehensive income	416,964	492,545
	12,909,442	8,993,635
	37,732,551	26,908,520

See accompanying Notes to Financial Statements

On behalf of the Board of Directors

Director

Director

Statement of cash flows

Years ended December 31

	2009	2008 *(restated - Note 3)*
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Income for the year	$ 3,991,388	$ 5,169,662
Adjustments for:		
Amortization of property, plant and equipment	24,238	23,178
Amortization of intangible assets	59,524	64,284
Amortization of premiums and investment discounts	127,797	198,349
Gain on disposal of investments	(306,766)	(368,140)
	3,896,181	5,087,333
Change in non-cash working capital items		
Investment income receivable	(47,552)	(49,275)
Premiums and other receivables	(97,523)	(39,562)
Prepaid expenses	503	486
Reinsurance recoverable	(2,908,383)	(2,320,476)
Prepaid reinsurance	35,268	9,794
Deductibles recoverable	(64,234)	(177,766)
Accounts payable and accrued liabilities	39,767	(52,782)
Due to related parties	135,000	(52,333)
Unearned premiums	188,367	168,661
Unpaid claims	6,545,090	5,557,018
	7,722,484	8,131,098
INVESTING ACTIVITIES		
Acquisition of investments	(33,077,107)	(49,987,927)
Proceeds on disposal of investments	28,328,382	41,473,091
Proceeds on disposal of property, plant and equipment	225	-
Additions to property, plant and equipment	(23,450)	(73,709)
	(4,771,950)	(8,588,545)
Net increase (decrease) in cash and cash equivalents	2,950,534	(457,447)
Cash and cash equivalents, beginning of year	382,041	839,488
CASH AND CASH EQUIVALENTS, END OF YEAR	3,332,575	382,041
Cash and cash equivalents consist of:		
Cash	528,913	252,568
Treasury bills	2,803,662	129,473
	3,332,575	382,041

See accompanying Notes to Financial Statements

Notes to financial statements

As at December 31, 2009

1. Incorporation and nature of operations

The Association des courtiers et agents immobiliers du Québec (the "ACAIQ") incorporated the Fonds d'assurance responsabilité professionnelle de l'Association des courtiers et agents immobiliers du Québec (the "Insurance Fund"), which is governed by *An Act respecting insurance*. 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 policy 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

Financial Instruments - Disclosures

In 2009, *CICA Handbook* Section 3862, *Financial Instruments – Disclosures*, was amended to require disclosures about inputs to fair value measurement, including their classification within a three-level hierarchy that prioritizes the inputs to fair value measurement. Comparative figures are not required in the year of adoption. The three-level fair value hierarchy 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.

These amendments were effective January 1, 2009 for the Insurance Fund. All of the Insurance Fund's financial instruments are classified in Level 2 of the fair value hierarchy as at December 31, 2009.

Goodwill and Intangible Assets

On January 1, 2009, the Insurance Fund adopted *CICA Handbook* 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. As a result of adopting Section 3064, start-up costs, which were amortized on a straight-line basis over a three-year period since the Insurance Fund's inception, are now expensed as incurred. Previously included in property, plant and equipment, software has been reclassified to intangible assets. These changes, implemented retrospectively with restatement of prior periods, had the following impact on the financial statements:

	2008 increase (decrease)
Balance sheet as at December 31	
Deferred start-up costs	$ (51,928)
Property, plant and equipment	(94,424)
Intangible assets	94,424
Accumulated surplus, end of year	51,928
Statement of income and comprehensive income	
General and administrative expenses	(103,857)
Income for the year and comprehensive income	103,857
Statement of cash flows	
Income for the year	103,857
Amortization of property, plant and equipment	(64,284)
Amortization of intangible assets	64,284
Amortization of start-up costs	(103,857)

Credit Risk and Fair Value of Financial Assets and Liabilities

Effective January 20, 2009, the Insurance Fund adopted new Emerging Issues Committee Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (EIC-173). EIC-173 requires that an entity should take into account its own credit risk and the credit risk of counterparties in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this new Abstract did not have a significant impact on the Insurance Fund's financial position or operating results, as the valuation method already factors in the credit risks associated with the Insurance Fund's financial assets and liabilities.

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 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.

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.

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 amounts receivable from reinsurers on 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 system	3 years
Sign	3 years
Leasehold improvements	3 years
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.

Future changes in accounting policies

International Financial Reporting Standards (IFRS)

The Accounting Standards Board 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.
Fair value hierarchy 2009

	Level 1	Level 2	Level 3	Total
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 2009

	Maturity			
	Under 1 year	1 to 5 years	Over 5 years	Total
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

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

Table 3.

Unrealized investment gains (losses) 2009

		Unrealized		
	Unamortized cost	Gains	Losses	Fair value
Government of Canada bonds	$ 5,076,398	$ 14,694	–	$ 5,091,092
Provincial government bonds	8,693,264	123,863	–	8,817,127
Municipal government bonds	5,159,407	14,519	–	5,173,926
Corporate bonds	6,457,176	214,247	–	6,671,423
Asset-backed commercial paper debt obligations	1,217,296	49,640	–	1,266,936
	26,603,541	416,963	–	27,020,504

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

Table 4.

Investment income

	2009	2008
Interest income	$ 1,028,523	$ 822,351
Amortization of premiums and discounts	(127,797)	(198,348)
Gain on disposal of investments	306,766	368,140
	1,207,492	992,143
Investment management and custody fees	57,896	39,238
Investment income	1,149,596	952,905
Other income	40,812	38,997
Investment and other income	**1,190,408**	991,902

6. 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.

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

2009

	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	–	5,880,859	5,880,859
Other assets	–	590,355	590,355
Total	30,566,158	6,751,514	37,317,672

2008

	Available for sale	Loans and receivables	Total
Cash	$ 252,568	$ –	$ 252,568
Treasury bills	129,473	–	129,473
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 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

	2009	2008
Federal, provincial and municipal governments – Canada	70.62 %	70.60 %
Financials	16.46	21.16
Industrials	1.14	1.04
Energy	2.81	2.31
Infrastructure	4.28	1.37
Real estate	-	0.50
Securitization	4.69	3.02
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

	Floating rate	Under 12 months	1 to 5 years	Over 5 years
Assets 2009	%	%	%	%
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 2009				
Claim liabilities		2.58	2.58	2.58
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

The financial statement impact of a 1% decrease in interest rates would be a $927,726 increase in fair value of investments in the balance sheet ($848,744 in 2008) and a $51,051 decrease in investments receivable ($32,786 in 2008). Conversely, a 1% increase in interest rates would result in a $927,726 decrease in the fair value of investments in the balance sheet ($848,744 in 2008) and a $51,051 increase in investments receivable ($32,786 in 2008).

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 2009	Net book value 2008
Telephone system	$ 9,530	$ 8,753	$ 777	$ 1,804
Sign	2,065	2,065	–	344
Leasehold improvements	12,117	11,985	132	2,264
Furniture and equipment	81,282	37,259	44,023	43,883
Computer hardware	18,375	11,569	6,806	4,456
	123,369	71,631	**51,738**	52,751

Amortization for the year, amounting to $24,238 ($23,178 in 2008), is included in general and administrative expenses.

8. Intangible Assets

	Cost	Accumulated amortization	Net book value 2009	Net book value 2008
Software	$ 214,482	$ 179,582	**$ 34,900**	$ 94,424

Amortization for the year, amounting to $59,524 ($64,284 in 2008), is included in general and administrative expenses.

9. 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 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 $1,206,000 as at December 31, 2009 ($788,000 in 2008) to take into account the time value of money, using an average discount rate of 2.58% (2.60% in 2008) on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $1,210,000 as at December 31, 2009 ($1,203,000 in 2008).

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 $142,000 impact of on the fair value of unpaid claims as at the balance sheet date ($117,000 in 2008), while a 1% decrease in the discount rate would have a $145,000 impact on the fair value of unpaid claims as at the balance sheet date ($120,000 in 2008).

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 and July 1, 2009 to June 30, 2010 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

	2009	2008
Premiums written	$ 10,203,296	$ 10,180,147
Change in unearned premiums	157,371	168,661
Earned premiums	10,045,925	10,011,486
Reinsurance premiums written	634,875	705,409
Change in unearned reinsurance premiums	(35,268)	(9,797)
Reinsurance premiums ceded	670,143	715,206
Net earned premiums	**9,375,782**	9,296,280

Net earned premiums were reduced by a $6,500 allowance for doubtful premium receivables in 2009 ($5,592 in 2008) 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 $5,400 credit loss in 2009 ($9,950 in 2008).

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

In 2009, 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:

	2009 In $'000	2008 In $'000
Capital available	$ 12,875	$ 8,848
Capital required	2,712	2,070
Excess of capital available over capital required	10,163	6,778
MCT (as a %)	**474.74 %**	427.44 %

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, i.e. within three months of the Insurance Fund's inception.

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

The Insurance Fund has entered into an agreement under which certain management services are provided by the ACAIQ. The Insurance Fund recorded a total expense of $145,416 in general and administrative expenses for these services as a whole in 2009 (services billed in 2008, $36,783). All related party transactions were in the ordinary course of business and measured at the exchange amount.

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 $19,189 and are payable in full over the next fiscal year.

16. Setting of premium

The amount of the annual premium payable to the Insurance Fund was set via a by-law at $550 (Section 61.1 of 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.

17. 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, 2009 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 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	18,705	18,705
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	18,705	18,705
(4) Ceded unpaid claims and adjustment expenses	5,881	5,881
(5) Other amounts to recover	590	590
(6) Other net liabilities	590	590
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	12,824	12,824

Premium Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Gross policy liabilities in connection with unearned premiums		3,929
(2) Net policy liabilities in connection with unearned premiums		2,962
(3) Gross unearned premiums	5,194	
(4) Net unearned premiums	4,877	
(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		1,915
(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, FCIA

February 11, 2010

Date opinion was rendered

Eckler

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