Fonds d'assurance responsabilité professionnelle
DU COURTAGE IMMOBILIER DU QUÉBEC

ANNUAL REPORT 2011

FARCIQ DIRECTORS

As at December 31, 2011[1]

M. JEAN-GUY SAVOIE
Chairman of the Board of Directors
Real Estate Broker
Royal LePage La Renaissance
Chair of the Governance Committee

Me MICHEL LÉONARD
Vice-Chair of the Board and Director
Lawyer and Real Estate Broker
President of *Fonds de Placement Immobilier BTB*
Chair of the Visibility Committee and member of the Governance, Ethics and Investment Committees

M. MARTIN DUPRAS,
a.s.a., Pl.Fin., D.Fisc
Treasurer and Director
President of ConFor financiers Inc.
Chair of the Investment and Audit Committees and member of the Governance Committee

M. ALBERT ARDUINI, T.P., PAA
Director
Manager, Building inspection and expertise
SCM Gestion des Risques Inc.
Member of the Audit and Claims Committees

YVES COUSINEAU
Director
Lawyer, Robinson Sheppard Shapiro s. e. n. c. r. l.

XAVIER LECAT
Director
Real Estate Broker
Re/Max Vision (1990) Inc.

DENIS MAJEAU
Director
Chartered Accountant
Member of the Audit Committee

LOUIS-GEORGES PELLETIER
Director
General Insurance Broker
Chair of Claims Committee and member of Investment, Governance and Visibility Committees

CHRISTIANE ST-JEAN
Director
Manager
Re/Max Accès Inc.
Member of Ethics and Visibility Committees

Me LOUIS HAECK
Notary
General Manager

[1] Also Directors for a portion of 2011:
André Bois, David Gagnon, Gaétane Lafontaine and Carole Paré.

Fonds d'assurance responsabilité professionnelle
DU COURTAGE IMMOBILIER DU QUÉBEC

MISSION

Protect our policyholders' assets through professional liability insurance.

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Message from the Chairman of the Board of Directors

In 2011, the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ) reached an important level of maturity. The board of directors was renewed by the OACIQ. New members joined the board: Yves Cousineau, Xavier Lecat, Denis Majeau, Louis-Georges Pelletier, and Christiane St-Jean. Our liability insurance Fund is still young, but we are ending our fifth year in solid financial shape, which will enable us to improve insurance coverage for the OACIQ licence holders.

Claims management is focused on our insured members, working to protect their assets and, on a broader scale, the public. The Fund manages the monies it is entrusted with in a prudent and reasonable manner, under the guidance of skilled Board members and employees.

The year 2012 is starting with improved coverage for potential claims in order to reflect the needs of our industry. But although coverage will be increased in 2012, premiums will remain the same as in 2011, thanks to proactive management of the risks inherent to our business. The liability insurance fund understands the needs of its clients, and we are aware that prevention is an essential tool in a broker's daily practice. After five years of operation, our statistics now allow us to draw a profile of claims, helping us adjust our insurance coverage based on reality.

In 2012, we will be focusing on prevention, in cooperation with the OACIQ.

We wish all real estate brokerage licence holders a very successful year.

Jean-Guy Savoie
Outgoing Chairman of the Board for 2011

JEAN-GUY SAVOIE
Outgoing Chairman of the Board for 2011

Fonds d'assurance responsabilité professionnelle
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Management Report

Message from the General Manager

The Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec (FARCIQ) ended the year 2011 with encouraging results. The Fund strives to provide quality service to its policyholders. The protection of our clients' assets and our financial strength remain major priorities.

This year, we welcomed several new members to the Board and created two new committees, i.e. a Governance Committee and a Visibility Committee, to better serve our clients.

We also changed our investment policy and added a new manager to our portfolio in order to reduce our investment risks.

We maintain a good relationship with our insurance and reinsurance brokers and have renewed their respective mandates. In addition, an independent expert has evaluated our Claims Department and his report confirms the professionalism of the Fund's employees. In addition, we regularly survey our clients following claims processing, and 96% have declared themselves generally satisfied with the services we provide.

In 2011, the annual premium was reduced from $550 to $485. In addition, for 2012, we have recommended an increase in our clients' insurance coverage, which will go from $250,000 to $1,000,000 to better protect them. Thus in 2012 we will be offering the average coverage provided by other real estate insurance funds across Canada. As at December 31, 2011, our Fund was providing coverage to about 18,000 people.

I wish to thank the directors of FARCIQ for their dedication, their attention to detail and their boundless energy throughout 2011. They take an active part in our Fund's success. I would also like to commend our entire team on their commitment and efforts throughout the year.

LOUIS HAECK
General Manager

We are beginning the year 2012 in a spirit of continuity and stability under our new Chair, Mr. Michel Léonard, Montreal real estate broker.

In ending, I would like to extend my thanks to the Board's outgoing Chairman, Jean-Guy Savoie, a Real Estate Broker from Gatineau, for his valuable advice and ongoing support for our team.

I would also like to thank our directors who left in 2011 namely Mrs. Gaétane Lafontaine, Mrs. Carole Paré, Mr. David Gagnon and Me André Bois, for their contribution to FARCIQ.

And finally, several OACIQ employees also contributed to the success of our projects throughout the year. We wish to thank the general management and the Board of the OACIQ for their generous collaboration and understanding throughout the past year. Their support is very much appreciated.

Me Louis Haeck
General Manager

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

We have audited the accompanying financial statements of the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec [the "FARCIQ" or "Insurance Fund"] which comprise the statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the statements of comprehensive income, change in accumulated surplus and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the FARCIQ as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

Chartered Accountants

Montréal, Canada
February 21, 2012

[1] CA auditor permit no. 15504

ERNST & YOUNG

STATEMENT OF COMPREHENSIVE INCOME
Years ended December 31

	2011 $	2010 $
INSURANCE OPERATIONS		
Premiums earned [Note 11]	**9,778,162**	10,492,202
Reinsurance premiums ceded [Note 11]	**(533,315)**	(603,017)
Net earned premiums	**9,244,847**	9,889,185
Claims and loss adjustment expenses	**4,304,281**	4,494,872
General and administrative expenses	**1,597,269**	1,097,350
Total claims and expenses	**5,901,550**	5,592,222
Underwriting profit	**3,343,297**	4,296,963
Investment and other income [Note 4]	**1,283,468**	961,437
Income for the year	**4,626,765**	5,258,400
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on available-for-sale securities	**458,098**	(101,065)
Portion reclassified to income from available-for-sale securities	**232,975**	(179,817)
COMPREHENSIVE INCOME	**5,317,838**	4,977,518

See accompanying Notes to Financial Statements

STATEMENT OF CHANGE IN ACCUMULATED SURPLUS
Years ended December 31

2011	Accumulated surplus $	Accumulated other comprehensive income (loss) $	**Total** $
Balance as at December 31, 2010	18,822,878	136,082	**18,958,960**
Income for the year	4,626,765	—	**4,626,765**
Other comprehensive income	—	691,073	**691,073**
Balance as at December 31, 2011	23,449,643	827,155	24,276,798
2010			
Balance as at December 31, 2009	13,564,478	416,964	**13,981,442**
Income for the year	5,258,400	—	**5,258,400**
Other comprehensive loss	—	(280,882)	**(280,882)**
Balance as at December 31, 2010	18,822,878	136,082	**18,958,960**

See accompanying Notes to Financial Statements

STATEMENT OF FINANCIAL POSITION
as at December 31

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
ASSETS			
Cash	**708,646**	390,385	528,913
Treasury bills	**169,675**	439,257	2,803,662
Investments [Note 4]	**41,839,376**	34,992,975	27,020,504
Investment income receivable	**182,618**	280,040	213,079
Premiums and other receivables [note 14]	**139,135**	390,246	280,300
Prepaid expenses	**5,410**	11,855	10,803
Amounts recoverable from reinsurers for claims liabilities [Note 9]	**4,579,000**	6,922,000	6,952,859
Prepaid reinsurance	**257,198**	190,386	317,438
Deductibles recoverable from policyholders for claims liabilities	**456,339**	450,133	590,355
Property, plant and equipment [Note 7]	**89,143**	99,561	51,738
Intangible assets [Note 8]	**115,589**	84,675	34,900
	48,542,129	44,251,513	38,804,551
LIABILITIES			
Accounts payable and accrued liabilities	**544,319**	166,086	167,044
Due to OACIQ [Note 13]	**10,825**	226,391	135,000
Unearned premiums	**3,159,848**	3,550,943	5,225,602
Claims liabilities [Note 9]	**20,550,339**	21,349,133	19,295,463
	24,265,331	25,292,553	24,823,109
ACCUMULATED SURPLUS			
Accumulated surplus, end of year	**23,449,643**	18,822,878	13,564,478
Accumulated other comprehensive income	**827,155**	136,082	416,964
	24,276,798	18,958,960	13,981,442
	48,542,129	44,251,513	38,804,551

Commitments [Note 16]

See accompanying Notes to Financial Statements

On behalf of the Board of Directors

MICHEL LÉONARD
Director

MARTIN DUPRAS
Director

STATEMENT OF CASH FLOWS

Years ended December 31

	2011	2010
	$	$
OPERATING ACTIVITIES		
Income for the year	**4,626,765**	5,258,400
Adjustments for:		
Amortization of property, plant and equipment	**35,734**	28,046
Amortization of intangible assets	**71,050**	92,931
Amortization of premiums and investment discounts	**256,278**	383,657
Loss on write-off of property, plant and equipment	**–**	2,571
Gain on disposal of investments	**(307,552)**	(157,328)
	4,682,275	5,608,277
Change in non-cash working capital items		
Investment income receivable	**97,422**	(66,961)
Premiums and other receivables	**251,111**	(109,946)
Prepaid expenses	**6,445**	(1,052)
Amounts recoverable from reinsurers for claims liabilities	**2,343,000**	30,859
Prepaid reinsurance	**(66,812)**	127,052
Deductibles recoverable from policyholders for claims liabilities	**(6,206)**	140,222
Accounts payable and accrued liabilities	**378,233**	(958)
Due to OACIQ	**(215,566)**	91,391
Unearned premiums	**(391,095)**	(1,674,659)
Claims liabilities	**(798,794)**	2,053,670
	6,280,013	6,197,895
INVESTING ACTIVITIES		
Acquisition of investments	**(57,006,809)**	(33,001,131)
Proceeds on disposal of investments	**50,902,755**	24,521,449
Additions to property, plant and equipment	**(25,316)**	(78,440)
Additions to intangible assets	**(101,964)**	(142,706)
	(6,231,334)	(8,700,828)
Net increase (decrease) in cash and cash equivalents	**48,679**	(2,502,933)
Cash and cash equivalents, beginning of year	**829,642**	3,332,575
CASH AND CASH EQUIVALENTS, END OF YEAR	**878,321**	829,642
Cash and cash equivalents consist of:		
Cash	**708,646**	390,385
Treasury bills	**169,675**	439,257
	878,321	829,642

See accompanying Notes to Financial Statements

1. INCORPORATION AND NATURE OF OPERATIONS

Governed by the *Insurance Act*, the Fonds d'assurance responsabilité professionnelle du courtage immobilier du Québec [the "FARCIQ" or "Insurance Fund"] [formerly the Fonds d'assurance responsabilité professionnelle of the Association des courtiers et agents immobiliers du Québec] was incorporated by Québec's self-regulatory body for real estate brokers, the Organisme d'autoréglementation du courtage immobilier du Québec [the "OACIQ"] [formerly the Association des courtiers et agents immobiliers du Québec]. 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 OACIQ real estate brokers and agents. The Insurance Fund's head office is located at 4905 Lapinière Blvd., Suite 2800, Brossard, Québec, Canada.

2. BASIS OF PRESENTATION

These financial statements represent the Insurance Fund's first financial statements prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"]. These financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 21, 2012.

For all years up to and including the year ended December 31, 2010, the Insurance Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ["GAAP"]. Although Canadian GAAP differs from IFRS in certain respects, the transition to IFRS did not give rise to any changes to the comparative figures *[Note 17]*.

The Insurance Fund uses a liquidity presentation for statement of financial position items.

3. ACCOUNTING POLICIES

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Insurance Fund agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Insurance Fund determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

Claims liabilities

Claims liabilities consist of 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 is a provision to account for the future development of these claims, including claims incurred but not reported, as well as a provision for adverse deviations, as required by accepted actuarial practice in Canada. Unpaid claims are discounted to take into account the time value of money using the market rates of the underlying invested assets.

An external actuary, appointed by the Board of Directors of the Insurance Fund, evaluates the adequacy of claims liabilities using appropriate actuarial techniques.

Unearned premiums

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

Reinsurance

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

Amounts recoverable from reinsurers are assessed in the same manner as unpaid claims and are recorded to reflect the time value of money.

Financial instruments

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

AFS financial assets are those financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets 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 statement of financial position as of the trade date, and changes in fair value are recorded in other comprehensive income (loss) 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 income. When the asset is disposed of or other-than-temporarily impaired, gains and losses are recognized in income as investment and other income and, accordingly, the amount is deducted from other comprehensive income (loss). 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

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

Level 1	-	Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2	-	Valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3	-	Valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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, the fair values are determined based on available information. The fair value of financial instruments is based on ask prices.

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
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 exceed their recoverable amount. The recoverable amount of an asset or cash-generating unit ["CGU"] is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from an asset or CGU. An impairment loss is the amount, if any, by which the carrying amount of an asset or CGU exceeds its recoverable amount and is charged to income. During the current and previous years, no intangible assets or items of property plant and equipment were impaired.

Standards issued but not yet effective

The Insurance Fund is currently analyzing the impact that the following standards will have on its audited financial statements:

[a] Financial instruments: Classification and measurement

In November 2009, the IASB issued IFRS 9, *Financial Instruments*. This standard represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features of this new standard are as follows:

– A business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets.

– In order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principal and interest.

– All other financial assets are measured at fair value in the statements of financial position.

– An entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income ["OCI"]. The dividends on investments for which this election is made must be recognized in income but gains or losses are not removed from OCI when the equity investment is disposed of.

– If a financial asset is eligible for amortized cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

b) Fair value measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*, with a view to setting out a single IFRS framework for defining, measuring and disclosing fair value. Its main features are as follows:

– Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

– Fair value measurement requires an entity to determine the following: The particular asset or liability being measured;

– For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;

– The market in which an orderly transaction would take place for the asset or liability;

– The appropriate valuation technique(s) to use when measuring fair value. The technique(s) should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

– The entity is to disclose those valuation techniques and inputs used to develop the fair value measurements.

The standard is effective for fiscal years beginning on or after January 1, 2015.

c) Financial statement presentation

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to income. The amendments also reaffirm existing requirements that items in OCI and income should be presented as either a single statement or two consecutive statements.

The standard is effective for fiscal years beginning on or after January 1, 2013.

Significant accounting estimates and assumptions

The carrying values of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities during the next annual reporting period are related to measuring claims liabilities.

The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that an entity's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of prior years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by industry and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking into account all the uncertainties involved.

4. INVESTMENTS

A financial instrument is regarded as quoted in an active market [Level 1] if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. When a quoted active market exists, the fair values of financial assets are based on bid prices and the fair values of financial liabilities are based on ask prices.

In the absence of an active market, fair values are based on inputs other than quoted prices that are observable for the asset or liability directly or indirectly [Level 2]. Such inputs include prevailing market rates for instruments with similar characteristics and risk profiles, the closing price of the most recent trade date subject to liquidity adjustments or average brokers' quotes when trades are too sparse to constitute an active market.

Certain financial instruments whose fair values are not based on observable market inputs are to be measured using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data [Level 3]. The Insurance Fund held no Level 3 securities as at December 31, 2011 and 2010, and January 1, 2010.

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

Table 1 – Fair value hierarchy

December 31, 2011	Level 1	Level 2	**Total**
	$	$	$
Government of Canada bonds	—	8,048,756	**8,048,756**
Provincial government bonds	—	4,490,460	**4,490,460**
Municipal government bonds	—	9,236,657	**9,236,657**
Corporate bonds	—	8,596,925	**8,596,925**
Investment funds	—	7,477,537	**7,477,537**
Preferred shares	3,844,703	—	**3,844,703**
Common shares	144,338	—	**144,338**
	3,989,041	37,850,335	**41,839,376**
December 31, 2010			
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**
January 1, 2010			
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

December 31, 2011	Maturity				
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	**Total**
	$	$	$	$	$
Government of Canada bonds	—	7,535,465	513,291	—	**8,048,756**
Provincial government bonds	—	4,490,460	—	—	**4,490,460**
Municipal government bonds	—	9,236,657	—	—	**9,236,657**
Corporate bonds	2,014,726	4,618,563	1,963,636	—	**8,596,925**
Investment funds	—	—	—	7,477,537	**7,477,537**
Preferred shares	—	—	—	3,844,703	**3,844,703**
Common shares	—	—	—	144,338	**144,338**
	2,014,726	25,881,145	2,476,927	11,466,578	**41,839,376**
December 31, 2010					
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**
January 1, 2010					
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)

December 31, 2011		Unrealized		
	Unamortized cost	Gains	Losses	**Fair value**
	$	$	$	$
Government of Canada bonds	7,970,690	78,066	—	**8,048,756**
Provincial government bonds	4,491,495	—	(1,035)	**4,490,460**
Municipal government bonds	8,911,521	325,136	—	**9,236,657**
Corporate bonds	8,420,214	176,711	—	**8,596,925**
Investment funds	7,542,275	—	(64,738)	**7,477,537**
Preferred shares	3,800,375	57,345	(13,017)	**3,844,703**
Common shares	141,856	2,482	—	**144,338**
	41,278,426	639,740	(78,790)	**41,839,376**
December 31, 2010				
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**
January 1, 2010				
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 and other income

	2011	2010
	$	$
Interest income	**1,324,174**	1,254,164
Dividend income	**13,823**	—
Amortization of premiums and discounts	**(256,278)**	(383,657)
Gain on disposal of investments	**307,552**	157,328
	1,389,271	1,027,835
Investment management and custody fees	**105,803**	68,829
Investment income	**1,283,468**	959,006
Other income	**—**	2,431
Investment and other income	**1,283,468**	961,437

5. ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS

The Insurance Fund's investments are managed by two external managers, which are required to follow the investment policy set out by the Insurance Fund's Board of Directors. Management ensures compliance with these guidelines. The investment portfolio is entirely invested in well-established, active and liquid markets.

All other financial instruments are stated at fair value.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other market price risk. The Insurance Fund's investment policies establish principles and limits pertaining to these risks. The Investment Committee regularly monitors compliance with these investment policies.

Currency risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currencies will fluctuate because of changes in foreign exchange rates. Since all its financial instruments are denominated in Canadian dollars, the Insurance Fund is not exposed to currency risk.

Interest rate risk

Interest rate risk is the risk that a fluctuation in interest rates will negatively impact the financial position of the Insurance Fund, which occurs when market interest rates rise.

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

Table 5 – Financial instrument interest rates by maturity

December 31, 2011	Floating rate %	Under 12 months %	1 to 5 years %	Over 5 years %
Assets				
Short-term notes	**0.90**	—	—	—
Fixed-income securities	—	**3.43–6.25**	**1.09–8.25**	**3.10–8.25**
Reinsurance and deductibles	—	**1.79**	**1.79**	**1.79**
Liabilities				
Claims liabilities	—	**1.79**	**1.79**	**1.79**

December 31, 2010				
Assets				
Short-term notes	0.93	—	—	—
Fixed-income securities	—	3.25–6.50	1.93–5.58	3.10–6.15
Reinsurance and deductibles	—	2.38	2.38	2.38
Liabilities				
Claims liabilities	—	2.38	2.38	2.38

January 1, 2010				
Assets				
Short-term notes	0.17	—	—	—
Fixed-income securities	—	3.87 –6.80	2.90–8.25	4.55–6.15
Reinsurance and deductibles	—	2.58	2.58	2.58
Liabilities				
Claims liabilities	—	2.58	2.58	2.58

A 1% drop in interest rates would result in a $39,365 decline in investment income [$60,143 in 2010]. Conversely, a 1% rise in interest rates would result in an $85,653 increase in investment income [$60,143 in 2010].

Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Insurance Fund by failing to discharge an obligation. Credit risk arises primarily from fixed-income securities, which comprise substantially all of the investment portfolio.

The Insurance Fund's investment policy provides a quality criteria framework for portfolio securities and requires investment managers to produce regular compliance reports. The policy also stipulates that the Insurance Fund may not invest more than 50% of its fixed-income security portfolio in corporate bonds. No more than 5% of the fixed-income security portfolio may be invested in issues with ratings of BBB or less. The Insurance Fund may not invest more than 10% of the fixed-income security portfolio in the securities of a single corporate issuer.

The Insurance Fund assesses the reinsurer's financial strength before signing any reinsurance treaties and monitors its situation on a regular basis. In addition, the Insurance Fund has minimum rating requirements for its reinsurer. The reinsurer must have a minimum rating of A+ as at December 31, 2011. The Insurance Fund uses ratings agency Standard & Poor's.

Table 6 – Maximum credit risk exposure arising from financial instruments

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Treasury bills	**169,675**	439,257	2,803,662
Canadian, provincial and municipal government bonds	**9,749,948**	25,677,290	19,082,145
Corporate bonds	**20,622,850**	9,315,685	7,938,359
Investment funds	**7,477,537**	—	—
Preferred shares	**3,844,703**	—	—
Common shares	**144,338**	—	—
Investment income receivable	**182,618**	280,040	213,079
Premiums receivable	**139,135**	390,246	280,300
Amounts recoverable from reinsurers for claims liabilities	**4,579,000**	6,922,000	6,952,859
Deductibles recoverable from policyholders for claims liabilities	**456,339**	450,133	590,355
Total	**47,366,143**	43,474,651	37,860,759

Credit risk concentration

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics, such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. The Insurance Fund's invested assets could have sensitivity to changes affecting a particular industry. All of the securities held are issued in Canada.

Table 7 – Debt securities by industry

	2011	2010
	%	%
Federal, provincial and municipal governments – Canada	**23.61**	73.38
Financials	**35.87**	18.69
Industrials	**8.14**	0.30
Energy	**13.23**	2.01
Infrastructure	**2.31**	4.51
Real estate	**15.70**	1.11
Telecommunication	**1.14**	—
Total	**100.00**	100.00

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments that are settled by delivering cash. To manage its cash flow requirements, the Insurance Fund maintains a portion of its invested assets in liquid securities.

Cash flow risk

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

6. INSURANCE RISK

Insurance risk and management

The Insurance Fund underwrites professional liability insurance contracts for Québec real estate brokers. Insurance contract risk mostly comprises risk associated with:

– Underwriting and pricing

– Fluctuation in the timing, frequency and severity of claims relative to projections

– Inadequate reinsurance protection

a) Underwriting

Policies generally cover a twelve-month period with a renewal date of May 1st each year.

The insurance business is cyclical in nature: the industry generally reduces insurance rates following periods of increased profitability, while it generally increases rates following periods of sustained loss. The Insurance Fund's profitability tends to follow this cyclical market pattern. In addition, the Insurance Fund is at risk from changes in professional liability insurance legislation and the economic environment.

In order to properly monitor the Insurance Fund's risk appetite, annual premium pricing is established using an internal return on equity model and a risk-based capital model as published by the Autorité des marchés financiers ["AMF"]. The annual premium decreased to $485 in 2011 from $550 in 2010.

The Investment Committee monitors the Insurance Fund's overall risk profile, aiming for a balance between risk, return and capital, and determines policies concerning the Insurance Fund's risk management framework. The Committee's mandate is to identify, measure and monitor risks and avoid exposures that are outside of the Insurance Fund's risk tolerance level.

b) Claims management and reinsurance

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

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

c) Sensitivity to insurance risk

The principal assumption underlying the claims liability estimates is that future claims development will follow a similar pattern to past claims development experience.

Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

– Average claim costs including claim handling costs

– Average claims by accident year

– Trends in claim severity and frequency

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Insurance Fund's ability to accurately assess the risk of the insurance contracts the Insurance Fund underwrites. In addition, there may be lags, sometimes amounting to several years, between the occurrence of an insured event and the time it is reported to the Insurance Fund and additional lags between the reporting and the final settlement of claims.

The Insurance Fund refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process and the policies surrounding this are overseen by the Insurance Fund's Claims Committee.

7. PROPERTY, PLANT AND EQUIPMENT

December 31, 2011	Cost	Accumulated amortization	**Carrying value**
	$	$	$
Telephone system	22,926	10,826	**12,100**
Leasehold improvements	55,342	15,021	**40,321**
Furniture and equipment	81,799	60,860	**20,939**
Computer hardware	29,550	13,767	**15,783**
Total	189,617	100,474	**89,143**

Reconciliation of movements	Carrying value December 31, 2010	Additions/ (Disposals)	Amortization	**Carrying value December 31, 2011**
	$	$	$	$
Telephone system	19,742	—	7,642	**12,100**
Leasehold improvements	46,200	4,942	10,821	**40,321**
Furniture and equipment	28,225	5,650	12,936	**20,939**
Computer hardware	5,394	14,724	4,335	**15,783**
Total	99,561	25,316	35,734	**89,143**

2010	Cost	Accumulated amortization	**Carrying value December 31, 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**
Total	164,302	64,741	**99,561**

Reconciliation of movements	Carrying value January 1, 2010	Additions/ (Disposals)	Amortization	**Carrying value December 31, 2010**
	$	$	$	$
Telephone system	777	13,397	(5,569)	**19,743**
Leasehold improvements	132	38,283	(7,785)	**46,200**
Furniture and equipment	44,023	(5,131)	10,667	**28,225**
Computer hardware	6,806	(3,550)	(2,137)	**5,393**
Total	51,738	42,999	(4,824)	**99,561**

2009	Cost	Accumulated amortization	**Carrying value December 31, 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**
Total	123,369	71,631	**51,738**

8. INTANGIBLE ASSETS

2011	Cost	Accumulated amortization	**Carrying value December 31, 2011**
	$	$	$
Software	459,151	343,563	**115,589**

Reconciliation of movements	Net value January 1, 2011	Additions/ (Disposals)	Amortization	**Carrying value December 31, 2011**
	$	$	$	$
Software	84,675	101,964	71,050	**115,589**

General and administrative expenses include amortization for the year of $71,050 [$92,930 in 2010].

2010	Cost	Accumulated amortization	**Carrying value December 31, 2010**
	$	$	$
Software	357,188	272,513	**84,675**

Reconciliation of movements	Carrying value January 1, 2010	Additions/ (Disposals)	Amortization	**Carrying value December 31, 2010**
	$	$	$	$
Software	34,900	142,705	92,930	**84,675**

2009	Cost	Accumulated amortization	**Carrying value December 31, 2009**
	$	$	$
Software	214,482	179,582	**34,900**

9. CLAIMS LIABILITIES

Actuarial liabilities are determined to reflect the estimate of the full amount of all liabilities associated with the insurance policies at the statement of financial position date, including claims incurred but not reported. The ultimate amount of the settlement of these liabilities will vary from the best estimate for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

Unpaid claims and amounts recoverable from reinsurers

The provision for unpaid claims and amounts recoverable from reinsurers under unpaid claims are determined using standard actuarial techniques requiring assumptions such as loss development and claim settlement patterns, future rates of claim frequency and severity, inflation and other factors.

Unpaid claims were reduced on a net basis by $280,000 as at December 31, 2011 [$338,741 in 2010] to reflect the time value of money, using an average discount rate of 1.79% [2.38% in 2010] on underlying claim settlement patterns. The provision for adverse deviations increased unpaid claims, on a net basis, by $397,000 as at December 31, 2011 [$182,000 in 2010].

Unearned premiums

Unearned premiums are calculated on a pro rata basis from the unexpired portion of premiums written and must be sufficient to cover all future costs related to the unexpired portion of in-force policies as at December 31. The future risks to be provisioned consist of claims and loss adjustment expenses, policy maintenance expenses, and the cost of reinsurance pertaining to these policies. In the event that unearned premiums were inadequate to cover these costs, the Insurance Fund would be required to recognize a corresponding liability to cover the deficiency.

Interest rate sensitivity

As the time value of money is considered in determining the unpaid claims estimate, an increase or decrease in the discount rate would result, respectively, in a decrease or increase in the expense for unpaid claims. Accordingly, a 1% increase in the discount rate would have a $183,000 impact on the fair value of unpaid claims as at the statement of financial position date [$153,000 in 2010], while a 1% decrease in the discount rate would have a $189,000 impact on the fair value of unpaid claims as at the statement of financial position date [$157,000 in 2010].

Prior-year claims development

The following table shows the estimates of incurred claims, including incurred but not reported claims ["IBNR"], for the five most recent accident years, with subsequent developments during the periods, as well as cumulative payments to date. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

Table 8 – Prior year claims development

Ultimate incurred claims estimate	2006	2007	2008	2009	2010	**2011**	Total
	$	$	$	$	$	**$**	$
As at end of underwriting year	508,900	5,459,331	6,526,460	6,562,559	6,673,910	**6,073,405**	
One year later	538,200	5,073,644	7,023,718	6,424,801	6,033,124	**—**	
Two years later	260,762	5,285,586	5,651,971	4,772,070	—	**—**	
Three years later	227,329	4,034,785	4,585,239	—	—	**—**	
Four years later	240,641	2,984,691	—	—	—	**—**	
Five years later	222,240	—	—	—	—	**—**	
Total liabilities	222,240	2,984,691	4,585,239	4,772,070	6,033,124	**6,073,405**	**24,670,769**
Paid claims	(198,166)	(2,463,542)	(2,287,974)	(1,510,877)	(1,155,670)	**(447,972)**	**(8,064,201)**
Unpaid claims	24,074	521,149	2,297,265	3,261,193	4,877,454	**5,625,433**	**16,606,568**
Prior years							
Effect of discounting and margins							**1,691,064**
Provision for internal expenses and extended coverage							**1,796,368**
Final unpaid claims							**20,094,000**

Note: These amounts include $456,339 in deductibles recoverable from policyholders for claims liabilities.

Movement of net claims liabilities

Table 9 – Movement of net claims liabilities

	2011			2010		
[in thousands of dollars]	**Direct claims liabilities** $	**Ceded claims liabilities** $	**Net claims liabilities** $	Direct claims liabilities $	Ceded claims liabilities $	Net claims liabilities $
Balance, beginning of year	**20,899**	**6,922**	**13,977**	18,705	5,881	12,824
Changes in estimated losses and expenses for claims incurred in prior years	**(5,647)**	**(4,457)**	**(1,190)**	(3,944)	(1,078)	(2,866)
Losses and expenses on claims incurred in the current year	**7,699**	**2,214**	**5,485**	8,408	2,119	6,289
Less recoveries received (amounts paid) in respect of incurred claims						
During the current year	**(642)**	**—**	**(642**	(515)	—	(515)
During prior years	**(2,215)**	**(100)**	**(2,115)**	(1,755)	—	(1,755)
Balance, end of year	**20,094**	**4,579**	**15,515**	20,899	6,922	13,977

Note: This table excludes $456,339 [$450,133 in 2010] in deductibles recoverable from policyholders for claims liabilities.

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 the agreement may vary from year to year.

For the June 1, 2008–May 1, 2012 period, the Insurance Fund had $4,500,000 in overall annual coverage in excess of Insurance Fund retention of $4,500,000.

11. NET EARNED PREMIUMS

	2011	2010
	$	$
Earned premiums	**9,778,162**	10,492,202
Reinsurance premiums written	**600,129**	475,966
Change in unearned reinsurance premiums	**(66,814)**	(127,051)
Reinsurance premiums ceded	**533,315**	603,017
Net earned premiums	**9,244,847**	9,889,185

No allowance for doubtful accounts was deducted from net earned premiums in 2011, whereas an allowance of $172,525 was deducted in 2010 determined by an overall analysis of premiums receivable at year-end to identify those that in all probability will not be recovered. Given that the insurance premium is billed together with OACIQ annual membership dues, the insured is not actually covered until OACIQ receives the premium, which explains the lack of doubtful accounts.

12. CAPITAL REQUIRED

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

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

In 2011, 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 has exceeded both the minimum threshold and its own internal target for capital required.

The Insurance Fund's capital available and capital required are detailed as follows:

	2011	2010
[in thousands of dollars]	$	$
Capital available	**24,277**	18,874
Capital required	**3,416**	2,700
Excess of capital available over capital required	**20,861**	16,174
MCT [as a %]	**710.69%**	699.04%

13. TRANSACTIONS WITH THE OACIQ

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 $62,079 in general and administrative expenses for all services provided in 2011 [$31,151 in 2010]. All related party transactions were in the ordinary course of business and measured at the exchange amount.

During the year, services were provided to the Insurance Fund by members of its Board of Directors for compensation totalling $500 [$24,043 in 2010].

14. PREMIUMS AND OTHER RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Premiums receivable	**35,809**	289,067	211,590
Deductibles receivable	**47,700**	31,500	41,300
QST receivable	**55,626**	65,929	16,437
Other	**—**	3,750	10,973
Total	**139,135**	390,246	280,300

15. COMPENSATION OF KEY EXECUTIVE OFFICERS

Key executive officers consist of all members of the Board of Directors and the executive officers of the Insurance Fund. Total compensation for 2011 amounted to $266,000 [$217,000 for 2010].

During the year, the Insurance Fund harmonized the compensation earned by members of its Board of Directors with that paid to directors of the OACIQ.

16. COMMITMENTS

The Insurance Fund is committed under a subletting arrangement with the OACIQ under a lease expiring in July 2015. Future minimum payments under the contract are as follows:

	$
2012	103,201
2013	106,752
2014	106,752
2015	106,752
	423,457

17. FIRST-TIME ADOPTION OF IFRS

The financial statements represent the first annual financial statements of the Insurance Fund prepared in accordance with IFRS, as issued by the IASB. Previously, the Insurance Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles [“Canadian GAAP”].

The Insurance Fund adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was at the Insurance Fund’s transition date, January 1, 2010. The Insurance Fund:

– Provided comparative financial information;

– Applied the same accounting policies throughout all periods presented;

– Retrospectively applied all effective IFRS standards as of December 31, 2011, as required; and

– Applied the optional exemptions and mandatory exceptions as applicable for first-time IFRS adopters.

IFRS 1 grants limited exemptions from these requirements in specified areas where the cost of complying with the standards would likely exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. Below are the details of the Insurance Fund's optional and mandatory exemptions.

a) Property, plant and equipment

IFRS 1 provides the option to retrospectively apply IAS 16, *Property, plant, and equipment*, for the determination of net book value at the date of transition or to use the property, plant and equipment's fair value as its deemed cost upon transition to IFRS. The Insurance Fund elected to retrospectively apply IAS 16 at the transition date, and this resulted in no accounting difference.

b) Designation of financial assets and financial liabilities

IFRS 1 permits an entity to irrevocably re-designate certain financial instruments. Upon transition, the Insurance Fund elected not to change the classification or designation of its financial assets or liabilities from previous Canadian GAAP.

c) Estimates

The estimates previously made by the Insurance Fund under Canadian GAAP were not revised for adoption of IFRS except where necessary to reflect any differences in accounting policies.

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, 2011 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	20,094	20,094
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	20,094	20,094
(4) Ceded unpaid claims and adjustment expenses	4,579	4,579
(5) Other amounts to recover	456	456
(6) Other net liabilities	456	456
(7) Net unpaid claims and adjustment expenses (3) – (4) – (5) + (6)	15,515	15,515

Premium Liabilities ($'000)	Carried in Annual Return	Actuary's Estimate
(1) Gross policy liabilities in connection with unearned premiums	–	2,926
(2) Net policy liabilities in connection with unearned premiums	–	1,895
(3) Gross unearned premiums	3,160	–
(4) Net unearned premiums	2,903	–
(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	–	1,007
(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 22, 2012

Date opinion was rendered

Eckler

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