TARION

PROTECTING ONTARIO'S NEW HOME BUYERS

# WORKING TOGETHER TO SHAPE THE FUTURE

2014 | ANNUAL REPORT

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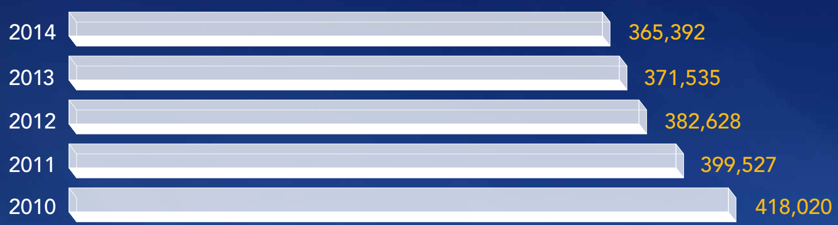
# AT A GLANCE

## 365,392

TOTAL HOMES UNDER WARRANTY*

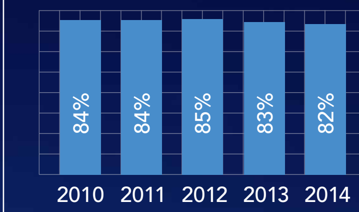
*Possessions and units under warranty are restated based on the latest available data.




## 1,077 HOMES WITH A CONCILIATION INSPECTION (2014)


## HOMEOWNER SERVICE ORIENTATION INDEX*

* The Homeowner Service Orientation Index reflects the average of opinion scores for accessibility, ability to listen to and understand needs and how easy Tarion is to do business with.

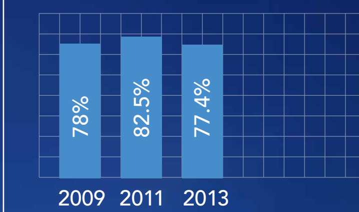



## $227.5 MILLION

TOTAL EQUITY (2014)

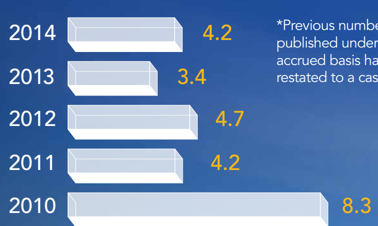

## BUILDER SERVICE ORIENTATION INDEX*

* The Builder Service Orientation Index reflects the average of opinion scores for accessibility, ability to listen to buillder needs and concerns and how easy Tarion is to do business with.




## $4.2 MILLION

RECOVERIES FROM BUILDERS (2014)*



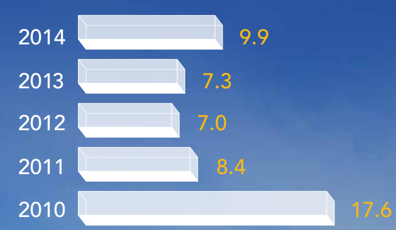

*Previous numbers published under the accrued basis have been restated to a cash basis.

## $4.9 MILLION

NET CLAIMS (2014)

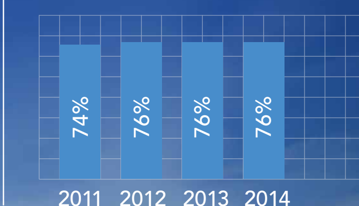

## $9.9 MILLION

TOTAL CLAIMS PAID (2014)




## EMPLOYEE ENGAGEMENT*

* 2011–2012 results are based on a bi-annual employee opinion survey conducted by the Hay Group, where the survey consisted of 66 questions. 2013–2014 results are based on an employee opinion survey conducted by the Hay Group, consisting of 15 questions.



# ABOUT TARION

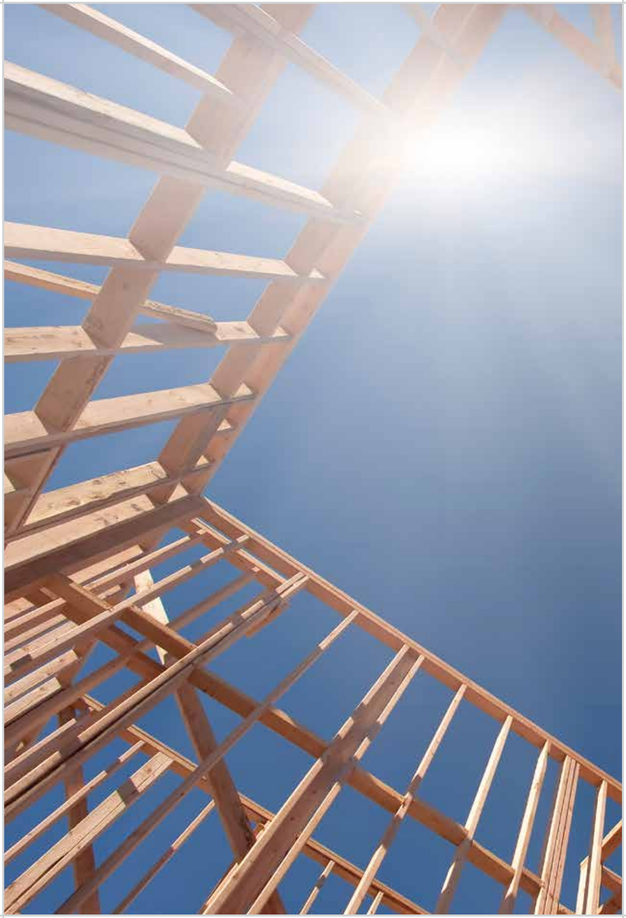
Tarion Warranty Corporation was created in 1976 to serve as the regulator of new home builders and administer a new home warranty plan to protect new home buyers in Ontario.

Tarion administers the *Ontario New Home Warranties Plan Act ("the Act")* which states that all new home buyers in Ontario are entitled to a limited warranty that covers defects in workmanship, water penetration and major structural defects as well as delayed closing and deposit protection.

Tarion administers the Act by:

- Protecting new home buyers from builder failures or defaults (such as substandard construction, faulty workmanship and materials, incomplete construction and loss of deposits) through the development, promotion and administration of statutory warranties
- Promoting better communication between builders and buyers of new homes
- Providing new home buyers with a forum for complaints about their new home and helping to resolve warranty issues
- Establishing and administering a guarantee fund that provides compensation under the Plan
- Educating new home buyers and new homeowners about the warranty protection they are entitled to
- Informing and educating new home builders and promoting progressive improvement in the quality of housing in Ontario

Tarion strives to establish policies and business practices that balance the interests of its stakeholders: **NEW HOMEOWNERS, HOME BUILDERS AND THE GOVERNMENT OF ONTARIO.**



"I want to thank you for your assistance throughout this process…Your understanding and compassion come through strong even through emails…Your job is obviously more than just a job to you." - Homeowner

# MESSAGE FROM THE CHAIR OF THE BOARD

Over the last 10 years I have seen Tarion evolve and transform. Tarion has grown into a first rate warranty provider that is a model for other programs around the world. Today, the interests of all stakeholders are factored into decisions, with the overriding concern and driving factor always being consumer protection. Decisions are made from the starting point that consumer protection drives confidence in Ontario's new home industry. Tarion's growth and transformation came about through a number incremental changes.

First, and key to me, was the drive towards good governance practices. We now have an evenly balanced Board of Directors with members having strong financial, industry, communication, governance and customer service backgrounds. Second is the emergence of a culture that prioritizes consumer protection and confidence. This culture took on new life seven years ago with a senior management change. The different operational approach set Tarion on a forward course that emphasized first instance and early industry response to the concerns of home buyers. The guiding premise became actively improving the relationship between new home buyers and their builders at the first instance, to resolve issues sooner and more effectively.

Tarion's early intervention strategy and relationship building model has led to the successful resolution of disputes in the overwhelming majority of warranty cases. Over the last decade I have seen a new openness that has increased consumer confidence resulting in a reduction in the number of claims that require litigation to less than half of one percent. Of course more can and should be done. It is often the most complicated cases that are most difficult to resolve. This is an area where Tarion is actively looking to improve. During last year's Annual Public Meeting, we heard the concerns raised about the License Appeal Tribunal (LAT) process. In response, we met with LAT with a view to better understanding how consumers can best be served. Additionally, we initiated an internal dispute resolution review by outside consultants to see precisely where and how we can improve the delivery of service to new home buyers. The results will help us change and continue to grow and ensure that we are employing the most productive techniques to arrive at a fair and swift claim resolution for homeowners.

This year, we have also undertaken a significant consumer protection initiative: the prevention of fraudulent and illegal construction. The building of new homes by unregistered builders damages confidence in Ontario's new home industry and exposes home buyers to a number of risks. We have developed a model and have reached consensus among industry groups. We now look forward to working with the Ministry of Municipal Affairs and Housing to see this initiative through.

It has been a great privilege to serve on the Tarion Board of Directors for over a decade. As I look back on this time, I've seen a transformation in Tarion through its advancements in consumer protection initiatives. While I have served on the board, Tarion has:

- Doubled warranty coverage from $150,000 to $300,000
- Created the Consumer Advisory Council
- Implemented delayed closing compensation
- Expanded builder liability for major structural defects
- Enhanced the Ontario Builder Directory
- Created the office of the Ombudsman
- Implemented systems to make filing of documents simpler and quicker
- Introduced Annual Public Meetings and public consultations
- Built a strong financial base to protect new home buyers' deposits and to insulate Ontarians from a catastrophic event such as those that have affected other provinces

**CHRISTOPHER SPITERI, ICD.D**
Chair of the Board

It is of particular note that all of this was done while keeping enrolment fees stable.

Tarion's initiative has made it a model for other warranty providers in Canada and around the world. Getting here has involved innovation, reinvention and commitment to consumer protection. Now that the model is proven we have to ensure that the delivery of Tarion services is second to none. This will involve some changes in both philosophy and delivery, but it will happen because it's the right thing to do.

Although my term comes to an end this year, I leave confident that Tarion is on the right course and will continue to enhance, change, and strengthen confidence for Ontario's new home buyers.

# MESSAGE FROM THE PRESIDENT AND CEO

When I look back at all the accomplishments Tarion carried out in 2014, I see a productive year that wasn't without its challenges. The new housing industry continued to grow. Overall possessions were up and high-rise possessions continued to climb, surpassing their 2010 peak. We also paid out close to $9.9 million in claims. There were many changes in the organization and the industry—such as welcoming a new Board Chair and the introduction of mid-rise wood construction—and Tarion stepped up to the plate and delivered on many initiatives.

Tarion continued work towards improving the new homeownership experience for everyone involved. Once again, we travelled across the province and met with homeowners who have been through the warranty process to gather their feedback. We also partnered with the OHBA on these tours, discussing industry issues and hosted builder education programs. By reaching out to our stakeholders and listening to concerns, we were able to make improvements to the warranty process based on our learnings.

This year, we updated the correspondence pieces we send to homeowners so they are written in a manner that makes things easier to understand. We continued to produce online videos to help homeowners and builders better understand the warranty process. We also began developing an early intervention option for homeowners and builders. This new initiative emerged from our public consultation on Builder Bulletin 20. Some of the feedback we received called for clear language and the option for Tarion to step in earlier in the process at the builder or homeowner's request. It was compelling when both homeowners and builders were essentially asking for the same request. More details on this will come in 2015.

Tarion's Chairman of the Board worked hard to move initiatives forward that we felt were important to our stakeholders and the industry. We addressed some concerns that arose at our 2014 Annual Public Meeting by sitting down with the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO), which includes the Licence Appeal Tribunal (LAT). We discussed how to make the LAT process better for all stakeholders. We also put together a plan on prevention of illegal building that contemplates altering the building permit application to prevent illegal building before it starts. We will continue to work with the Ontario Government on this initiative in 2015.

This year, Tarion updated its systems adding new features for stakeholders to make it easier to manage the warranty. Online payments for builders and mobile applications for our Warranty Services Representatives are just some of the new functions we've provided. We added a new feature to our website that answers hundreds of warranty questions instantly, called "Ask Tarion," making it simpler for stakeholders to find what they are looking for without the need to search our site.

We couldn't have accomplished all this without our Corporate Leadership Team and all of Tarion's employees. I am impressed by the level of commitment and professionalism of Tarion's staff. I see a real dedication to resolving issues and developing solutions which has made a difference in everything we do.

Buying a home is a milestone in a person's life. It signifies achievement, stability and a place to lay down your roots. Tarion is here to make sure the new home buying process is working. We set the standards when it comes to licensing and after sales service delivery for warranty obligations. We step in when your builder cannot or will not fulfill their warranty obligations. And at the end of the day, we are here to ensure builders stand by their construction and provide you with the new home that you signed for. Our numbers tell us that the process is working. But Tarion is constantly trying to improve the experience for all of our stakeholders. We are doing this by listening to your feedback, monitoring industry trends and looking for ways to strengthen our policies and processes. Together, we will shape the future of the new homeownership experience.

**HOWARD BOGACH**
President and Chief Executive Officer
Tarion Warranty Corporation Toronto

# STRATEGIC INITIATIVES

## WORKING TOGETHER TO SHAPE THE FUTURE

2014 marks the final year of Tarion's current three-year strategic plan, called Balancing Stakeholder Interests While Seeking Operational Efficiencies. This year, Tarion focused on making changes to policies directly based on the feedback we received from our extensive public and industry consultation processes. Together, with all our stakeholders, we will shape the future of Ontario's New Home Warranty Program.

Throughout the past three years, Tarion has focused on managing risk, enhancing financial performance and efficiency, and continuing to build trust and transparency. The ultimate goal under this plan was to enhance Tarion's performance as a financially stable, operationally efficient organization that delivers valued warranty services and builder regulation.

As this three-year plan came to a close, the efforts brought forth in 2014 helped to realize these goals. This year, we consulted with our stakeholders and continued to make updates to our systems and services to better serve Ontario's new home buyers and new home builders. By working together and listening to feedback, we will continue to improve the warranty for all stakeholders.

# STRATEGIC INITIATIVES

## STRATEGIC INITIATIVES ACCOMPLISHED IN 2014

### 1. MANAGING RISK

- Ensured sufficient capital to withstand large claims according to stress test scenarios
- Reviewed various financing alternatives including reinsurance in an overall risk capacity review to address possible catastrophic losses
- Updated the risk management framework based on the principles of the new Internal Control—Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"); the updated risk framework will be implemented in 2015
- Worked with the Ontario Government and building industry to develop a preventative illegal building model

### 2. ENHANCING FINANCIAL PERFORMANCE AND EFFICIENCY

- Continued to enhance BuilderLink, adding more online capabilities and improvements
- Added a new feature to the website that uses intelliresponse technology, answering hundreds of questions instantly
- Added questions and answers to Tarion's website based on actual stakeholder questions throughout the year in a new section titled "You Asked Us"
- Launched Tarion's official Twitter channel
- Piloted mobile applications for Warranty Services Representatives and homeowners to add more convenience to the inspection and warranty process
- Added the Performance Audit Tracking Summary to MyHome and BuilderLink to give condominium corporations and builder representatives convenient, online access to the status of the common elements' warranty process

### 3. BUILDING TRUST AND TRANSPARENCY

- Continued to focus on stakeholder outreach in an effort to educate and communicate with builders, homeowners and real estate agents
- Expanded the public consultation process by adding more roundtable discussions with industry leaders, consumers and employees to increase the input received
- Continued to add builder disclosure information to the Ontario Builder Directory

# EVOLVING THE WAY WE CONNECT WITH STAKEHOLDERS

Tarion has been focusing on improving the channels of communication with all stakeholders.

Adopting new forms of electronic communication has provided our stakeholders with multiple ways of contacting us that are faster, efficient and convenient. We have also listened to stakeholder feedback, and enhanced our existing electronic channels. Offering more opportunities to connect electronically with Tarion and adding features on these channels has made it easier for homeowners to manage their warranty, and for builders to conduct their businesses. At the same time, we are maintaining our call centre for personal service and continue to train employees to ensure we continue to improve our level of customer service.

Here are some of the ways Tarion continued to update its communication channels in 2014:

## Ask Tarion

In 2014, Tarion launched a featured called "Ask Tarion" on the website. Unlike a standard search engine that can lead to information overload, this service answers questions instantly. To ensure accuracy, the data is reviewed regularly. Questions are added and responses are modified on a regular basis to better suit what is being asked. The goal of this feature is to help stakeholders receive the information they need and have their questions answered as quickly as possible. Since launching in May of 2014, users received the answer they were looking for on the first try 84 per cent of the time.


**Top 5 Questions asked on "Ask Tarion"**

1. How do I research a builder?
2. When and how do I make a warranty claim to Tarion?
3. How can I find out if my items will be covered under the statutory warranty?
4. What is a Pre-Delivery Inspection (PDI)?
5. What does the new home warranty cover?

# ACCOMPLISHMENTS

## EVOLVING THE WAY WE CONNECT WITH STAKEHOLDERS

### MyHome Enhancements

MyHome is Tarion's online service that helps homeowners quickly and easily manage their warranty. Through this service, homeowners can easily submit 30-Day, One-Year and Two-Year warranty forms. Tarion continues to make enhancements to this service based on feedback received from homeowners. Last year, Tarion officially launched a live chat service on this site. The live chat feature was introduced to help homeowners navigate MyHome as they use the site. Representatives are available to assist homeowners from 8:00 am to 5:00 pm, Monday to Friday.

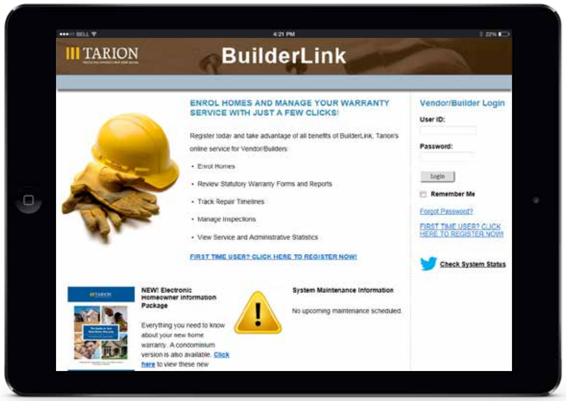
In 2014, Tarion employees participated in 5,213 live chats through MyHome.

In the past two years, usage of MyHome has risen significantly for warranty holders. As a result of regular service enhancements and its ease of use, the number of MyHome users has continued its upward trend. Since 2012, users have more than doubled going from 50,000 to 110,587 in 2014. The number of forms now being submitted through MyHome has increased dramatically as well, growing from 37 per cent in 2012 to 76 per cent in 2014. Additionally, our customer satisfaction survey tells us that homeowners who use MyHome are significantly more satisfied with their overall interactions with Tarion than homeowners who do not use MyHome.

### Upgrades To BuilderLink

Tarion's online portal that allows builders to manage their warranty status was re-introduced in 2012 as BuilderLink. In 2014, Tarion continued to enhance this service for builders adding more online enrolment capabilities such as online registration and renewals.

In 2013, Tarion added the ability to accept Electronic Fund Transfers (EFT) in BuilderLink on a pilot basis. This feature was officially launched in 2014. The system can currently handle payments for enrolments, renewal fees and any other debit or credits that may be outstanding on a builder's account. Builders can also view a history of their financial transactions.




# ACCOMPLISHMENTS

## EVOLVING THE WAY WE CONNECT WITH STAKEHOLDERS

### Going Mobile

Tarion is currently testing the feasibility of using mobile applications in different capacities.

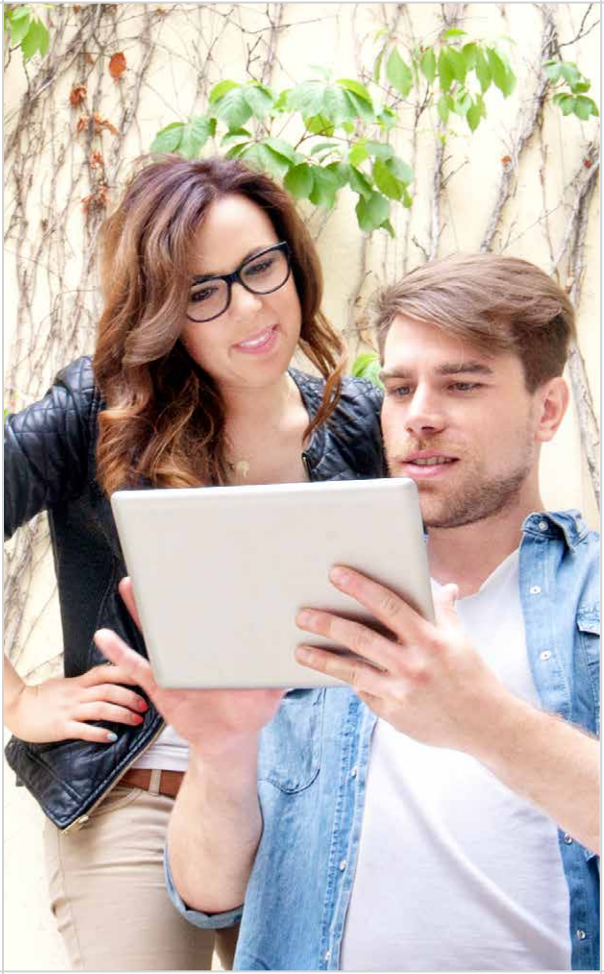
An internal mobile application for Tarion's Warranty Service Representatives has been developed and piloted which also includes voice and photo features that can immediately send and save information to Tarion's head office systems. This application is also available for condominium common element inspections. Representatives that have used the application have provided positive feedback, expressing that it saves time, as they can capture images and notes while performing inspections, and review them in Tarion's system after the inspection has taken place. This application will continue to be updated with more features in 2015.

A mobile application for homeowners was also in the process of development in 2014. The application will allow homeowners to record deficiencies using voice and photo capabilities, directly sending this information to MyHome. Tarion will continue to develop this application throughout 2015, while gathering feedback from homeowners.

### Merging Online Common Elements Sites

In 2013, Tarion introduced MyHome for Condominium Common Elements. The new online service allows designates of condominium projects that were registered with the Land Registry Office on or after July 1, 2010 to use MyHome to manage their condominium's warranty. Designates can now easily submit warranty forms and condominium documents to Tarion; receive electronic notifications of important dates and warranty timelines; store important condominium documents; directly access the Tarion Common Element Portal to update the Performance Audit Tracking Summary; and communicate electronically with Tarion.

In 2014, Tarion added the Performance Audit Tracking Summary (PATS) to MyHome and BuilderLink for condominium corporations and builders. This is a new service that gives condominium corporations and builder representatives convenient, online access to the status of the common elements' warranty process through MyHome and BuilderLink. The system provides both parties with an easy and secure way to keep updated on the status of warranty repairs.



# INCREASING TRANSPARENCY

## Enhanced Builder Disclosure

In December 2013, Tarion introduced the Ontario Builder Directory, replacing the existing Licensed Builder Directory. Many enhancements were made to the directory in an effort to provide better disclosure for homeowners. The directory displays a 10-year history for all builders in Ontario, including builders who are no longer registered with Tarion. The directory confirms whether a builder's registration has expired, been revoked or refused renewal. The directory also shows if a builder has been a Tarion Award of Excellence finalist or winner in the past three years; a breakdown of the types of homes built over a 10-year span and lists the names of officers and directors for each company, providing links to companies that share the same officers and directors. As always, the directory continues to show a 10-year history that includes chargeable conciliations and the number and amounts of certain claims paid by Tarion. In 2014, the directory was updated to include whether a builder is part of an umbrella group of companies, so consumers can learn other names under which the builder may be operating and the communities in which it builds. The disclosure of major structural defect claims was also included, reflecting significant change to the major structural defect warranty made in 2012, where more accountability was placed on builders in years three to seven of the warranty coverage period. Going forward, these claims are now reported on the builder's customer service record and available to the public through the directory. Tarion will continue to make updates to this directory in 2015.

## Public Consultations

Public Consultations continued to be an important part of policy making in 2014. Allowing collaboration and transparency ensures all stakeholders have a voice in policy decisions.

We continued to expand our commitment to making the public consultation process an essential part of our policy development. This expansion—adding more roundtable discussions with industry leaders, consumers and employees—has led to more input on how to shape our policies. Several bulletins were discussed with industry groups and consumers in 2014 in order to gauge the need and direction for change. Some of the policies discussed included illegal building and builder registration. Should these discussions present the need for regulatory changes to our policies, formal public consultations will begin.

ACCOMPLISHMENTS

# BUILDER BULLETIN 20

In 2014 Tarion consulted on Builder Bulletin 20, which outlines the parameters around chargeable conciliations. A conciliation inspection is generally considered chargeable if it could reasonably have been avoided by the builder honouring its warranty obligations. We received a great deal of practical feedback on this policy. In addition to a public consultation on our website, Tarion conducted roundtable discussions with builders and homeowners, Tarion's staff and members of the Ontario Home Builders' Association. Tarion received a record amount of feedback on this policy. A consistent message in the feedback was the need to make the Bulletin clearer. Some other common themes were the request to outline homeowners' responsibilities, the need for earlier involvement from Tarion when the builder/homeowner relationship has deteriorated and to enhance Common Element related information. Tarion incorporated these suggestions among others into the revisions to Builder Bulletin 20, and also sought external expertise to ensure the revised Bulletin was written in clear and plain language.

"I really appreciate all your help throughout this process. Your calls to our builder have made a significant impact. Thank you." - Homeowner

# UNDERSTANDING HOMEOWNERS' EXPERIENCES WITH TARION

Toward the end of 2014, Tarion commissioned our annual research through an independent third party to measure how we are viewed by homeowners. Our intention in seeking consistent feedback is to assess customer satisfaction and determine what we need to focus on in order to continually improve. Detailed results from our 2014 homeowner survey can be found on tarion.com.

Survey invitations were sent by Crunch Research in partnership with Harris Decima to more than 49,000 consumers in their first year of possession* as well as just over 10,100 additional consumers in their second through seventh year of possession.** A total of just over 10,200 responses were received. Most measures were tracked against similar surveys conducted during previous years.

**Overall results from the survey of homeowners in their first year of warranty coverage were consistent or in very modest decline year over year—a few changes emerged based on builder size wherein satisfaction declined among High-Rise and Small volume buyers. For example, those who purchased from High-Rise builders reported lower levels of agreement that Tarion is "easy to do business with" and fewer buyers from Small volume builders agreed Tarion "listens to needs and concerns of new homeowners". The proportion (70 per cent) of new homebuyers considering themselves as Tarion advocates, however, remains unchanged (i.e., where advocacy represents being likely to say positive things if asked).**

- A large majority of homeowners (83 per cent) in their first year of possession have a favourable impression of Tarion. Results across most individual categories (Hi-Rise, Large, and Small) were stable, except for a decline among Small homebuyers (-6 per cent).

- Most homeowners view Tarion as accessible (88 per cent), able to listen to their needs and concerns (79 per cent), easy to do business with (79 per cent), able to help them understand their warranty rights and responsibilities (82 per cent) and able to make sure builders fulfill their warranty obligations (78 per cent). Overall, all five of these measures were unchanged statistically in comparison with the previous year's results.

** Homeowners took possession of their home between October 1, 2013 and September 30, 2014. Results are accurate to within +/- 1.1 per cent 19 times out of 20.*

*** Homeowners took possession of their home between October 1, 2007 and September 30, 2013. Aggregate results are accurate to within +/- 2.0 per cent, 19 times in 20. Margins of error are higher for individual years of coverage ranging between +/- 4.3 per cent and +/- 5.5 per cent.*

# ACCOMPLISHMENTS

## UNDERSTANDING HOMEOWNERS' EXPERIENCES WITH TARION

- Nearly six-in-ten (57 per cent) homeowners were extremely or very satisfied with the service interactions they had with Tarion (a 1 per cent decline that's not significant in comparison with 2013). Declines are evident among Small buyers, but Medium buyers rebounded in 2014 from a softening the year prior. Satisfaction levels continue to be significantly higher among buyers who register to use Tarion's MyHome warranty service portal compared to non-users of this service.

- After a period of stability in prior years, there are now declines in conciliation/claim experience satisfaction on almost all dimensions—these declines are mainly due to High-Rise owners' declining impressions of the experience.

Tarion also received favourable new home buyer feedback on two new survey measures added in 2014 (79 per cent agreement on both):

- Gives home buyers confidence in the home buying experience

- Ensures fairness in overseeing rights/obligations of both new home buyers and builders

**Results of the survey among homeowners in their second through seventh year of warranty coverage followed the same trends as the 2013 results. Overall, homeowners in their first or second year of coverage are most favourable toward Tarion.**

- Impressions of Tarion decline marginally among homeowners in each of the first five years after possession dropping more steeply in years six and seven.

- Homeowners' satisfaction with their Tarion interactions also decline over time, and continue to be highly dependent on the experience they had with their builder even after the first year of possession.

- 83 per cent of homeowners in their second through seventh year of warranty coverage viewed us as accessible.

- The year-over-year changes we've observed over the longer term tend to balance themselves out—gains in one or two years tend to settle back to previously observed levels the next. Since tracking of years two to seven began in 2009 we have seen slow-and-steady gains that culminated in statistically significant new highs in 2012. While 2013 slipped in relation to 2012 peaks, the 2014 results improved to bring us back to those levels due to positive improvements in agreement for Tarion on these traits:

    - Listens and understands
    - Easy to do business with
    - Helps new homeowners understand warranty rights
    - Ensures builders fulfill obligations

| Year of Warranty Coverage | Favourable Impression of Tarion (%) | Highly Satisfied with Tarion Interactions (%) |
|---|---|---|
| Year 1 | 83 | 57 |
| Year 2 | 77 | 53 |
| Year 3 | 74 | 48 |
| Year 4 | 76 | 47 |
| Year 5 | 72 | 46 |
| Year 6 | 72 | 38 |
| Year 7 | 54 | 32 |

ACCOMPLISHMENTS

# REACHING OUT TO STAKEHOLDERS

This year, Tarion continued to focus on outreach efforts with stakeholders. Tarion's employees participated in 426 events across the province in 2014. These included both builder and homeowner events, such as builder training sessions, meetings with groups of homeowners who have been through the warranty process and would like to provide us with feedback, and Town Hall meetings for communities of homeowners who share a particular issue.

Tarion also reached out to stakeholders through articles in the Toronto Sun and industry publications such as New Home Guide, Condo Life and Homes Magazine. Tarion's total media coverage in 2014 amounted to more than 300 news pieces across the province, mostly consisting of articles educating consumers about the warranty, Tarion's regional tours, Tarion Awards of Excellence and illegal builder prosecutions.

## We Continue to be Social

Tarion continued to focus on social media as a way to reach out to stakeholders, and for them to reach us. These channels include: Facebook, LinkedIn and YouTube. Social media has opened channels of communication, and provided Tarion with another avenue to offer education to homeowners and home builders.

Tarion's online educational videos posted on our YouTube channel have seen a large increase in viewership in 2014, going from under 5,000 views in 2013 to 31,295 views in 2014. Updating and maintaining our YouTube channel remained a focus in 2014. Tarion produced four new educational videos to add to our growing YouTube library.

These videos included:
- Ice Damming
- The New Home Warranty for Condominiums
- Radon and Your New Home Warranty
- Controlling Moisture During the Winter


Watch video here:
https://www.youtube.com/watch?v=M4QCzwPWH2w

## An Evening of Conversation

In 2014, Tarion continued to meet with groups of homeowners who had been through the warranty process to gather their feedback. Meetings were conducted in several communities across Ontario, where all local homeowners who have submitted warranty forms through MyHome were invited to attend. Tarion President and CEO, Howard Bogach, along with local Tarion staff, spoke to homeowners one-on-one. We took this opportunity to not only offer advice, but to listen and understand the homeowner experience.

Through this initiative which began in 2013, Tarion received many thoughtful and insightful comments. In sharing their experiences, homeowners are helping us better understand what it's like to be in the "homeowner's shoes" making a warranty claim and helping us look at ways to improve that process. We are also able to collect feedback on some of our current initiatives.

# ACCOMPLISHMENTS

## REACHING OUT TO STAKEHOLDERS

### Seminars for Condominium Owners and Property Managers

Seminars for condominium boards and unit owners continued throughout 2014 to help homeowners understand the differences between their unit's warranty, and the warranty for the common elements as well as provide guidance regarding the *Condominium Act*. Tarion also delivered presentations to Property Managers on how to manage the common elements warranty process and attended Canadian Condominium Institute conferences in Guelph and Toronto.

### Regional Tours

Tarion continued to partner with the Ontario Home Builders' Association (OHBA) as we traveled to communities across the province and spoke to members of the home building industry. Together, the OHBA and Tarion hosted media events and discussed industry issues. These visits coincided with other builder education programs, such as Tarion Builder Updates, where Tarion staff delivered customer service and warranty training to builders. Media relations efforts in these communities help to build awareness of Tarion and the importance of purchasing homes from a registered builder.


metrolandmedia

THE HAMILTON SPECTATOR

**Tarion calls for crackdown on unregistered builders in Hamilton**

Flamborough Review | Jul 30, 2014

By Mike Pearson, METROLAND WEST MEDIA GROUP

Ontario's new home warranty provider wants to crack down on unregistered builders in Hamilton's hot housing market.

Housing prices are up eight per cent since 2010, according to a report by TD Economics, as more and more buyers choose new homes in Hamilton's tight real estate market.

But Tarion, the corporation created by the province to protect Ontario's new home buyers, is warning purchasers to watch out for bogus builders hoping to bilk consumers.

Last year Tarion laid 227 charges against unregistered builders provincewide, which led to 83 convictions and over $250,000 in fines. In March of this year, Ancaster-based Roger Singh, of Rocket Homes and Property Management, was convicted of being an unregistered builder and fined $25,000 by Tarion. Singh vowed to appeal the charges in an interview with Hamilton Community News earlier this year.

Top Tarion officials visited Hamilton July 23 for a media tour of an east Mountain housing development.

Howard Bogach, Tarion's president and CEO, said numerous investigations into unregistered builders are currently pending across the province.

Vince Molinaro, Ontario Homebuilders Association first vice-president, said unregistered builders are affecting all segments of the industry, including multi-million dollar lakefront homes in Burlington.

*From left, Howard Bogach, Tarion president and CEO, Brandon Campbell, vice president of Starward Homes, Vince Molinaro, Ontario Homebuilders Association first vice-president and Christopher Spiteri, Tarion board chair, advise new home buyers to ensure their builder is registered.*

*Flamborough Review, July 30, 2014*
*By Mike Pearson, Metroland West Media Group*

These tours continue to be one of our most successful ways of connecting with our diverse stakeholder groups throughout the province. This is also Tarion's opportunity to get a first-hand account of local industry issues and a chance to see the new communities being built throughout the province. In 2014, Tarion conducted tours in Kingston, Muskoka, Haliburton, Hamilton, Sudbury, Chatham, Windsor, Sarnia and Durham Region.

### Builder Roundtables

As part of Tarion's commitment to engage with as many stakeholders as possible, the consultation process has been expanding. In 2014, Tarion met with small groups of builders to have detailed discussions and ask targeted questions. Tarion held four builder roundtables in 2014. Three of these discussions centred around Tarion's formal consultation process on chargeability guidelines outlined in Builder Bulletin 20. The fourth discussion focused on illegal building and its impact on small communities. These very engaged groups provided specific and thoughtful feedback. We will continue these meetings in 2015 as part of our regular consultation process.

### Consumer Roundtables

For the first time, Tarion held a consumer roundtable discussion during the Builder Bulletin 20 consultation process. Consumers were invited to this discussion based on having recent experience with Tarion's claims process and an understanding of some of the issues that were highlighted in the Builder Bulletin 20 public consultation. Going forward, Tarion hopes to continue holding consumer discussions for consultations where appropriate.

# ACCOMPLISHMENTS

## REACHING OUT TO STAKEHOLDERS

### Employee Roundtables

In 2014, Tarion's President and CEO continued meeting with groups of front-line employees who have ongoing interaction with our stakeholders to discuss policy proposals and gather feedback. Tarion hosted six employee roundtables in 2014, some general in nature, and others specific to policy development. Once again we received very constructive and thought provoking feedback. We will continue this initiative as part of our regularly scheduled stakeholder outreach.

### Community Outreach

Recognizing the rich diversity of our province, Tarion is working to broaden our community outreach and target diverse communities who may have little to no knowledge of Tarion. In 2013 we began working with community leaders and those who share similar stakeholders, such as mortgage brokers, real estate agents and real estate lawyers, to learn from their best practices on how to most effectively reach new home buyers in their communities. In 2014, regular columns were submitted to a Farsi language real estate and housing magazine, educating home buyers about the new home builder warranty. A builder update was also conducted for the Iranian housing and real estate community. Tarion plans to expand our diverse outreach in 2015.

### Real Estate Outreach

In 2013, Tarion re-launched its three-hour Realtor course called "What Every Realtor Needs to Know about Tarion." This course has been delivered at real estate brokerages and local real estate associations, and can be eligible for credits toward Realtors' continuing education requirements. During the course, representatives from Tarion's Stakeholder Relations, Warranty Services and Enforcement departments discuss warranty coverage, the warranty process and Tarion's customer service standard, illegal building, home buyer and Realtor resources, and provide updates on new policies and proposals. Our goal is not only to educate Ontario Realtors about the warranty, but also to have them pass along this information to their clients. In 2014, Tarion continued to expand our outreach to Realtors. Presentations were conducted throughout the province to both local real estate associations and real estate brokerages. Tarion also added blog content to our website that Realtors can repurpose in their marketing materials at no charge. Realtors have become Tarion's most active social media audiences, frequently sharing Tarion's content on their sites and social media feeds.

# REFINING OUR SKILLS

## Training for Tarion Staff

Tarion continued to invest in staff training in 2014 to increase knowledge and enhance customer service. Focus was placed on composing plain language communications that are clear and concise. This year, several Warranty Services Representatives also completed the courses necessary to obtain their Building Code Identification Number. Staff training will continue to be an ongoing focus for the organization in 2015.

## Warranty Services Customer Satisfaction Survey

Tarion initiated a survey in 2013 to look at how our service impacts stakeholders. In 2014, we continued to send out this survey to homeowners after Conciliation Inspections, asking how the inspector performed. This feedback helps develop further training.

## Builder Updates and Individual Builder Presentations

Tarion continued to deliver customer service training to builders at individual builder meetings, Tarion Updates and OHBA events throughout the province. General Builder Update sessions included information on the top claims, focusing on major structural defects and Ontario Building Code violations. Presentations also included a training module on how to manage homeowner expectations during the home buying process. Tarion recognized a gap between homeowner expectations and builder communications. This presentation was developed to help builders recognize the challenges of today's marketplace and increase customer satisfaction. The presentations to builders were complemented by Tarion's online video library, Breaking Ground newsletters and individual builder presentations. Tarion conducted a total of 188 builder education events in 2014, which included meeting with several individual builders to deliver customer service and Pre-Delivery Inspection training. We also continued to meet with builders to discuss annual customer satisfaction results and focus on opportunities to improve the homeowner experience.

## Increasing Accessibility

Tarion is committed to promoting the independence, dignity, integration and equality of opportunity of persons with disabilities by ensuring the accessibility of our facilities and services. Following the guidelines of *The Accessibility for Ontarians with Disabilities Act (AODA), 2005* and the *Integrated Accessibility Standards Regulation* (Ontario Regulation 191/11), Tarion has been working towards updating our services and environment to accommodate customers with disabilities upon request. Tarion's Accessible Customer Service Policy and Integrated Accessibility Policy and Multi-Year Plan are now posted on Tarion.com.

# SERVICE AND SUPPORT

## WARRANTY PROGRAM

New home buyers in Ontario are entitled to limited warranty coverage of up to $300,000 over a seven year term which is provided by the builder and backed by Tarion. There is also separate coverage of up to $2.5 million for the common elements of a condominium (such as a lobby or garage). Builders must enrol every new home with Tarion at a cost that is based on the selling price of the home and ranges from $385.00 to $1,500.00 (plus HST). The warranty provides excellent value and remains with the home for seven years, even if it is sold during this period. While the vast majority of builders are able to resolve any deficiencies or other issues that arise to the satisfaction of new home buyers, Tarion stands behind newly constructed homes and is there to help if a dispute about coverage does arise.

We do this by administering the new home warranty and ensuring that builders observe specific customer service standards. We also provide a process for making claims that involves working with the purchaser, the builder and other parties such as the local municipality if needed. In situations where a builder is unwilling or unable to address an issue that falls under the statutory warranty coverage, we will work directly with the homeowner to resolve the matter.

### Coverage Highlights

- Protection of deposits up to $40,000 for freehold homes and $20,000 for condominium units*
- Compensation of up to $7,500 for certain types of delays in closing or occupancy
- A one year warranty requiring that the home is fit for habitation as well as free from defects in work and materials and violations of the Ontario Building Code
- A one year warranty providing protection against certain kinds of improper substitutions
- A two year warranty that protects against defects allowing water penetration through the foundation and building envelope, defects in the electrical, plumbing and heating systems and the exterior cladding, and health and safety violations of the Ontario Building Code
- A seven year warranty that protects against work and material defects that adversely affect a load-bearing part of the home's structure, causing it to fail or significantly affect use of the building as a home

*Condominium deposits are also protected by the trust provisions of *The Condominium Act.*

"I feel very fortunate to have had your combined help these past months…It was such a positive experience!"

- Homeowner

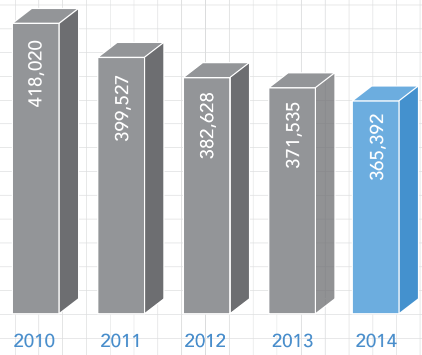
# HOMEOWNER PROTECTION

Tarion continued to offer the range of warranty services that we have been refining for more than 35 years. In 2014, there were 54,208 new home possessions that fell under Tarion's regulation.

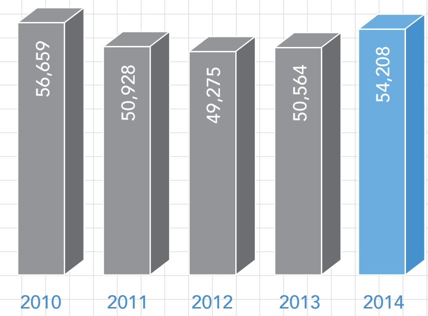
When a homeowner is unable to resolve an issue with his or her builder and Tarion determines that the item is covered under the statutory warranty, we will work directly with the purchaser to resolve the matter. Claims paid reflect amounts spent either in settlements or to repair defects where the homeowner and the builder could not resolve a dispute.

In 2014, Tarion paid out 419 claims totaling almost $9.9 million. Year-to-date claims payments are higher than 2013 due to the higher payments of deposit claims and first/second year warranty claims from a few unwilling/unable builders and condominiums common element cases. However, this is still considered low compared to the ten year historical average of $12.4 million.

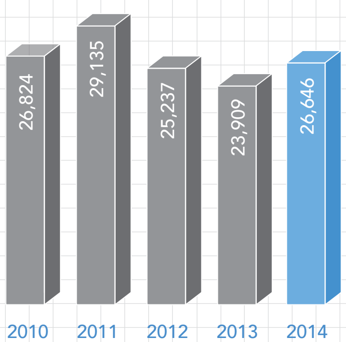
## WARRANTY SERVICES STATISTICS



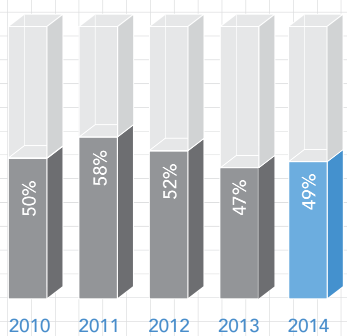

TOTAL HOMES UNDER WARRANTY



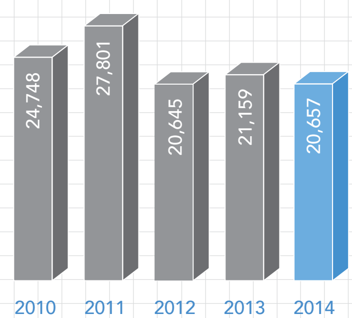

NEW HOME POSSESSIONS



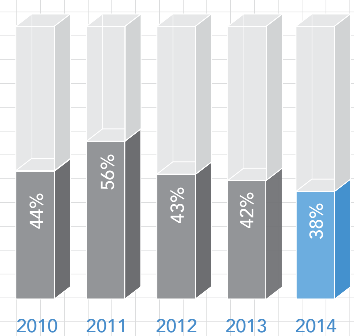

NUMBER OF 30-DAY FORMS SUBMITTED*




PERCENTAGE OF HOMES FOR WHICH 30-DAY FORMS WERE SUBMITTED




NUMBER OF YEAR-END FORMS SUBMITTED*

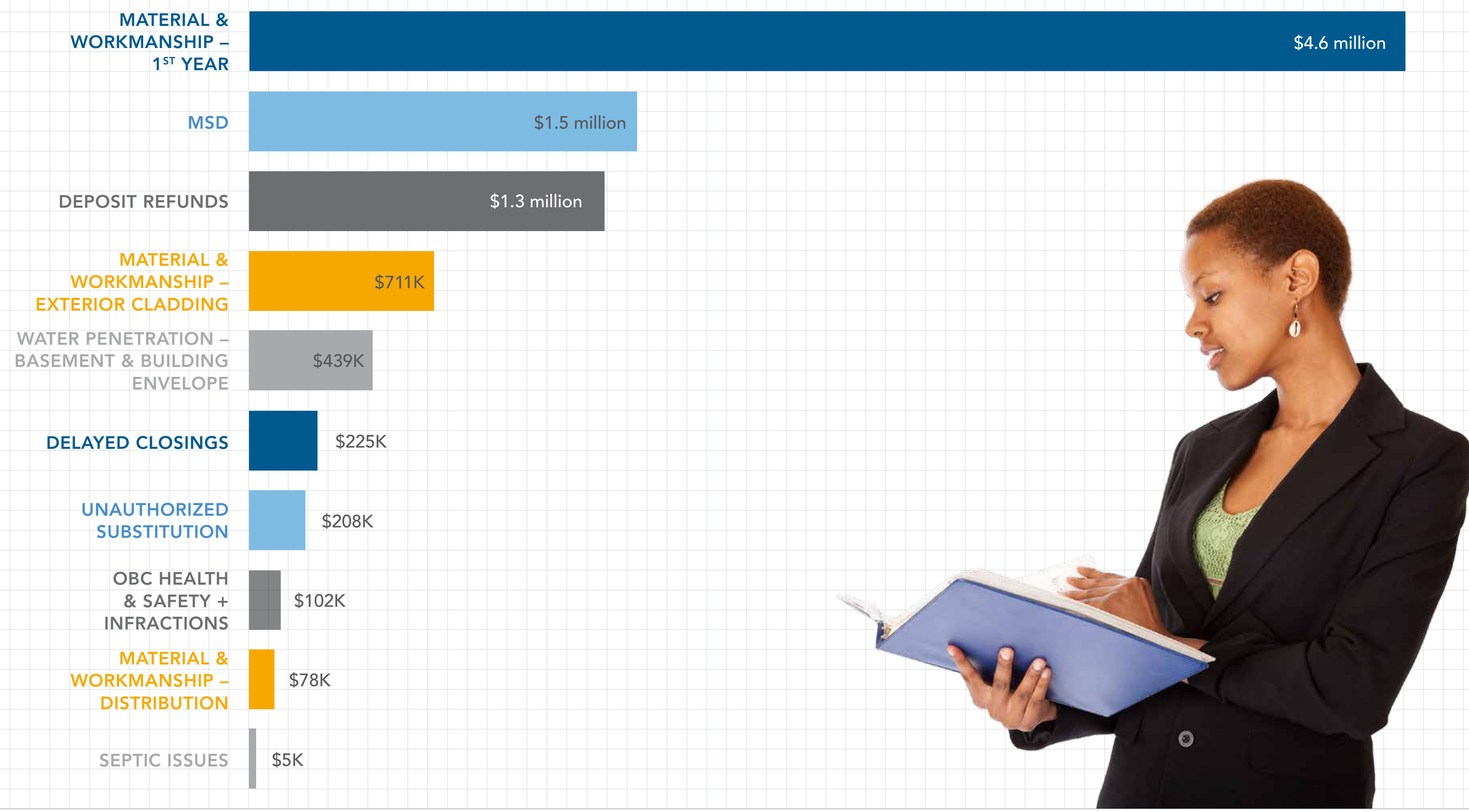



PERCENTAGE OF HOMES FOR WHICH YEAR-END FORMS WERE SUBMITTED

*The number of forms received in 2011, 2012, 2013 and 2014 are calculated on a per home basis.

# SERVICE AND SUPPORT

## CLAIM PAYMENTS BY TYPE OF COVERAGE



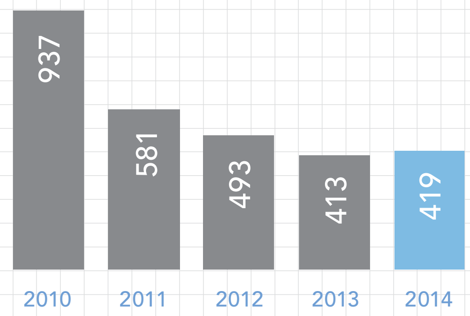

*Values have been rounded and do not include administrative and other costs associated with claims processing

# CLAIMS PAID

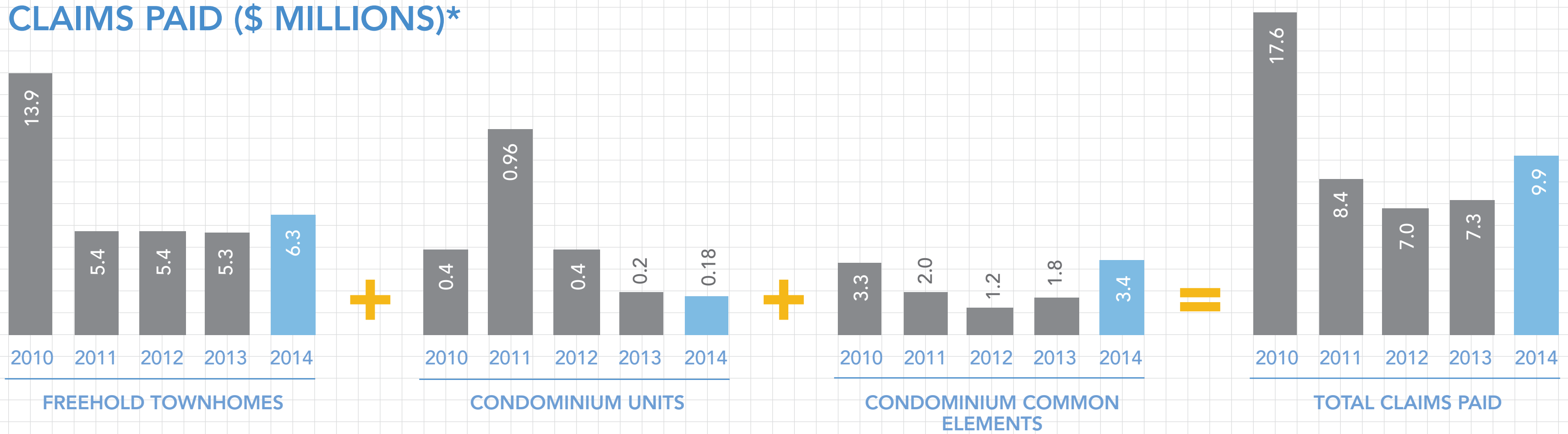
Claims paid are relatively consistent year over year except in years when large claims involving condominiums and/or special issues are settled. Part of the reason for the low volatility is because the payouts for claims are made over time as repairs are completed. There is a decreasing trend in claims paid since 2010. In 2010, Tarion experienced higher than normal claims paid due to a number of large payments made for unwilling/unable builders, as well as a high cost repair project involving a subdivision which began in 2009.

In 2014, the claims payments are higher due to higher payments of deposit claims and first/second year warranty claims from a few unwilling/unable builders and condominiums common element cases.

## NUMBER OF CLAIMS PAID




## CLAIMS PAID ($ MILLIONS)*




*Values have been rounded and do not include administrative and other costs associated with claims processing

# CUSTOMER SERVICE

Tarion's Customer Service Team in Warranty Services is the first line of contact for homeowners when they have questions or concerns.

In 2014, Tarion responded to an increasing number of inquiries including more than 179,831 telephone calls and approximately 19,248 emails from homeowners and builders. Most commonly, callers were asking about warranty coverage, the claims process or the status of a specific claim. An additional 1,125 homeowners and builders visited Tarion throughout the year to drop off warranty forms and other documents or to meet in person with Tarion representatives regarding a question or issue.

"Thank you very much for working with everyone on this. You were fantastic. Very knowledgeable and patient. Very much appreciated." - Homeowner

# CONTINUOUSLY REFINING CUSTOMER SERVICE

Over the years, Tarion has experienced a decline in claims activity as more claims are now being resolved directly between homeowners and builders. This has been encouraged by a number of efforts undertaken by Tarion to increase the likelihood of a resolution before a claim is submitted. These efforts include earlier communication with builders and homeowners and conciliation fee structures which encourage resolution. Tarion has continued its focus on stakeholder outreach in 2014, including homeowner meetings, regional tours, builder and employee roundtables and community outreach. These efforts have also aimed to reduce the number of claims through education.

Other factors that impact these numbers include a general decline in possessions since 2008, and changes in the housing mix that reflect more condominium units relative to freehold houses. Condominium units have a historically lower claims rate.

## Claims Trends: Items Assessed

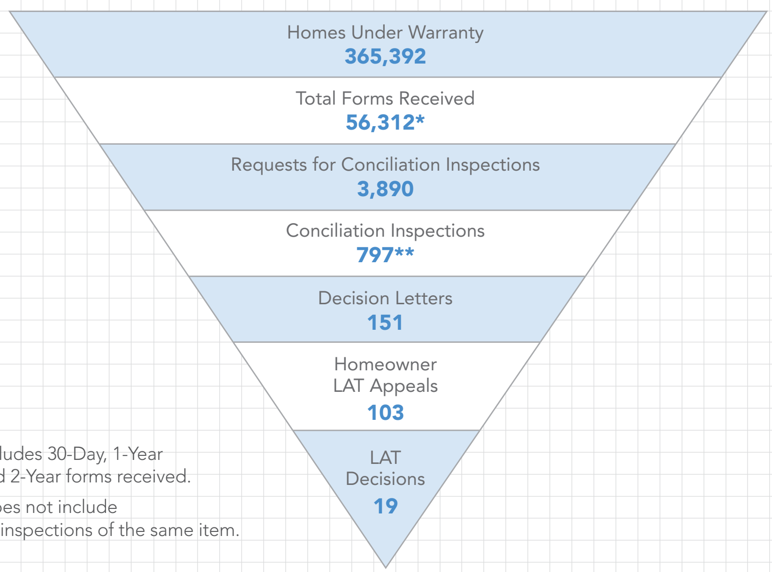
| Sub-Coverage | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| Material & Workmanship – 1st Year | 14,294 | 14,079 | 12,308 | 12,186 |
| Material & Workmanship – Exterior Cladding | 167 | 239 | 105 | 130 |
| Material & Workmanship – Distribution | 331 | 351 | 208 | 255 |
| OBC Health & Safety | 102 | 150 | 66 | 117 |
| OBC Infraction | 80 | 97 | 87 | 56 |
| Unauthorized Substitution | 77 | 56 | 38 | 39 |
| **Totals** | **15,051** | **14,972** | **12,812** | **12,783** |

"We could not have asked for a more thorough or fair inspector. We have been working with this inspector for over a year now and his calm nature and obvious impartial disposition allowed the process to be quite smooth." - Homeowner

# WARRANTY CLAIM PROCESSING AND DISPUTE RESOLUTION

In 2014, more than 99 per cent of claims were resolved between builders, homeowners and Tarion without the need for legal proceedings.

We work hard to find solutions to homeowner issues, and we act as a facilitator to resolve claims. Most homeowner issues are resolved by the builder directly or through our facilitation efforts. If all sides can't come to a resolution then LAT has a mandatory pre-hearing process that includes efforts at mediation by an independent chairperson. If there's no resolution in one or more pre-hearings then the matter is heard as a fresh hearing by a different chairperson.




* Includes 30-Day, 1-Year and 2-Year forms received.

** Does not include re-inspections of the same item.

Tarion's warranty claim resolution process aims to resolve disputes properly and fairly. This is based upon communication between homeowners and builders with Tarion's assistance and intervention as necessary. In 2014, approximately 93 per cent of claims were resolved without the need for Tarion's involvement.

This leaves approximately 7 per cent of claims not resolved during the initial builder repair period, and Tarion was requested to perform a Conciliation Inspection. At this stage Tarion staff becomes much more involved in encouraging communication, answering questions and facilitating resolution. During conciliation, Tarion inspects the home to assess whether the claim is warranted, and completes a Warranty Assessment Report. 99.5 percent of these claims then get resolved without the need for legal proceedings.

If homeowners are not satisfied with Tarion's assessment, they can request a Decision Letter. In 2014, Tarion issued 151 Decision Letters.

The numbers tell us that the process and model is working. For the most part, builders are taking care of their warranty responsibilities and Tarion is finding resolutions when a builder cannot or will not fulfill their obligations.

"Tarion really helped us deal with our builder and took control of the situation and acted as a mediator. We felt that the warranty inspector was extremely professional, listened to our concerns and took the time to explain the conciliation process." - Homeowner

# SERVICE AND SUPPORT

## WARRANTY CLAIMS PROCESSING AND DISPUTE RESOLUTION

### Challenging Tarion's Decision Letters

Homeowners have a right to appeal Tarion's Decision Letters to a provincially created, independent dispute resolution Tribunal called the Licence Appeal Tribunal (LAT).

In 2014 there were 103 homeowner appeals. The appeal process encourages the affected parties—homeowners, builders and Tarion—to exchange all relevant information relating to their position with respect to warranties. Mandatory pre-hearings which serve in part as a mediation by an independent and impartial LAT chairperson and other discussions led to 82 of the appeals being resolved and ultimately there were 19 full hearings at LAT with decisions being issued. Of the 19 decisions, Tarion's assessment was upheld in its entirety in 16 cases and in part in the other three cases.

**Tarion has listened to the concerns that homeowners have made to us regarding the LAT process. Tarion's Chair of the Board and President sat down with the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO), which includes LAT, to discuss how to improve the process for all stakeholders. As an external body, Tarion has no oversight over LAT, but deemed it important to share our stakeholders' concerns**.

### Builder Arbitration Forum

Builders do not have the right to appeal Tarion's warranty decisions to the Licence Appeal Tribunal. To provide such an opportunity, in 2003 Tarion created a consensual arbitration process allowing builders to challenge Tarion's claim assessment. The parties exchange information setting out their position and an arbitrator will conduct a confidential in-person hearing. After listening to both sides the arbitrator will issue a final and binding decision. The arbitration framework and processes are governed by the BAF Rules and also described in Builder Bulletin 41.

### Tarion's New Home Buyer Ombudsperson Office

Homeowners who feel they have not been treated fairly by Tarion can turn to the New Home Buyer Ombudsperson Office. The Ombudsperson Office receives, investigates and seeks to resolve complaints from homeowners, providing an objective perspective for consumer concerns to determine whether a decision was made fairly. The Office promotes and protects fairness and is meant to supplement—not replace—existing dispute resolution processes or formal channels of appeal. Accordingly, it does not make warranty decisions, mandate policies, or formally adjudicate issues for Tarion.

The Ombudsperson Office makes recommendations related to specific complaints and systemic concerns. A summary of activities, case studies, observations and recommendations for process improvement and/or policy changes based on the previous year's activity can be found in the Ombudsperson Annual Report. In 2013, Tarion added recommendations from the Ombudsperson's Office to the corporation's Key Performance Indicators (KPIs). Now, in order to successfully meet our KPIs, Tarion must satisfy commitments made by management in its response to the recommendations in the Ombudsperson Office's annual report.

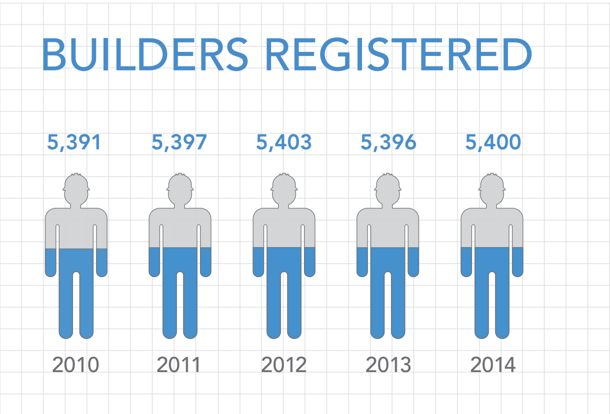
For more information about the New Home Ombudsperson Office or for a copy of the 2014 Ombudsperson Annual Report visit **www.tarion.com/About-Tarion/Pages/Annual-Reports.aspx**.

"I'm really very glad that you are handling my case with the builder. You have been great and very genuine and professional!" - Homeowner

# LICENSING AND UNDERWRITING

Tarion has responsibility for licensing and regulating new home vendors and builders. Vendors and builders must demonstrate they have the technical competence, customer service capabilities and financial capacity required to build and sell new homes. Tarion also considers the past conduct of principals, officers and directors associated with the vendor and builder as it relates to honesty and integrity. Vendor and builder licensing occurs annually, with new registrations occurring throughout the year and involves establishing individual terms and conditions of registration in accordance with the Act.

Builder registrations have remained relatively stable since 2010, with 5,400 registered builders in 2014. Throughout the year, 28 builders were denied licences or had their licences revoked by Tarion.




## Possible Sanctions

Vendors or builders who do not abide by their terms and conditions of registration may be subject to a variety of sanctions including additional terms and conditions requirements for extra performance security and up to and including refusal or revocation of their licence.

## Licence Appeal

If Tarion proposes to refuse to grant, renew or revoke a licence, then the builder has a right to require a hearing by the Licence Appeal Tribunal (LAT). LAT may agree with, overturn or allow registration on different terms and conditions following a hearing on the matter. In 2014, builders filed 16 new appeals of Tarion's proposals to withhold or withdraw a licence and 13 appeals were resolved. Of the 13 appeals resolved, Tarion withdrew its Notice of Proposal in 12 cases either because the builder complied with the proposed terms and conditions of registration or because resolution was reached with the builder that addressed the issues to Tarion's satisfaction. The last appeal was administratively dismissed by LAT without a hearing.

## Honesty and Integrity

Registered builders must carry out their warranty undertakings in accordance with the law and operate with honesty and integrity. Tarion can investigate where there are reasonable grounds to believe either a registered builder, or its officers and directors, have not carried out their undertakings with honesty and integrity. The obligation on the registered builder is ongoing throughout the duration of their registration with Tarion, and a breach of the obligation may lead to sanctions. These sanctions can include a decision to issue a Notice of Proposal to revoke registration. Tarion tracks honesty and integrity investigations in a central database system linked to the builder's file, and monitors trends or deterioration in builder behaviour.

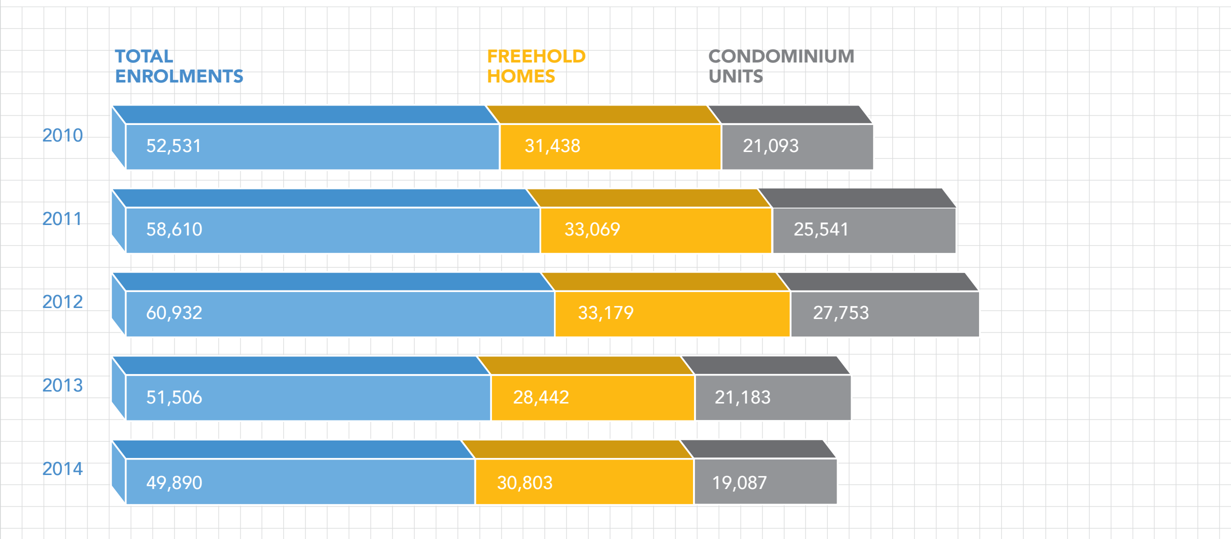
At the end of 2013, 66 individual builder files had been open and 29 files resolved. In 2014, 24 files were opened and 17 files resolved leaving 44 unresolved files at year end.

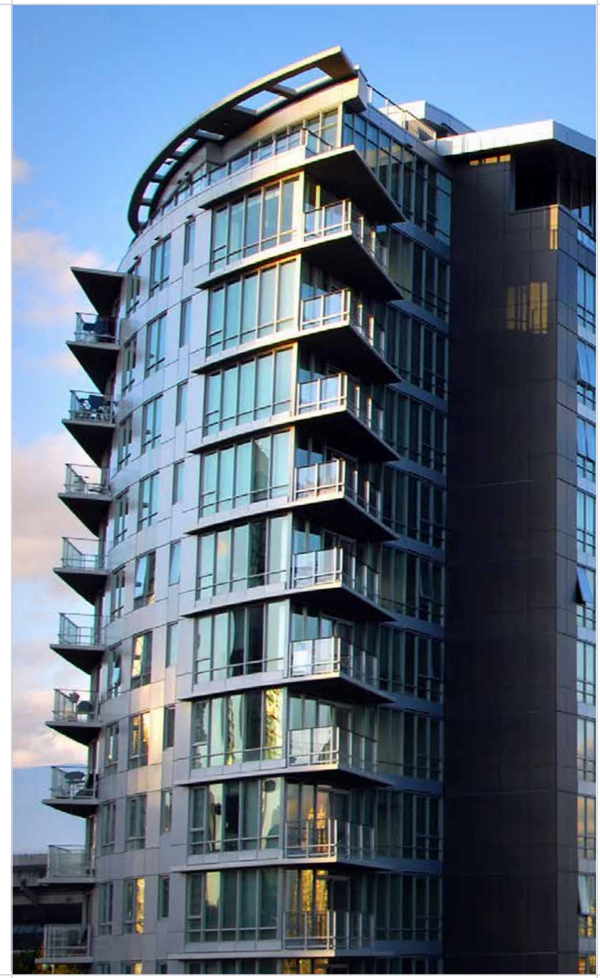
# ENROLMENTS

Overall, 2014 total enrolments remained stable compared to the 2013 numbers. There was, however, a change in home type mix, with an increase in freehold construction consisting of 62 per cent of the total enrolments this year, with the remaining 38 per cent being high-rise condominiums.

This may be due to an inventory of already enrolled condo units coming online later than expected, or may represent a shift in the overall market. Tarion will be closely monitoring the changes to the enrolment mix over the next few years.

## NEW HOME ENROLMENTS



# ENFORCEMENT

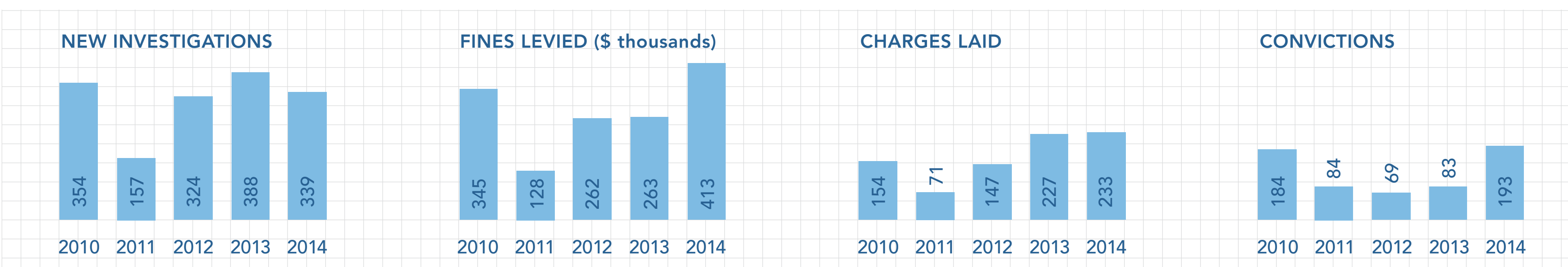
Illegal building is a concern across Ontario, putting homeowners at risk and hurting the reputation of the building industry. When a builder fails to register with Tarion or enrol a home with Tarion, purchasers are typically unaware of their right to new home warranty coverage. In addition, illegally built homes often do not meet Ontario Building Code standards and can leave home owners living in unsafe and substandard conditions. In 2014, Tarion paid $934,134 in claims on illegally-built homes. Tarion continues to work with the Ontario Home Builders' Association, its local chapters and the media to highlight that illegal building puts homeowners at risk, hurts the reputation of the industry, is harmful to the local economy and costs Tarion millions of dollars in annual claims.

The Tarion Enforcement team tracks down, charges and prosecutes illegal builders. In 2014, the efforts of this group, which consists primarily of former police officers, led to 193 convictions in provincial courts and fines of more than $413,000, which includes the victim surcharge fees. Tarion continues to utilize its intelligence based software system to identify high-risk builders, including repeat offenders and builders who have either had their licences revoked or refused by Tarion. Along with a dedicated intelligence analyst, this system identifies priority cases, improving the speed and accuracy of detecting illegal building activity across the province. The system also alerts Tarion to builders who obtain building permits but do not include a vendor/builder number on the permit. Since implementing the new software, there has been a significant increase in the number of files that have been flagged to Tarion's enforcement team.

In 2013, Tarion completed a jurisdictional review of illegal building detection and enforcement, examining best practices on how to combat this issue. We reviewed models that focus on prevention of illegal building, as opposed to enforcement after the act has taken place. Tarion's goal is to prevent illegal building before it starts. By making certain changes to the building permit application, we hope to be better able to track projects so that Tarion can help prevent illegally built homes from entering the marketplace. In 2014, the Province included this initiative in their budget, and we look forward to working with the Ministry of Municipal Affairs and Housing on exploring regulatory change to work towards this preventative model.

Tarion continues to receive building permit information from Ontario's 415 municipalities at the onset of a building project, which is another significant advancement in identifying illegal building activities. In 2014, we received just under 40,000 permit reports.

## ENFORCEMENT ACTIVITY



# TRACKING COMPLAINTS

In 2011, Tarion launched a cross-departmental review to determine the best way to track and handle complaints that are received through multiple intake channels. In the Ombudsperson Office's 2012 Annual Report, there was a recommendation for Tarion to enhance its existing complaint mechanisms by creating a consistent process for handling complaints regarding Tarion service or policies and developing capacity to handle complaints and requests for reviews of warranty decisions. In 2014, Tarion continued to review its complaint management process and established multiple areas where stakeholders can issue a complaint about our services.

There was a total of 126 complaints received from these multiple intake channels in 2014.

# RECOGNIZING EXCELLENCE IN CUSTOMER SERVICE

## THE TARION AWARDS OF EXCELLENCE

Exceptional customer service is the cornerstone of creating a positive experience with homeowners. Tarion recognizes this through our annual Awards of Excellence.

The awards are based on the results of annual customer service satisfaction surveys sent to homeowners who have taken possession of a home in the previous year. Survey questions focused on homeowner satisfaction with their builder, covering every stage in the homeowner-builder relationship from the signing of the agreement of purchase and sale, through construction and the pre-delivery period, to after-sales service.

The 2014 Tarion Awards of Excellence were based on the results of more than 6,400 surveys completed by homeowners.

### THE 2014 AWARDS WERE PRESENTED TO:

**The Tricar Group, London**
High-Rise Category

**Fusion Homes, Guelph**
Large Volume Category

**Klemencic Homes, Trenton**
Medium Volume Category

**Dwyer Homes, Strathroy**
Small Volume Category


In 2014, Tarion hosted a luncheon to recognize the finalists and recipients of the Tarion Awards of Excellence. The Honourable Tracy MacCharles, Minister of Consumer Services, provided the following remarks on the outstanding accomplishments in customer service: "Congratulations to the 2014 Tarion Awards of Excellence recipients. These builders demonstrate that excellent customer service can be an asset to your business and will have a lasting effect on home buyers."

"Our attention to quality and detail is paramount to our business. We are honoured that our home buyers appreciate the effort we place on delivering top quality customer service, and are delighted to be recognized with a Tarion Award of Excellence."
– Adam Carapella from The Tricar Group

# A LOOK AT 2015 AND BEYOND

In the year ahead Tarion will introduce a new three-year plan, and with it, a new strategic direction to help move us forward in our mandate to protect new home buyers and regulate new home builders. This plan—to enhance fairness and confidence in the new home buying experience—was driven by a strong vision of how we believe Tarion should continue to improve the new home buying experience for everyone involved.

As the administrator of Ontario's new home warranty program, Tarion wants to make sure that home buyers can purchase a new home with confidence, and that they feel protected from defects and builder failures. We not only want to be the best warranty administrator in Canada, but also an international leader. Tarion believes it is essential to remain financially sound and secure so we can provide the protection to new home buyers when they need it.

There are a number of initiatives on the horizon that Tarion has planned to help protect Ontario's new home buyers and regulate new home builders. One initiative we have been looking into for a while is enhancing the registration and renewal requirements for builders. Tarion plans to review the entrance requirements and in particular enhance those requirements as they relate to the minimum educational level expected of new entrants. We believe that increasing our builder education requirements at intake will help ensure confidence in the new home buying experience.

We will continue to consult with the industry and the public on proposed policy changes, which has been a part of our policy development process since 2010. Getting direct feedback from people that are affected by our policies has become an important way to gain insight and perspective. In the next few years we will be looking to update our customer service standard, which outlines the process and timelines that homeowners and builders must follow when a claim is made. Tarion began gathering feedback on this process in 2014, and will be continuing this conversation in 2015.

Preventing illegal building before it starts is another key project in this plan. Tarion is currently working on a process that will require more information about a builder as a prerequisite to receiving a building permit. We feel this will better protect Ontario's new home buyers by reducing the number of illegally-built homes that enter the marketplace.

Tarion will continue to connect with our stakeholders, and seek feedback. Our annual homeowner surveys will carry on, and so will our face-to-face meetings with groups of homeowners who have been through the Tarion process to gather their opinions on our processes. We are also working on a Corporate Social Responsibility Plan which will be implemented in 2015 to integrate meaningful economic, social and environmental considerations into our business practices and foster a culture of sustainability. Tarion will undertake all of these initiatives with the ultimate goal of enhancing fairness and confidence in the new home buying experience.

# TARION'S CORPORATE LEADERSHIP TEAM

Tarion's day-to-day operations are managed by the corporate leadership team and their staff.

**HOWARD BOGACH**
President & Chief Executive Officer

**PETER BALASUBRAMANIAN**
Vice President, Licensing & Underwriting

**JOHN BECEVELLO**
Vice President & Special Advisor to the CEO

**EDMOND LEE**
Vice President & Chief Financial Officer

**BILL WALLACE**
Vice President &Chief Information Officer

**KAREN MORTFIELD**
Vice President, Stakeholder Relations
(Vacant position as of September 2014)

**DAVID J. GUINEY**
Chief Operating Officer

**KEVIN BRODIE**
Vice President, Warranty Services

**EILEEN HOLDEN**
Vice President, Human Resources

**TIM SCHUMACHER**
Vice President & General Counsel

**LESLEY ROSS**
Corporate Secretary

# BOARD OF DIRECTORS

Tarion is governed by a Board of Directors with members representing key stakeholders within the housing industry, including builders, consumer advocates, the financial community and provincial and municipal levels of government.

The Board is responsible for the Company's stewardship, overseeing its conduct and business and affairs. Using a committee structure, recommendations are made to the full Board which in turn makes final decisions. The Board is not responsible for the day-to-day management and operation of the Company's business. It acts as a supervisor to management in carrying out this responsibility.

**BACK ROW:** (L-R) Wendy Rinella, Deborah Brown, Sheldon Libfeld, Sandy Ewen, Lynn Peterson
**MIDDLE ROW:** (L-R) Bob Finnigan, Justin Rangooni, Greg Graham, Lea Ray, Hari Panday
**FRONT ROW:** (L-R) Paul Golini Jr., Peter Oakes, Chris Spiteri, Frank Giannone, Mark Basciano
(Not Pictured: Daniel Gabriele)

# GOVERNANCE POLICIES

The Board of Directors of Tarion Warranty Corporation is committed to a series of governance policies which are intended to support the supervisory role of the Board and to ensure that the Board acts in the best interest of the company having regard to its consumer protection mandate and interest of its stakeholders. Some highlights of the Board's current governance practices include the following:

## Independence

To ensure independence of the Board and management, as in past years, an outside Director was elected and served as Chair of the Board. As of April 17, 2014 no member of management sits on the Board—the Board is comprised entirely of outside directors.

## Board Composition

In accordance with the by-laws of the Company, membership on the Board of Directors is comprised of a number of individuals having knowledge of the interests of all stakeholders. The by-laws of the Company provide for the appointment of Directors from nominees appointed by the Ministry of Consumer and Government Services; and from among nominees put forward by the Ontario Home Builders' Association (OHBA) and for At-Large selections and then in each case vetted and recommended by the Nominations Committee.

Effective, April 17, 2014 and for the balance of 2014, Tarion's Board of Directors was made up of 16 members nominated or appointed as follows:

- Five (5) appointed by the Minister of Consumer and Government Services
- Eight (8) nominated by the Ontario Home Builders' Association (OHBA) and selected by the Nominations Committee
- Three (3) nominated at large and selected by the Nominations Committee

Nominated directors are all chosen by reference to a Competency Framework. The three candidates nominated at large cannot be:

(i) an employee of the Company; (ii) employed by or directly associated with the Ministry; (iii) an officer, director, employee, principal or person directing operations of a current new home vendor or builder in Ontario ("Ontario Builder"); nor (iv) an officer, director, employee or principal of an association comprised of and/or representing Ontario Builders.

# CORPORATE GOVERNANCE

## GOVERNANCE POLICIES

### Meetings

The Board meets in accordance with a schedule established each year by the Board, and at such other times as the Board may determine. Meeting agendas are developed in consultation with the Chair. The Chair is responsible for ensuring that a suitably comprehensive information package is sent to each director in advance of each meeting.

Directors are expected to be fully prepared for each Board meeting, which requires them, at a minimum, to have read the material provided to them prior to the meeting. At Board meetings, each director is expected to take an active role in discussion and decision-making. To facilitate this, the Chair is responsible for fostering an atmosphere conducive to open discussion and debate.

The Board meets without the presence of management at each of its meetings.

### Financial Controls

The Audit Committee of the Board is composed entirely of independent Directors whose responsibilities are set forth in a detailed Committee mandate. The Committee has the ability to deal directly with the external auditor regarding the Company's annual financial statements, and with the external actuary regarding the warranty liabilities of the Company.

### Risk Management

The Board, together with the Audit Committee, monitors, reviews and approves adherence to corporate policies to manage and control risk, as well as compliance with policies of the Company and regulatory requirements. A management risk sub-committee also identifies emerging issues and reports to the Audit Committee.

### Strategic Planning

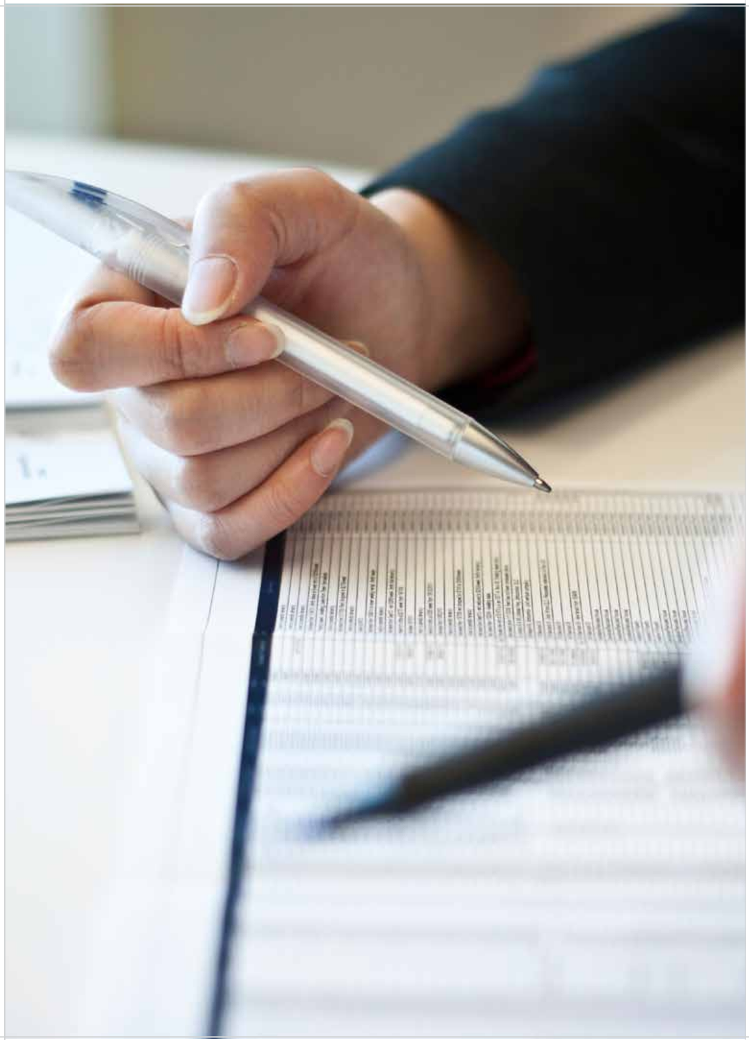
The Board engages in a strategic planning process each year which takes into account business policy initiatives and opportunities, as well as operational and financial risks. Throughout the year, the Board reviews corporate performance against the Company's annual business plan and the current strategic plan.

### Annual Performance Objectives

The Board approves the annual corporate business plan as well as the annual objectives of the President and Chief Executive Officer and the corporate key performance indicators.

### Code of Governance Practices

Each member of the Board is required, on an annual basis, to sign a Code of Governance Practices that has been approved by the Board. This Code is intended to assist the Directors in performing their responsibilities to the Company with appropriate discipline and dedication. The Board meets without the presence of management at each of its meetings.



# RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

The Board has the authority to establish and carry out its duties through committees and to appoint directors to be members of these committees. The Board assesses the work and recommendations of the committees of the Board and the constitution and workplan of each committee is reviewed annually or more frequently, as circumstances require. From time to time the Board may create ad hoc committees or Task Forces to examine specific issues on behalf of the Board.

The Board has established the following committees and task forces: (1) Audit Committee; (2) Consumer Committee; (3) Governance Committee; (4) Human Resources & Compensation Committee; (5) Investment Committee; (6) Nominations Committee; (7) Regulatory Affairs Committee; (8) Builder Education Task Force and; (9) Condominium Task Force. The Board has also established a Consumer Advisory Council.

All Board of Directors and Committee meetings have regularly scheduled in-camera meetings without management.

## Audit Committee

**LEA RAY, CPA, CA, ICD.D**, Chair
SANDY EWEN, Vice Chair
SHELDON LIBFELD
PETER OAKES, MBA, CPA, CA, ICD.D.
HARI PANDAY, FCPA, FCGA, ICD.D.

The Audit Committee, composed of five members of the Board, reviews the quarterly financial statements and key performance indicators, the annual audited financial statements and financial operating performance reported in Tarion's Annual Report, the assessment of reserves, and the results of capital adequacy testing. The Committee is also responsible for the development and monitoring of policies to address risk management as well as the internal control framework. It also makes recommendations to the Board with respect to the appointment of an external auditor, the external actuary and the pension plan actuary and administrator.

This committee also reviews the company's pension plan, internal controls, provides advice on the external audit services and performs additional services such as working jointly with the Human Resources & Compensation Committee to review Tarion's annual budget and the setting of corporate key performance indicators for the following year.

## Consumer Committee

**DEBORAH BROWN, ICD.D,** Chair
JUSTIN RANGOONI, Vice Chair
CHRIS SPITERI, ICD.D
BOB FINNIGAN
DANIEL GABRIELE
PAUL GOLINI
LYNN PETERSON, ICD
WENDY RINELLA

The Consumer Committee is composed of eight members of the Board who represent Tarion's major stakeholders. The Committee provides guidance, informed opinion and progressive ideas and makes recommendations to the Board of Directors with respect to the promotion of consumer interests and consumer protection initiatives as they relate to both the mandate of Tarion and to Tarion's Commitment to new home buyers.

It also assists Tarion's management with consumer policy development and provides insight and input on issues, by making recommendations regarding the development and delivery of consumer protection initiatives and policies, by analyzing relevant consumer research data and by giving insight into current communication programs and trends.

The Consumer Committee meets, without management present, with the Ombudsperson at every meeting.

# CORPORATE GOVERNANCE

## RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

### Consumer Advisory Council

**MARIO DEO**, Chair

The Consumer Advisory Council serves as an advisory body and reports to the Consumer Committee. The Council provides ongoing advice from a home buyer consumer perspective, on proposed Tarion policy changes. The Council met three times in 2014. The Chair of the Advisory Council meets regularly with the Consumer Committee.
The members of the Council include consumers that have been through our warranty process, a home inspector, a retired building official, real estate lawyers and other experts who have direct dealings with new home buyers.
Any policy recommendations to be considered by the Council can be made through a written submission through Tarion's website under "Contact Us".

### Governance Committee

**MARK BASCIANO**, Chair
DEBORAH BROWN, ICD.D, Vice Chair
FRANK GIANNONE, ICD (ex-officio)
PETER OAKES, MBA, CPA, CA, ICD.D
HARI PANDAY, FCPA, FCGA, ICD.D.
LYNN PETERSON, ICD
JUSTIN RANGOONI
CHRIS SPITERI, ICD.D (ex-officio)

The Governance Committee provides recommendations to the Board with respect to governance matters affecting the Company. The Committee has responsibility for developing and recommending ongoing improvements to corporate governance, and also to update as necessary the Code of Governance Practices which is executed by each Director annually.

The Committee oversees Tarion's Director Orientation and continuing education program. Newly appointed directors attend orientation sessions which are intended to familiarize new directors with Tarion's business and operations, including management structure, strategic plans, finances, and risk management framework. As part of ongoing education, from time to time, presentations are made by management personnel or outside experts to educate directors on new issues and developments in stakeholder initiatives.

The Committee provides input and recommendations for the Chair of each Board Committee in advance of the Annual Members Meeting, together with the membership for each Committee. It also provides input to the Board nomination process to ensure that the Board has Directors with the appropriate skills and background to address the Company's mandate. The Committee also reviews the effectiveness of the Board on an annual basis.

### Human Resources & Compensation Committee

**FRANK GIANNONE, ICD**, Chair
CHRIS SPITERI, ICD.D, Vice Chair
MARK BASCIANO
BOB FINNIGAN
GREG GRAHAM
WENDY RINELLA

The Human Resources & Compensation Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities regarding human resources and compensation on behalf of Tarion. The Committee oversees the implementation of human resources decisions of the Board and ensures the adequacy and effectiveness of the systems implemented to ensure compliance with all human resources legislation, policies and procedures. Additionally, the Committee leads the evaluation and compensation process for the President and CEO and is responsible for recommending to the Board of Directors the annual objectives for the President and CEO and for evaluating performance against those objectives. The Committee works with external expert compensation advisers who provide information with respect to current market compensation payable to senior executives of comparable organizations. It also undertakes an annual succession review of the senior management team in consultation with the President and CEO.

# CORPORATE GOVERNANCE

## RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

### Investment Committee

**PETER OAKES, MBA, CPA, CA, ICD.D**, Chair
BOB FINNIGAN, Vice Chair
DAN GABRIELE
GREG GRAHAM
LEA RAY, CPA, CA, ICD.D

The Investment Committee reports to the Board on the corporate investment plans, policies and issues with respect to corporate funds and pension plan(s) that affect Tarion. The goals of the investment strategies and policies are to maximize return and minimize risk to the corporation within agreed upon constraints; and to ensure funds are invested appropriately, recognizing the liquidity, timing and security considerations of corporate operational and reserve requirements. The Investment Committee considers and recommends investment strategies, plans and policies related to the invested assets of the Company. The Committee oversees the selection and appointment of one or more investment managers and reviews and approves the investment policies of the Company each year. It also reviews reports from fund managers on investment activities and measures investment results against the investment goals of the Company. In addition, the Committee is responsible for the oversight of the management of assets related to the pension plan of the Company.

The Committee meets, without management, with each of the Investment Managers.

### Regulatory Affairs Committee

**LYNN PETERSON, ICD**, Chair
JUSTIN RANGOONI, Vice Chair
MARK BASCIANO
FRANK GIANNONE, ICD
LEA RAY, CPA, CA, ICD.D
CHRIS SPITERI, ICD.D

The Regulatory Affairs Committee assists the Board in fulfilling its oversight responsibilities with regard to Tarion's regulation making powers as provided in the *Ontario New Home Warranties Plan Act*. It provides due diligence on behalf of the Board of Directors for the planning, research, stakeholder consultation and implementation of each proposed regulation change; evaluates the adequacy and effectiveness of current or proposed legislation or regulations to ensure compliance with the mandate of the Corporation; and ensures that Tarion is meeting its regulatory obligations and responsibilities as set out in its Mandate.

### Nominations Committee

The Nominations Committee reports to the Governance Committee and is composed of a member of the Board, two appointees from the Ministry and two appointees from the industry.

The Nominations Committee is responsible for receiving and initiating proposals for nomination of individuals for election to the Board and assessing incumbent directors for re-nomination to the Board. Industry based and At Large candidates are evaluated by the Nominations Committee, having regard to the candidate's background and qualifications to ensure that the candidate's experience and skill are aligned with the Company's needs. In evaluating candidates, the Nominations Committee considers diversity as well as the effectiveness of the Board, as a whole, and its individual members, including their respective competencies and skills.

Following the interview process, nominees are recommended to the Governance Committee and to the Board of Directors to fill identified vacancies.

# CORPORATE GOVERNANCE

## RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

### Builder Education Task Force

The Builder Education initiative is working towards enhanced education requirements for both new and existing builders as a condition of registration with Tarion. In 2014 the Board of directors approved a plan to focus in 2015 on builder education as part of the intake process at registration. Education requirements for existing builders, while still a long term objective, was deferred. The Task Force will provide strategic guidance to management as they seek to implement the intake educational requirements, and will also work longer term to assist management with overall strategic direction on builder education initiatives. The Task Force is composed of seven Directors and two representatives from the Ontario Home Builders' Association.

### Condominium Task Force

The Condominium Task Force is composed of three Directors and three industry appointees experienced in the condominium area. The Task Force was established as a forum to facilitate research, provide informed opinions and discussion, and make progressive recommendations to Tarion management and the Board of Directors relating to the condominium industry. In 2014 the Task Force assisted management with assessing the implications arising out of the amendments to the Building Code which provided for the construction of multi-story combustible buildings (5-6 story wood framed construction). The Task Force also continues to be engaged in the policy development around expanding warranty coverage to condominium conversions.

### Performance Based Pricing Task Force

Over the period from 2010 to 2014 Tarion, with the assistance of the Performance Based Pricing Task Force, examined the feasibility of changing the pricing scheme in place so that it varied more directly based on builder performance. Ultimately in 2014, after extensive consultation, the Task Force and management concluded that the costs of the proposal outweighed the benefits, and the recommendation was made and adopted to end the project. Builder performance is being considered in connection with the underwriting and security review being undertaken in 2015.

# DIRECTORS' ATTENDANCE

| DIRECTOR | BOARD OF DIRECTOR MEETINGS | COMMITTEE MEETINGS |
|---|---|---|
| Chris Spiteri | 10 of 10 | 16 of 16 |
| Mark Basciano | 8 of 10 | 13 of 13 |
| Deborah Brown | 7 of 10 | 12 of 13 |
| Sandy Ewen | 10 of 10 | 7 of 7 |
| Bob Finnigan | 10 of 10 | 12 of 14 |
| Daniel Gabriele | 10 of 10 | 11 of 11 |
| Frank Giannone | 10 of 10 | 16 of 16 |
| Paul Golini Jr. * | 6 of 7 | 1 of 3 |
| Greg Graham* | 6 of 7 | 5 of 5 |
| Sheldon Libfeld | 10 of 10 | 5 of 5 |
| Peter Oakes | 9 of 10 | 12 of 13 |
| Hari Panday* | 7 of 7 | 6 of 6 |
| Lynn Peterson | 10 of 10 | 11 of 11 |
| Justin Rangooni | 9 of 10 | 8 of 8 |
| Lea Ray | 10 of 10 | 10 of 10 |
| Wendy Rinella* | 7 of 7 | 5 of 5 |
| **The following directors were on the board from January 1 – April 17, 2014:** | | |
| Harry Herskowitz | 3 of 3 | 3 of 3 |
| Michael Lio | 3 of 3 | 7 of 7 |
| Peter Saturno | 2 of 3 | 5 of 6 |
| Eric DenOuden | 3 of 3 | n/a |

* Joined the Board on April 17, 2014

The President and CEO, Howard Bogach was a Director until April 17, 2014. As the President and CEO he attends all meetings of the Board and each of its committees.

## Notes on Director Attendance

1. The record of attendance of Directors relates to the Meetings of the Board of Directors and of the Board Committees held by the Company during 2014.

2. The number of Board and Board committee meetings held by the Company during 2014 was as follows:

| | |
|---|---|
| Board of Directors | **10 meetings** |
| Audit Committee | **5 meetings** |
| Consumer Committee | **5 meetings** |
| Governance Committee | **5 meetings** |
| Human Resources & Compensation Committee | **5 meetings** |
| Investment Committee | **4 meetings** |
| Nominations Committee | **3 meetings** |
| Regulatory Affairs Committee | **2 meetings** |
| **Total** | **39 meetings** |

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# 2014 FINANCIAL COMMENTARY

The Canadian economy along with the US economy had a strong first half of the year with many economic indicators showing continued improvement in both economies. Despite the drop in the oil prices in the latter part of the year which impacted the oil-producing provinces and caused volatility in the Canadian capital markets, the Ontario economy benefited in the short-term due to lower energy costs and continued low-interest environment. Tarion delivered strong financial results in 2014 with a bottom line of $10.8M as a result of positive investment returns, good claims experience and continued cost containment while enhancing its reserve adequacy for future claims experience.

The Ontario housing market had a late start with enrolment levels being low in the first quarter of the year, partially due to the severe winter months we experienced in 2014. However, the enrolment level gained momentum in the summer and fall months, ending the year at 49,890 with a shift of home type mix from high-rise to freeholds.

The Guarantee Fund grew by $29.2M primarily due to strong returns in the equity markets. Both domestic and foreign equities had positive returns despite the volatility in the oil prices while the fixed income portfolio continued to produce moderate returns in an environment of low yields. Our fixed income portfolio continued to have a defensive position to protect the Fund against the possibility of interest rate increases. Total investment income of $23.5M, before management fees while lower than 2013's exceptional returns was close to their benchmarks.

In 2014, a review was conducted on the actual claims emergence of unamortized enrolment fees for prior years' enrolments. The results showed that the current expected patterns of incurrence of claim costs were more consistent to the actual claims emergence relative to their initial selected patterns. The earnings pattern was updated and the result was an additional $6.7M of revenue being deferred to future years and a corresponding increase of the deferred enrolment fees component of warranty liabilities on the statement of financial position. The increase to the warranty liabilities will afford better future matching of recognized fees to claims expense and enhanced reserve adequacy to back stop the warranty program's expected future claims costs. 2014 net claims experience was $4.9M, $1.4M higher than 2013 of $3.5M was still favourable and remained low relative to historic levels. The Corporation paid out $9.9M to new homeowners for warrantable claims; this was higher compared to 2013 claims paid of $7.3M due to some large claims related to bankrupt builders.

2014 also marked the third and final year of the three-year strategic plan of Balancing Stakeholder Interests While Seeking Operational Efficiencies. Many online services were completed to provide e-business solutions to both homeowners and builders via our Channel Strategy to allow for electronic submission of registration and renewals and electronic payments.

Total 2014 operating expenses (excluding net claims incurred) of $38.4M reflects a 1.9 per cent increase over 2013 of $37.7M which was close to the average inflation rate. The Company successfully contained total operating expense growth to be comparable to the inflation rate while strengthening its technology infrastructure for both network and mobile computing, and improving public communications processes.

Tarion continues to manage its capital to the internal capital targets with the focus on maintaining its overall risk profile to be within its risk appetite and limits. The Corporation ended the year with $227.6M (2013- $216.0M) of equity.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the integrity of the financial statements and operational information presented in this Annual Report. The financial statements have been presented in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with these financial statements.

Management maintains a system of internal controls, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The external actuary who is appointed by the Board of Directors is responsible for ensuring that the assumptions and methods used in the determination of the warranty liabilities are in accordance with accepted actuarial practice.

The external auditor has audited and reported on the annual financial statements prepared in accordance with International Financial Reporting Standards.

The Audit Committee, consisting of non-executive directors, has reviewed these financial statements with management and the external auditor and has reported to the Board of Directors, which has approved the financial statements.

**HOWARD BOGACH**
President & Chief Executive Officer
April 16, 2015

**EDMOND LEE**
Vice President & Chief Financial Officer
April 16, 2015

# INDEPENDENT AUDITORS' REPORT

## To the Directors of Tarion Warranty Corporation:

We have audited the accompanying financial statements of Tarion Warranty Corporation, which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive results of operations, changes in equity and cash flows for the year then ended, and notes, comprising 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we 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 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 Tarion Warranty Corporation as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

**Chartered Professional Accountants,**
**Licensed Public Accountants**
**April 16, 2015**
**Toronto, Canada**

# ACTUARY'S REPORT

TOWERS WATSON

Towers Watson
175 Bloor Street East
South Tower, Suite 1701
Toronto, Ontario M4W 3T6

## To the Directors of Tarion Warranty Corporation:

I have valued the warranty liabilities of **Tarion Warranty Corporation** for its Statement of Financial Position as at December 31, 2014 and their change in the Statement of comprehensive results of operations for the year ended December 31, 2014 in accordance with accepted actuarial practice in Canada, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the financial statements fairly present the results of the valuation.

**Pierre Laurin**
**Fellow, Canadian Institute of Actuaries**
**April 16, 2015**

# FINANCIALS

## STATEMENT OF FINANCIAL POSITION

### As at December 31, 2014 ($CAD thousands)

| | NOTES | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Equipment and leaseholds | 4 | $ 2,668 | $ 3,086 |
| Intangible assets | 5 | 2,907 | 3,770 |
| Trade and other receivables from vendors and builders | 6 | 4,851 | 5,118 |
| Prepaid expenses | | 249 | 267 |
| Investments | 7 | 478,481 | 449,279 |
| Cash and cash equivalents | 8 | 2,863 | 2,465 |
| **TOTAL ASSETS** | | $ 492,019 | $ 463,985 |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY | | $ 227,557 | $ 216,003 |
| LIABILITIES | | | |
| Employee future benefits liabilities | 9 | 5,195 | 5,383 |
| Warranty liabilities | 10 | 203,278 | 190,814 |
| Funds held as security | 11 | 46,741 | 40,989 |
| Lease obligations and inducements | 12 | 2,067 | 2,405 |
| Accounts payable and accrued liabilities | 13 | 7,181 | 8,391 |
| Total liabilities | | 264,462 | 247,982 |
| TOTAL EQUITY AND LIABILITIES | | $ 492,019 | $ 463,985 |

See accompanying notes to financial statements.

Approved by the Board of Directors

**CHRISTOPHER SPITERI**
Director and Chair of the Board

**LEA M. RAY**
Director and Chair of Audit Committee

## STATEMENT OF COMPREHENSIVE RESULTS OF OPERATIONS

### As at December 31, 2014 ($CAD thousands)

| | NOTES | 2014 | 2013 |
|---|---|---|---|
| **REVENUE** | | | |
| Home enrolment fees earned | 10 | $ 27,962 | $ 33,981 |
| Builders' registration and renewal fees | | 3,303 | 3,216 |
| Investment results | | | |
| Investment income | 14 | 23,504 | 34,547 |
| Investment management fees | | (1,355) | (1,345) |
| Other revenue | | 725 | 675 |
| | | 54,139 | 71,074 |
| **EXPENSES** | | | |
| Net claims incurred | 10 | 4,893 | 3,540 |
| Salaries and benefits | | 24,258 | 24,436 |
| General and administrative | | 10,451 | 9,572 |
| Depreciation and amortization | 4, 5 | 3,159 | 3,212 |
| Interest expense | 15 | 561 | 520 |
| | | 43,322 | 41,280 |
| **EXCESS OF REVENUE OVER EXPENSES** | | 10,817 | 29,794 |
| **OTHER COMPREHENSIVE RESULTS OF OPERATIONS** | | | |
| Actuarial gain/(losses) for employee future benefits | 9 | 737 | 1,880 |
| **TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR** | | $ 11,554 | $ 31,674 |

See accompanying notes to financial statements.

## STATEMENT OF CHANGES IN EQUITY

### As at December 31, 2014 ($CAD thousands)

| | 2014 | 2013 |
|---|---|---|
| Beginning of the year | $ 216,003 | $ 184,329 |
| Excess of revenue over expenses for the year | 10,817 | 29,794 |
| Actuarial gains/(losses) for employee future benefits | 737 | 1,880 |
| TOTAL EQUITY, END OF YEAR | $ 227,557 | $ 216,003 |

See accompanying notes to financial statements.

# FINANCIALS

## STATEMENT OF CASH FLOW

### As at December 31, 2014 ($CAD thousands)

| | 2014 | 2013 |
|---|---|---|
| **NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES** | | |
| **OPERATING** | | |
| Home enrolment fees received | $ 41,589 | $ 41,356 |
| Builders' registration fees received | 3,303 | 3,216 |
| Other miscellaneous fees received | 290 | 517 |
| Payments to employees for salaries and benefits | (23,616) | (23,778) |
| Payments to suppliers for general and administrative expenses | (10,706) | (10,131) |
| Claims payments | (9,854) | (7,315) |
| Securities receipts from builders, net of releases | 5,736 | (29) |
| Recoveries from builders for claims and conciliation fees | 4,666 | 3,532 |
| Interest expenses | (523) | (515) |
| Cash provided by operating activities | 10,885 | 6,853 |
| **INVESTING** | | |
| Interest received | 9,394 | 9,442 |
| Dividend received | 9,043 | 4,054 |
| Investment management fees | (1,360) | (1,266) |
| Proceeds from sale and maturity of investments | 649,526 | 844,948 |
| Purchase of investments | (675,010) | (861,313) |
| Purchase of equipment and leaseholds | (165) | (85) |
| Purchase of intangible assets | (1,270) | (2,180) |
| Cash used in investing activities | (9,842) | (6,400) |
| **FINANCING** | | |
| Payment of finance lease liabilities | (645) | (752) |
| Cash used in financing activities | (645) | (752) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR** | 398 | (299) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 2,465 | 2,764 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 2,863 | $ 2,465 |

See accompanying notes to financial statements.

## 1. CORPORATION OPERATIONS

Tarion Warranty Corporation (the "Corporation"), domiciled in Ontario, Canada, was designated in 1976 by the Government of Ontario to administer the Ontario New Home Warranties Plan Act (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment and builder registration fees and invests available funds for the purposes of settling warranty claims from homeowners and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Warranty protection is outlined in the Act and includes providing a warranty to purchasers of new homes in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

The Government of Ontario has designated the Corporation as a non-profit organization incorporated without share capital under the Act. The Corporation's equity is not traded in a public market and it represents the retained accumulation of excess of revenue over expenses and actuarial gains (losses) for employee future benefits. The registered office is located at 5160 Yonge Street, 12th Floor, Toronto, Ontario, M2N 6L9.

As a non-profit organization, the Corporation is exempt from income taxes.

The financial statements for the year ended December 31, 2014 were approved by the Corporation's board of directors and authorized for issue on April 16, 2015.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies used in the preparation of these financial statements are described below.

### EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds are recorded at cost less accumulated depreciation and impairment. The assets' residual values, useful lives and the method of depreciation are reviewed at each financial year end, and adjusted as necessary on a prospective basis. The depreciation expense on equipment and leaseholds is disclosed separately in Note 4 to the financial statements and included in the statement of comprehensive results of operations.

Depreciation is provided at the following rates:

| | |
|---|---|
| Computer equipment | - straight-line over four years |
| Furniture and office equipment | - declining balance at 20% a year |
| Leasehold improvements | - straight-line over the terms of the lease |
| Computer and office equipment under finance lease | - straight-line over the terms of the leases |

Leased property includes buildings, computer and office equipment. There are no renewal terms on building leases but equipment leases include renewal options. These options are based on the fair market value of the equipment and the lease rate available at the time of expiry. The Corporation also has the option to extend leases on a month to month basis making the same payments and this is typically the option taken by the Corporation.

The gain or loss arising on the disposal or retirement of an item of equipment and leaseholds is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive results of operations in other revenue. The gain or loss is recognized upon disposal of an item of equipment and leaseholds or when no future economic benefits are expected from its use or disposal.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### INTANGIBLE ASSETS

Intangible assets consist of software and applications acquired separately and internal software enhancements related to the customization of these software systems and applications. These intangible assets have finite lives and are amortized over their useful economic life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets are disclosed separately in Note 5 to the financial statements and included in the statement of comprehensive results of operations.

| | |
|---|---|
| Software and applications | - straight-line over three years |
| Internal software enhancements | - straight-line over three years |

### FINANCIAL INSTRUMENTS

*IFRS 9(2010) – Financial Instruments* requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

- Financial assets at fair value through profit or loss ("FVTPL")

  Cash and cash equivalents, unsettled investment trade receivable, the fixed income portfolio and the equity portfolio are classified as FVTPL. Financial assets at FVTPL are measured initially at fair value with any gains or losses arising on subsequent measurement recognized in the statement of comprehensive results of operations in investment income.

  Transaction costs are recognized in the statement of comprehensive results of operations as incurred. Interest income on the fixed income portfolio is included in investment income as earned using the effective interest rate. Dividend income on the equity portfolio investments is recognized as of the declaration date in investment income. The gains and losses from currency translation are recognized in the statement of comprehensive results of operations in investment income.

- Financial assets at amortized cost

  Trade and other receivables from vendors and builders are measured at amortized cost. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held and the existence of guarantees. Impairment is assessed at the end of each reporting period. Where there is objective evidence that there is impairment in these amounts, the impairment charge is recognized in the statement of comprehensive results of operations in net claims incurred to reduce the carrying value of the financial assets to their recoverable amounts.

- Other financial liabilities

  Accounts payable and accrued liabilities, and funds held as security, are measured at amortized cost using the effective interest method.

### PREPAID EXPENSES

Prepaid expenses are measured at historical costs. Prepaid expenses are generally settled within one year.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash on hand and at the bank, any short-term deposits with a maturity of up to three months on the date of purchase and any bank overdrafts payable on demand. There are no restrictions or limitations to the use of the cash and cash equivalents.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### EMPLOYEE FUTURE BENEFITS

In addition to participating in government managed employee benefit plans, the Corporation has the following employee benefit plans:

- A pension plan consisting of a fully vested and closed defined benefit component, and an active defined contribution component; and
- A post-employment medical and dental benefits plan for employees.

The costs of pension and other post-employment benefits earned by employees are actuarially determined using the projected unit credit valuation method. This takes into account management's best estimates of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses are recognized in the comprehensive results of operations in the period they occur. They are not reclassified to excess of revenue over expenses in subsequent periods.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The defined benefit asset or liability comprises the net present value of the defined benefit obligation less the fair value of the plan assets, out of which obligations are to be settled. Plan assets are held in a trust and are not available to creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value is based on market price information.

The Corporation's contributions to the defined contribution pension plan are expensed in the statement of comprehensive results of operations in the year to which they relate and are included as part of salaries and benefits expenses.

### WARRANTY LIABILITIES

Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statement of financial position date where it is anticipated that costs will be incurred by the Corporation.

The warranty period spans seven years and significant periods of time can elapse between the incurrence of claims liabilities and their settlement. Accordingly, the estimation of the liabilities involves significant measurement uncertainty.

The liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. The discount rate reflects the expected future yield from the fixed interest investments. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the timing of settlements may differ from expected timing.

Claims incurred include claims recoveries and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include amounts recovered from builders on claims incurred during the current year or in previous years and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the statement of financial position as an asset of the Corporation.

### LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the statement of comprehensive results of operations.

Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### PROVISIONS

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as a separate asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Expenses related to any provision are presented in the statement of comprehensive results of operations net of any reimbursement.

### REVENUE RECOGNITION

- Home enrolment fees earned and builders' registration and renewal fees

  Home enrolment fees are remitted by builders during the year. These fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The earning patterns are reviewed annually. When the initial selected patterns for prior years' enrolments differ from the actual claims emergence, the patterns are updated (see Note 10 for 2014 update). The deferred portion of home enrolment fees is included in warranty liabilities. If claims experience indicates that home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

  Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due.

  Other revenue comprises of various administration fees charged for services generally related to the handling of claims and licensing and underwriting. These fees are recorded as earned.

### INTEREST EXPENSE

Interest expense is recognized in the statement of comprehensive results of operations as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing liability.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. The Corporation reviews and considers both internal and external sources of information that indicate any events or changes in circumstances causing the carrying amount of the non-financial assets not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the cash generating unit exceeds its recoverable amount, which is the higher of the cash generating unit's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive results of operations.

### CURRENCY TRANSLATION

The Corporation's financial statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end rate. The translation impact is recorded in the statement of comprehensive results of operations in the period in which they arise. Exchange gains or losses on financial assets at fair value through profit or loss are reported as part of investment income in the statement of comprehensive results of operations. Revenue and expense items in a foreign currency are translated into Canadian dollars at the transaction date rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### FUTURE ACCOUNTING CHANGES

*IFRS 4 – Insurance Contracts*

In June 2013, the IASB proposed a new accounting and reporting model for insurance contracts in a re-exposure draft. The proposals would apply to all insurance contracts, including certain financial guarantees, rather than insurance entities, and to investment contracts with a Discretionary Participation Feature (DPF) issued by insurance companies.

Some of the key points proposed in the exposure draft include:

- No gains at inception of policy, but losses possible (as "onerous contracts").
- Discounting is required using a risk-free (e.g., government bond) interest rate, plus a "liquidity adjustment". There is no linkage of the discount rate to assets actually held (limited exceptions for asset-linked and participating business).
- A margin on top of discounted cash flows to be required, but different from Canadian actuarial provisions for adverse deviations.

The proposals in the re-exposure draft introduce a number of significant changes, including:

- the use of other comprehensive income to present changes in the measurement of insurance liabilities arising from changes in discount rates;
- a new presentation approach for both the statement of profit or loss and other comprehensive income and the statement of financial position, which would change the way insurers report performance;
- an unlocked contractual service margin, which would change the timing of profit recognition;
- a mirroring approach, which would reduce accounting mismatches by aligning the measurement of contracts whose cash flows vary with underlying terms; and
- a retrospective approach for the transition to the new standard, with practical expedients.

The final standard is expected to be issued with a mandatory implementation date which will not be before 2018.

Management continues to monitor developments in this area and will develop a plan to evaluate the impact on the Corporation's financial statements once the final standard is issued.

*IFRS 9 – Financial Instruments*

On July 24, 2014, the IASB issued the completed version of IFRS 9 to replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The Corporation early adopted IFRS 9 (2010) effective January 1, 2011 and all financial assets were classified as amortized cost or Fair Value Through Profit or Loss ("FVTPL").

The finalized standard introduced a fair value through other comprehensive income ("FVTOCI") measurement category for debt instruments meeting certain criteria. A fair value option, similar to the current "FVTPL", would continue to be available on the condition that accounting mis-matches are reduced.

The standard also requires an expected credit loss model in relation to the impairment of financial assets as opposed to an incurred credit loss model under IAS 39.

The new standard has a mandatory effective date of January 1, 2018, but may be adopted early. As the standard has been completed in stages, entities that have adopted a previous version prior to February 1, 2015 may continue to apply that version until the mandatory effective date of January 1, 2018. The Corporation will perform a thorough assessment on the impact of these changes on its financial statements for implementation in 2018.

## 3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Actual amounts could differ from those estimates.

*Key Management Judgments*

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

- Internally generated software enhancements

  Internally generated software enhancements costs are capitalized if, and only if, all of the following criteria are met: (1) the technical feasibility can be demonstrated; (2) management has the intention to complete the intangible asset and use it; (3) management has the ability to use the intangible asset; (4) the intangible asset will generate probable future economic benefits; (5) the availability of adequate technical, financial and other resources to complete the development and use the intangible asset; and (6) expenditures attributable to the intangible asset can be measured reliably.

*Key Management Estimates and Assumptions*

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

- Valuation of warranty liabilities

  Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the statement of financial position date where it is anticipated that costs will be incurred by the Corporation. The amount of claims liabilities equals the present value, at the statement of financial position date, of cash flows on account of claims (and related expenses) incurred before that date. The ultimate cost of outstanding claims is estimated by using actuarial valuation taking into account the Corporation's claims handling practices, actuarial assessments, the judgment of management, difference between actual and expected settlement amounts, historical precedents and trends, prevailing legal, economic, social and regulatory environments and expectations of future developments. Details of the key assumptions used in the estimates are contained in Note 10. The warranty liabilities amounts presented for these claims are stated at the actual amounts expected to be paid directly by the Corporation to settle its obligations which reflect the amounts paid in the normal course of operations.

- Valuation of trade and other receivables from vendors and builders

  Trade and other receivables from vendors and builders recorded in the statement of financial position are measured at amortized cost less impairment, which approximates fair value. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought and judgments awarded. Details of the key assumptions used in the estimates are contained in Note 6.

- Revenue recognition of home enrolment fees earned

  Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 10.

- Useful lives of depreciable assets

  The Corporation reviews the useful lives of depreciable assets at each reporting date. At December 31, 2014, management assessed that the useful lives reflect the expected use of the assets to the Corporation.

- Employee future benefits

  The costs of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 9.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 4. EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31, 2014:

| | Computer Equipment | Furniture and Office Equipment | Leasehold Improvements | Computer and Office Equipment Under Finance Lease | Total |
|---|---|---|---|---|---|
| ***At cost*** | | | | | |
| Balance at December 31, 2013 | $ 1,537 | $ 1,512 | $ 2,432 | $ 2,525 | $ 8,006 |
| Additions | 132 | 32 | – | 634 | 798 |
| Disposals | – | – | – | (682) | (682) |
| Balance at December 31, 2014 | 1,669 | 1,544 | 2,432 | 2,477 | 8,122 |
| ***Accumulated depreciation*** | | | | | |
| Balance at January 1, 2014 | 1,397 | 1,237 | 1,041 | 1,245 | 4,920 |
| Depreciation expense | 87 | 58 | 195 | 706 | 1,046 |
| Disposal | | | | (512) | (512) |
| Balance at December 31, 2014 | 1,484 | 1,295 | 1,236 | 1,439 | 5,454 |
| ***Carrying amount*** | | | | | |
| **Balance at December 31, 2014** | **$ 185** | **$ 249** | **$ 1,196** | **$ 1,038** | **$ 2,668** |
| Balance at December 31, 2013 | $ 140 | $ 275 | $ 1,391 | $ 1,280 | $ 3,086 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 5. INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of externally purchased software and applications and internally developed software enhancements.

| | Software and Applications | Internal Software Enhancements | Total |
|---|---|---|---|
| ***At cost*** | | | |
| Balance at December 31, 2013 | $ 8,215 | $ 3,593 | $ 11,808 |
| Additions | 1,079 | 191 | 1,270 |
| Disposal | – | – | – |
| Balance at December 31, 2014 | 9,294 | 3,784 | 13,078 |
| ***Accumulated amortization*** | | | |
| Balance at January 1, 2014 | 5,614 | 2,424 | 8,083 |
| Amortization expense | 1,443 | 690 | 2,133 |
| Disposal | – | – | – |
| Balance at December 31, 2014 | 7,057 | 3,114 | 10,171 |
| ***Carrying amount*** | | | |
| **Balance at December 31, 2014** | **$ 2,237** | **$ 670** | **$ 2,907** |
| Balance at December 31, 2013 | $ 2,601 | $ 1,169 | $ 3,770 |

Development costs recognized as an expense under general and administrative in the statement of comprehensive results of operations during the year amount to $240 (2013 - $461).

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 6. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

Trade and other receivables from vendors and builders consist of three types of receivables:

- Trade receivables from vendors and builders represent amounts receivable arising from warranty claims that the Corporation has paid out on behalf of vendors and builders during the remediation process. Trade receivables from vendors and builders are measured at amortized cost less impairment. Amounts receivable from registered builders are classified as financial assets. All the amounts are due immediately.

- Amounts recoverable from vendors and builders represent the estimated amounts recoverable from vendors and builders in respect to the outstanding warranty claims recognized under the warranty liabilities. Amounts are invoiced to the vendors and builders only when the Corporation has paid out monies for the claim.

- Other receivables from vendors and builders represent other receivables such as enrolment and/or registration fees.

| | 2014 | 2013 |
|---|---|---|
| Gross trade receivables | $ 20,915 | $ 20,933 |
| Less: Allowance for impairment | (19,334) | (18,642) |
| Trade receivables | 1,581 | 2,291 |
| Amounts recoverable from vendors and builders | 2,682 | 2,298 |
| Other receivables from vendors and builders | 588 | 529 |
| | $ 4,851 | $ 5,118 |

Before accepting registration for any vendor and builder, the Corporation undergoes an underwriting process that typically includes obtaining an external credit score to assist in assessing the applicant's credit quality, an assessment of the applicant's construction expertise, the applicant's business acumen and where applicable, the merits of the applicant's proposal to construct a building or project. Terms and conditions of registration vary from applicant to applicant but typically include limits on the volume and type of new home construction, and a requirement to provide security and/or indemnitors. Assessments are revisited annually at registration renewal time or earlier if additional risk factors surface.

As at December 31, 2014, there are three (2013 - five) vendors and builders each of whom represent more than 5% of the balance of trade receivables net of allowances. However, due to trade receivables being almost fully reserved, the overall net exposure of the Corporation to these vendors and builders as at December 31, 2014 is only $760 (2013 - $1,175).

As described in Note 11, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2014 there is $2,498 (2013 - $2,083) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

### UNREGISTERED VENDORS AND BUILDERS

Warranty coverage is also available for homes which were built by unregistered builders. However, under the Act, unregistered builders are deemed to be building illegally and are subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unregistered vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2014 are amounts recoverable from unregistered vendors and builders of $169 (2013 - $191).

### AGING OF PAST DUE BUT NOT IMPAIRED

In assessing the impairment of the Trade and other receivables from vendors and builders, the Corporation individually assesses accounts that are greater than $50 based on the credit history of the vendor/builder, its financial condition, security held, legal action sought and judgment awarded. For accounts less than $50, a general recovery rate is applied. The rate used depends on the account status as to whether it is in collection litigation or active collection. The recoverability rates are based on trailing averages. As at December 31, 2014, a 1% change in these rates would have an impact of $9 (2013 - $9) to the trade receivables. These rates are recalculated annually and assessed for reasonability.

Actual recovery on these balances may differ if the financial health of the vendor/builder changes, if the guarantors/indemnitors financial situation changes and/or if the court or tribunal's decision differs from that of the Corporation. The objective evidence of impairment for the amounts recoverable from builders includes the Corporation's past collection experience, financial condition of the builders, security held, legal action sought, and judgments awarded.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 6. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

As at December 31, 2014, the trade and other receivables from vendors and builders includes $1,263 (2013 -$1,753) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts as they fall due. In addition, the credit quality of these builders' receivables is enhanced by the existence of indemnities and/or guarantees.

| | 2014 | 2013 |
|---|---|---|
| 1 to 90 days | $ 318 | $ 538 |
| 91 to 360 days | 543 | 837 |
| Over 360 days | 720 | 916 |
| **Total receivables, end of year** | $ 1,581 | $ 2,291 |

***Movement In Trade Receivables***

| | 2014 | 2013 |
|---|---|---|
| Gross trade receivables | | |
| Beginning of year | $ 20,933 | $ 22,527 |
| New bills issued | 9,307 | 6,076 |
| Write-offs processed | (4,687) | (4,137) |
| Recoveries | (4,638) | (3,533) |
| End of year | $ 20,915 | $ 20,933 |
| Allowance for impairment | | |
| Beginning of year | $ (18,642) | $ (20,819) |
| Impairment losses recognized (net of recoveries) | (5,379) | (1,960) |
| Write-offs processed | 4,687 | 4,137 |
| End of year | $ (19,334) | $ (18,642) |
| **Trade receivables, end of year** | $ 1,581 | $ 2,291 |

The Corporation employs various methods to collect its receivables which could extend over multiple years. Trade receivables are written off when the likelihood of further collection is considered remote, or until a settlement agreement is reached. Until such time, an allowance for impairment is carried.

## 7. FINANCIAL INSTRUMENTS

### (A) FAIR VALUE

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and cash equivalents and investments are measured at fair value. The carrying value for accounts payable and accrued liabilities approximates fair value due to their short-term nature.

The Corporation has classified the fixed income portfolio and the equity portfolio as FVTPL financial assets. Both classes of assets are reported at fair value based on quoted bid prices in active markets on the statement of financial position. The fair values of bonds and equities denominated in foreign currencies, if any, are translated into Canadian dollars at the exchange rate in effect as at the reporting date.

The fair value of trade and other receivables from vendors and builders approximates carrying value; there is no external active market for this type of asset and the inputs required to value these are primarily based on the Corporation's assumptions about the credit quality of the vendors and builders, and the availability of collateral for the receivable. See Note 6 on the valuation methodology used.

Under *IFRS 7 – Financial Instruments Disclosure*, the fair value of financial liabilities measured using amortized cost has to be disclosed and categorized according to a fair value hierarchy. The fair value of the funds held as security is calculated based on discounted cash flow. The key inputs include cash flow received from builders by builder as security, the estimated duration periods of such funds by building types and a discount rate of 4%. Management has categorized such liabilities as level 3 as they were valued using internal assumptions with respect to the inputs.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 7. FINANCIAL INSTRUMENTS (continued)

*Fair Value Hierarchy*

*IFRS 13 – Fair value measurement* requires classifying of fair value measurements using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities:

- Level 1 – Inputs are unadjusted quoted prices of identical instruments in active markets
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs used in a valuation technique are based on unobservable market data

The following table discloses the categories of financial instruments measured at fair value and classified by fair value hierarchy as at December 31, 2014:

| | 2014 | | | 2014 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Financial assets measured at fair value through profit or loss (FVTPL) | | | | |
| Fixed income portfolio: | | | | |
| Federal, provincial and municipal government bonds | $ – | $ 151,609 | $ – | $ 151,609 |
| Financial institution bonds | – | 109,464 | – | 109,464 |
| Other corporate bonds | – | 56,600 | – | 56,600 |
| Treasury bills and short-term notes | – | 20,024 | – | 20,024 |
| | – | 337,697 | – | 337,697 |
| Equity portfolio | 37,962 | 102,822 | – | 140,784 |
| Total investments | 37,962 | 440,519 | – | 478,481 |
| Cash and cash equivalents | 2,863 | – | – | 2,863 |
| | 40,825 | 440,519 | – | 481,344 |
| Financial liabilities measured at fair value through profit or loss (FVTPL) | | | | |
| Unsettled investment payable | 16 | – | – | 16 |
| Financial liabilities measured at amortized cost | | | | |
| Funds held as security | – | – | 43,445 | 43,445 |
| Total financial liabilities | $ 16 | $ – | $ 43,445 | $ 43,461 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 7. FINANCIAL INSTRUMENTS (continued)

| | 2013 | | | 2013 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Financial assets measured at fair value through profit or loss (FVTPL) | | | | |
| Fixed income portfolio: | | | | |
| Federal, provincial and municipal government bonds | $ – | $ 126,480 | $ – | $ 126,480 |
| Financial institution bonds | – | 102,128 | – | 102,128 |
| Other corporate bonds | – | 62,962 | – | 62,962 |
| Treasury bills and short-term notes | 4,058 | 26,230 | – | 30,288 |
| | 4,058 | 317,800 | – | 321,858 |
| Equity portfolio | 36,249 | 91,172 | – | 127,421 |
| Total investments | 40,307 | 408,972 | – | 449,279 |
| Cash and cash equivalents | 2,465 | – | – | 2,465 |
| | 42,772 | 408,972 | – | 451,744 |
| Financial liabilities measured at fair value through profit or loss (FVTPL) | | | | |
| Unsettled investment payable | 1,333 | – | – | 1,333 |
| Financial liabilities measured at amortized cost | | | | |
| Funds held as security | – | – | 38,288 | 38,288 |
| Total financial liabilities | $ 1,333 | $ – | $ 38,288 | $ 39,621 |

During the years ended December 31, 2014 and 2013, there were no transfers among Levels 1, 2 and 3.

**(B) MARKET RISK**

To manage the risks in the investment portfolio, management regularly monitors the performance of investment managers who are required to operate within specific investment criteria related to credit quality, diversification and to maximize yield within those constraints.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 7. FINANCIAL INSTRUMENTS (continued)

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below.

- Interest rate risk

  Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio and its funds held as security. Details of the Corporation's fixed income portfolio with interest rate exposure as at December 31 are disclosed below:

| 2014 | TERMS OF MATURITY (1) | | | |
|---|---|---|---|---|
| | Due within one year | Due one through five years | Due after five years | Total |
| Government | | | | |
| Federal | $ 44,592 | $ 68,001 | $ – | $ 112,593 |
| Yield to Maturity (YTM) | 1.1% | 1.3% | – | 1.2% |
| Provincial | 5,404 | 33,134 | – | 38,538 |
| YTM | 1.1% | 1.5% | – | 1.4% |
| Treasury Bills | 20,006 | – | – | 20,006 |
| YTM | 0.9% | – | – | 0.9% |
| Total Government | 70,002 | 101,135 | – | 171,137 |
| YTM (%) | 1.0% | 1.3% | – | 1.2% |
| Financial Institutions | 51,003 | 56,655 | 981 | 108,639 |
| YTM | 1.5% | 1.8% | 2.6% | 1.7% |
| Other Corporate | 10,009 | 40,975 | 5,130 | 56,114 |
| YTM | 1.5% | 1.9% | 2.6% | 1.9% |
| Short-Term Notes | – | – | – | – |
| YTM | – | – | – | – |
| Total Fixed Income | $ 131,014 | $ 198,765 | $ 6,111 | $ 335,890 |
| Accrued Interest | 1,807 | – | – | 1,807 |
| **Total Fixed Income with Accrued Interest** | **$ 132,821** | **$ 198,765** | **$ 6,111** | **$ 337,697** |
| **YTM** | **1.3%** | **1.6%** | **2.6%** | **1.5%** |

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 7. FINANCIAL INSTRUMENTS (continued)

| 2013 | TERMS OF MATURITY (1) | | | |
|---|---|---|---|---|
| | Due within one year | Due one through five years | Due after five years | Total |
| Government | | | | |
| Federal | $ 33,027 | $ $59,095 | $ – | $ $92,123 |
| Yield to Maturity (YTM) | 1.0% | 1.5% | – | 1.3% |
| Provincial | 4,692 | 29,103 | – | 33,795 |
| YTM | 1.1% | 1.8% | – | 1.7% |
| Treasury Bills | 26,198 | – | – | 26,198 |
| YTM | 0.9% | – | – | 0.9% |
| Total Government | 63,917 | 88,198 | – | 152,116 |
| YTM (%) | 1.0% | 1.6% | – | 1.3% |
| Financial Institutions | 44,406 | 57,002 | – | 101,408 |
| YTM | 1.4% | 2.0% | – | 1.7% |
| Other Corporate | 19,860 | 38,709 | 3,707 | 62,276 |
| YTM | 3.6% | 2.0% | 3.3% | 2.6% |
| Short-Term Notes | 4,058 | – | – | 4,058 |
| YTM | 1.2% | – | – | 1.2% |
| Total Fixed Income | $ 132,241 | $ 183,909 | $ 3,707 | $ 319,858 |
| Accrued Interest | 2,000 | – | – | 2,000 |
| **Total Fixed Income with Accrued Interest** | **$ 134,241** | **$ 183,909** | **$ 3,707** | **$ 321,858** |
| **YTM** | **1.5%** | **1.8%** | **3.3%** | **1.7%** |

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 7. FINANCIAL INSTRUMENTS (continued)

- Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio, including through its pooled fund investments. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Financials | $ | **43,662** | **31%** | $ | 38,015 | 30% |
| Energy | | **19,513** | **14%** | | 19,098 | 15% |
| Industrials | | **16,128** | **11%** | | 14,695 | 12% |
| Consumer Discretionary | | **13,244** | **9%** | | 11,302 | 9% |
| Consumer Staples | | **10,008** | **7%** | | 8,803 | 7% |
| Materials | | **9,829** | **7%** | | 9,106 | 7% |
| Information Technology | | **7,984** | **6%** | | 7,276 | 6% |
| Health Care | | **6,729** | **5%** | | 6,921 | 5% |
| Telecommunication | | **6,596** | **5%** | | 6,422 | 5% |
| Other | | **4,415** | **3%** | | 3,493 | 3% |
| Utilities | | **2,676** | **2%** | | 2,290 | 2% |
| **Total:** | **$** | **140,784** | **100%** | $ | 127,421 | 100% |

- Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The equity portfolio contains investment in pooled funds along with investment in individual securities. The Corporation is exposed to currency risk on its global pooled fund and/or U.S. denominated investments. As at December 31, 2014, the Corporation had approximately 15.5% (2013 - 13.6%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 7.7% (2013 - 6.2%). The Corporation manages its foreign currency exposure by limiting the foreign content in the investment managers' portfolio.

## 7. FINANCIAL INSTRUMENTS (continued)

The table below shows the potential impact on the statement of comprehensive results of operations and statement of changes in equity as a result of specific stress scenarios applied to financial assets and financial liabilities (excluding warranty liabilities). The analysis reflects management's view of key sensitivities. The actual results may differ from this sensitivity analysis and the difference could be material.

The stress scenarios for 2014 are:

- Interest rate risk: a shift of -25/+25 basis points in interest rates for all maturities. Funds held as security are credited at floating interest rates (Prime less 2%) and are changed semi-annually to calculate the interest paid on security. The annual interest paid impact on a -25/+25 basis points change in interest rates is disclosed below.
- Equity price risk: an increase/decrease of 10% in equity market prices.
- Foreign currency risk: a strengthening/weakening of 5% in the Canadian dollar relative to the U.S. dollar in the table below.

The stress scenarios for 2014 are:

| | Fair Value Amount | Interest Rate Risk | | Equity Price Risk | | Foreign Exchange | |
|---|---|---|---|---|---|---|---|
| | | -25 BP | +25 BP | -10% | +10% | -5% | +5% |
| | **($'000)** | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| FVTPL investments: | | | | | | | |
| Fixed income portfolio | 337,697 | 1,516 | (1,495) | | | (278) | 278 |
| Equity portfolio | 140,784 | | | (14,069) | 14,069 | (1,576) | 1,576 |

The stress scenarios for 2013 are:

| | Fair Value Amount | Interest Rate Risk | | Equity Price Risk | | Foreign Exchange Rate Risk | |
|---|---|---|---|---|---|---|---|
| | | -25 BP | +25 BP | -10% | +10% | -5% | +5% |
| | **($'000)** | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| FVTPL investments: | | | | | | | |
| Fixed income portfolio | 321,858 | 1,461 | (1,443) | | | – | – |
| Equity portfolio | 127,421 | – | – | (12,733) | 12,733 | (1,393) | 1,393 |

For the above scenarios, the Corporation has assumed that interest rates, equity prices, and currency moved independently.

## 7. FINANCIAL INSTRUMENTS (continued)

### (C) CREDIT RISK

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, investments and trade and other receivables from vendors and builders. The carrying value of financial assets, including cash and cash equivalents, investments and trade and other receivables from vendors and builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policies limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit.
- The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of A for debt securities at the time an investment is purchased. At December 31, 2014, 100% (2013 - 100%) of the debt securities have a rating of A or better.
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 11, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

### (D) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved and the cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 11). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily disposed of. The Corporation also has a $3,000 (2013 - $3,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2014 is Nil (2013 - Nil).

## 8. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents include cash at the bank and on hand and investments in short-term deposits with a maturity of up to three months on the date of purchase, net of outstanding bank overdrafts. At December 31, 2014, cash and cash equivalents was solely cash at the bank and on hand of $2,863 (2013 - $2,465) with no short-term deposits or bank overdrafts payable on demand. There are no restrictions, pledges or limitations to the use of the cash and cash equivalents.

## 9. EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan, The Pension Plan for the Employees of Tarion Warranty Corporation, is comprised of a defined benefit provision ("DB Plan") which is closed to further accruals, and a defined contribution provision ("DC Plan").

In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily health and dental coverage, on an unfunded basis.

### DEFINED CONTRIBUTION PLAN

The DC Plan is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the DC Plan, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

There also exists a Supplementary Executive Retirement Plan ("SERP") for senior management. The purpose of the SERP is to offset the limitation on contributions otherwise payable under the registered pension plan resulting from the application of the maximum contribution limits specified under the Income Tax Act (Canada). The SERP provides only for benefits in excess of those payable under the Registered Plan.

### DEFINED BENEFIT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The DB Plan is fully vested and closed to new employees effective January 1, 1999. Plan participants who elected not to convert to the defined contribution provision retained their DB pensions earned to date. For service subsequent to December 31, 1998, all members of the Pension Plan participate on a defined contribution basis.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The DB Plan and OPEB are subject to periodic actuarial valuations. The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2014 and a valuation of the OPEB was performed as of December 31, 2014. The next valuation of the accrued pension benefit obligation is expected to be performed as at January 1, 2017 and the valuation of the OPEB will be performed as at December 31, 2017.

**PENSION PLAN REGULATORY FRAMEWORK**

The Pension Plan is registered with the Financial Services Commission of Ontario (# 0594754) and with the Canada Revenue Agency.

Under the Ontario Pension Benefits Act, the employer must make contributions to fully fund the plan. The plan's liabilities are determined using actuarial valuations once every three years or on an annual basis, if the market value of the assets is below 85% of the solvency liabilities.

According to the actuarial valuation for funding purposes as at January 1, 2014, the plan has a shortfall on both the going concern and solvency basis. Thus, the employer made minimum amortization payments to fund the shortfall in accordance with Regulation.

The estimated required amortization payments in 2015 amount to $183. The expected Employer contributions in respect of current accruals to the DC Plan in 2015 are $1,063 (employee contributions are expected to be $591).

**PLAN GOVERNANCE**

The Human Resources & Compensation Committee and the Investment Committee are responsible for the management and administration of the plan, which it delegates to various providers. Manulife Financial is the custodian and is responsible for maintaining the assets, receiving contributions and investment income, paying out benefits and expenses as instructed. The assets of the defined benefit component of the Pension Plan is invested in Beutel Goodman balanced pooled fund. Morneau Shepell, the actuary and pension consultant, is responsible for providing actuarial, administrative and consulting services to the plan. Aon Hewitt provides investment consulting services to the plan. All external providers report to the plan administrator.

**SIGNIFICANT RISKS TO WHICH THE PLAN EXPOSES THE ENTITY**

In addition to the traditional risks (market risk, credit risk, currency risk, longevity risk, etc.), the plan exposes the entity to no other unusual risk.

The amounts recognized in the statement of financial position for employee future benefits liabilities at the statement of financial position date are shown in the table below:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **DB Plan** | **OPEB** | **Total** | DB Plan | OPEB | Total |
| Fair value of DB assets | **$ 4,147** | **$ –** | **$ 4,147** | $ 4,028 | $ – | $ 4,028 |
| Present value of the defined benefit obligation | **(4,711)** | **(4,631)** | **(9,342)** | (4,217) | (5,194) | (9,411) |
| Net defined benefit obligation | **(564)** | **(4,631)** | **(5,195)** | (189) | (5,194) | (5,383) |
| Accrued liability | **$ (564)** | **$ (4,631)** | **$ (5,195)** | $ (189) | $ (5,194) | $ (5,383) |
| Employer contributions | **$ 168** | **$ 32** | **$ 200** | $ – | $ 24 | $ 24 |
| Employee contributions | **–** | **–** | **–** | – | – | – |
| Benefit payments and transfers to other plans | **$ 321** | **$ 32** | **$ 353** | $ 745 | $ 24 | $ 769 |

The present value of the SERP obligation as at December 31, 2014 was $572 (2013 - $443), which is included in the OPEB amounts in the table above. The benefit payments to the SERP for the year ended December 31, 2014 were $NIL (2013 - $1).

For the year ended December 31, 2014, the employer contributions to the DC Plan were $1,042 (2013 - $1,064), and the employee contributions to the DC Plan were $579 (2013 - $588).

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

### HISTORICAL FUNDING TABLE

The employee benefits amounts for the current and previous years are as follows:

| | 2014 | 2013 |
|---|---|---|
| Fair value of DB assets | $ 4,147 | $ 4,028 |
| Accrued Benefit Obligation, DB Plan | (4,711) | (4,217) |
| Deficit DB Plan | (564) | (189) |
| Accrued Benefit Obligation, OPEB | (4,059) | (4,751) |
| Accrued Benefit Obligation, SERP | (572) | (443) |
| Net Employee Benefits Obligation Reported | $ (5,195) | $ (5,383) |
| | | |
| Experience adjustments on employee future benefits liabilities | $ 586 | $ 1,409 |
| Experience adjustments on pension assets | $ 151 | $ 471 |

As of December 31, 2014, the current liabilities are $32 (2013 - $24) with respect to the OPEB plan. There are no current liabilities with respect to the other plans.

The movements in the present value of accrued benefit obligation are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | DB Plan | OPEB | Total | DB Plan | OPEB | Total |
| Beginning of year | $ (4,217) | $ (5,193) | $ (9,410) | $ (5,425) | $ (5,250) | $ (10,675) |
| Current service cost | – | (369) | (369) | – | (434) | (434) |
| Past service cost | – | – | – | – | – | – |
| Interest costs | (194) | (308) | (502) | (202) | (278) | (480) |
| Benefit payments | 321 | 32 | 353 | 746 | 24 | 770 |
| Actuarial gain/(loss) arising from plan experience | (160) | 1,957 | 1,797 | 268 | – | 268 |
| Actuarial gain/(loss) arising from changes in demographic assumptions | (31) | (223) | (254) | (238) | (486) | (724) |
| Actuarial gain/(loss) arising from changes in financial assumptions | (430) | (527) | (957) | 634 | 1,231 | 1,865 |
| Curtailments/settlements | – | – | – | – | – | – |
| Accrued obligation, end of year | $ (4,711) | $ (4,631) | $ (9,342) | $ (4,217) | $ (5,193) | $ (9,410) |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The movements in the fair value of plan assets are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | DB Plan | OPEB | Total | DB Plan | OPEB | Total |
| Beginning of year | $ 4,028 | $ – | $ 4,028 | $ 4,222 | $ – | $ 4,222 |
| Contributions by employer | 168 | 32 | 200 | – | 24 | 24 |
| Expected income on plan assets | 188 | – | 188 | 154 | – | 154 |
| Actuarial gains | 151 | – | 151 | 471 | – | 471 |
| Benefits paid | (321) | (32) | (353) | (746) | (24) | (770) |
| Administration costs* | (67) | – | (67) | (73) | – | (73) |
| Curtailments/settlements | – | – | – | – | – | – |
| DB Plan assets, end of year | $ 4,147 | $ – | $ 4,147 | $ 4,028 | $ – | $ 4,028 |

* Paid from plan assets and excluding cost of managing plan assets.

The major categories of plan assets at the end of the reporting period for each category are as follows:

| | Fair Value of DB Plan Assets | |
|---|---|---|
| | 2014 | 2013 |
| Canadian equity securities | 32% | 31% |
| International and US equity securities | 34% | 35% |
| Bonds | 32% | 31% |
| Cash | 2% | 3% |
| | 100% | 100% |

The expected income on the DB assets net of investment expenses is determined based on the liability discount rate at the beginning of the year (i.e. 4.75% for 2014 and 4.00% for 2013). The actual return on the DB assets net of investment expenses was $388 in 2014 and $625 in 2013.

A discount rate of 4.00% per annum and 4.25% per annum was used for the disclosures at December 31, 2014 for the Pension Plan and OPEB respectively. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2014.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The amounts recognized in the statement of comprehensive results of operations in respect of the employee benefits liabilities are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **DB Plan** | **OPEB** | **Total** | DB Plan | OPEB | Total |
| Current service costs | $ – | $ 369 | $ 369 | $ – | $ 434 | $ 434 |
| Administration costs (non-investment related) | 67 | n/a | 67 | 73 | n/a | 73 |
| Past service cost (including curtailment) | – | – | – | – | – | – |
| Loss (gain) on settlement | – | – | – | – | – | – |
| **Service Cost** | **67** | **369** | **436** | **73** | **434** | **507** |
| Interest cost on the defined benefit obligation | 194 | 308 | 502 | 202 | 278 | 480 |
| Expected income on plan assets | (188) | – | (188) | (154) | – | (154) |
| Interest on the effect of the asset ceiling | – | – | – | – | – | – |
| **Net interest on the net defined benefit liability (asset)** | **6** | **308** | **314** | **48** | **278** | **326** |
| **Expense (income) recognized in profit or loss** | **73** | **677** | **750** | **121** | **712** | **833** |
| **Remeasurements of the net defined benefit liability (asset)** | | | | | | |
| Actuarial loss (gain) on the defined benefit liability (asset) | 621 | (1,207) | (586) | (664) | (745) | (1,409) |
| Return on plan assets less expected income on plan assets | (151) | – | (151) | (471) | – | (471) |
| Change in the effect of the asset ceiling (excluding interest) | – | – | – | – | – | – |
| **Total amount recognized in other comprehensive results of operations** | **$ 470** | **$ (1,207)** | **$ (737)** | **$ (1,135)** | **$ (745)** | **$ (1,880)** |

The net expense for the SERP in was $129 (2013 - $148) included in the OPEB amounts above. The net expense for the DC Plan in 2014 was $1,042 (2013 - $1,064).

Service cost is reported as part of the Corporation's total salaries and benefits expense in the statement of comprehensive results of operations.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

### SIGNIFICANT ASSUMPTIONS

The discount rate was determined with reference to market interest rates of AA corporate bond yields. As per IAS19R, *Employee benefits*, the expected income on DB assets net of investment expenses is determined based on the discount rate used for determining the accrued benefit obligation.

The principal actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **DB Plan** | **OPEB** | DB Plan | OPEB |
| **Accrued Benefit Obligation as of December 31:** | | | | |
| Discount rate | 4.00% | 4.25% | 4.75% | 5.00% |
| Salary increase | 2.25% | N/A | 2.25% | N/A |
| General inflation | 2.25% | 2.25% | 2.25% | 2.25% |
| Mortality | New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B | New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B | CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A | CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A |
| **Benefit Cost for the Period:** | | | | |
| Discount rate | 4.75% | 5.00% | 4.00% | 4.00% |
| Salary increase | 2.25% | N/A | 3.50% | N/A |
| General inflation | 2.25% | 2.25% | 2.50% | 2.50% |
| Mortality | CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A | CPM-RPP2014 Priv Table, projected generationally using improvement scale CPM-A | UP94, projected generationally | UP94, projected generationally |
| **Assumed Health Care Cost Trend Rates at December 31:** | | | | |
| Initial health care cost trend rate | N/A | 6.00% | N/A | 7.00% |
| Cost trend rate declines to | N/A | 4.75% | N/A | 5.00% |
| Year that the rate reaches the rate it is assumed to stay at | N/A | 2020 | N/A | 2018 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 9. EMPLOYEE FUTURE BENEFIT PLANS (continued)

### SENSITIVITY ANALYSIS FOR OPEB

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. The following demonstrates the impact of a one-percentage change in these assumptions to the accrued benefit obligation at December 31, 2014:

| | | 1% Change in Health and Dental Care Trend Rates | |
|---|---|---|---|
| | Valuation Assumptions | Increase | Decrease |
| Accrued benefit obligation as at December 31, 2014 at 4.25% per annum | $ 4,059 | $ 1,159 | $ (848) |

| | | 1% Change in Discount Rate | |
|---|---|---|---|
| | Valuation Assumptions | Increase | Decrease |
| Accrued benefit obligation as at December 31, 2014 at 4.25% per annum | $ 4,059 | $ (833) | $ 1,142 |

### SENSITIVITY ANALYSIS FOR DB PENSION PLAN

The discount rates have a significant effect on the amounts reported for the DB pension plan. A one-percentage change in the discount rate would have the following impact on accrued benefit obligation and related costs for 2014:

| | | 1% Change in Discount Rate | |
|---|---|---|---|
| | Valuation Assumptions | Increase | Decrease |
| Accrued benefit obligation as at December 31, 2014 at 4.00% per annum | $ 4,711 | $ (566) | $ 687 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES

The determination of the Corporation's warranty liabilities is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgment of its management, on historical precedents and trends, on prevailing legal, economic, social and regulatory environments and on expectations of future developments. Annual reviews are performed by management and reviewed by our appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

### 10-A. COMPONENTS OF WARRANTY LIABILITIES

The following table summarizes the components of the warranty claims liabilities as at December 31:

| | 2014 | 2013 |
|---|---|---|
| Change in provisions, net of reversals | $ 8,692 | $ 6,773 |
| Recoveries | (3,799) | (3,233) |
| Net claims incurred for the year | $ 4,893 | $ 3,540 |

| | 2014 | 2013 |
|---|---|---|
| Deferred home enrolment fees, beginning of year | $ 167,716 | $ 160,342 |
| Fees received | 41,589 | 41,355 |
| Fees earned | (27,962) | (33,981) |
| Deferred home enrolment fees, end of year | 181,343 | 167,716 |
| Warranty claims liabilities, beginning of the year | 23,098 | 23,639 |
| Change in claims outstanding | 9,225 | 7,501 |
| Changes due to assumptions (such as: risk, inflation & discount rate) | (534) | (727) |
| Claims paid | (9,854) | (7,315) |
| Warranty claims liabilities, end of year | 21,935 | 23,098 |
| Warranty liabilities, end of year | $ 203,278 | $ 190,814 |

### 10-B. WARRANTY COVERAGE AND POLICY

The warranty coverage begins when the home is enroled, providing deposit protection and compensation for delayed closing and occupancy. Once the new owner takes possession of the home, there are three periods of warranties: one-year, two-year and seven-year warranty, each with different indemnity scopes and limits of settlement covering defects that are prescribed under the Act.

### 10-C. SIGNIFICANT WARRANTY CLAIMS LIABILITY AND DEFERRED ENROLMENT FEES RISK AND ASSUMPTIONS

The market in which the Corporation participates is unique. The Corporation is the sole provider for mandatory warranty coverage on new homes in the province of Ontario. The Corporation was designated in 1976 by the Government of Ontario to administer the Act. The primary objectives of the Act include consumer protection, builder regulation and homeowner and builder education. An overview of the Corporation's risk management framework and assumptions with regards to the warranty liabilities are summarized below.

*Earnings Pattern*

As home enrolment fees are collected, they are deferred and taken into revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the expected pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. The actual emergence of claims may differ from the initial expected pattern. When an update of the pattern is required for prior years' enrolments, it will result in the estimate change for the unamortized deferred enrolment fees not yet recognized.

## 10. WARRANTY LIABILITIES (continued)

*Insurance Risk*

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a normal property and casualty insurance company. The insurance risk is the risk of loss arising from defects of new homes if the builders have failed to perform their first and second year warranty obligations to the new homeowners, and the homes have warrantable major structural defects during the three to seven years of the warranty. For policies issued after June 30, 2012, the insurance risk for the Corporation for the three to seven years of the warranty is the loss arising from the failure of builders to perform their warranty obligations; the builders are now fully responsible or have the option to elect a co-share payment. The Corporation is primarily concerned with the possibility of the warrantable event occurring and the uncertainty of the amount of the resulting claim.

Insurance risks are managed through the Corporation's builder regulation and licensing strategy. Annual licensing assessments are performed on new and existing registered builders to verify that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance to the terms and conditions of the Act.

The Corporation also maintains a proactive claims management program to ensure the adequacy of the warranty liabilities and claims:

- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
- Obtains securities in the form of cash, letters of credit and other guarantees from the builders during the registration and renewal process to reduce risk of financial loss related to the claims;
- Experienced claims service representatives work closely with homeowners and builders to assess the adequacy of the claims in accordance to the Act;
- Processes exist to ensure that all claims are captured, reviewed and updated on a timely basis with a realistic assessment of the ultimate settlement costs;
- Engage qualified actuaries annually to review and assess the adequacy of the warranty liability and the provisioning amounts; and
- The appointed actuary determines assumptions used to measure warranty liabilities in accordance with the process recommended by the Canadian Institute of Actuaries. Management reviews the assumptions recommended by the actuary.

The establishment of warranty liabilities is based on established actuarial practice, management judgment and experience. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs. The Corporation is exposed to the following claims provisioning risks in the process of administering the Act:

1. Future claims adjustment cost
   This assumption reflects the costs generally related to claims administration including claims of staff salaries, a related share of facilities overhead and rent, none of which are allocated to individual claim files. An actuarially estimated cost percentage of the future claim cost is applied to the outstanding claims at the end of the reporting period. This assumption is reviewed annually by the Corporation's actuary.

2. Incurred but not reported claims
   Actual claim settlements may differ from estimated claim settlements and claims may exist of which the Corporation is unaware. These claims are estimated based on historical patterns of fluctuations in claim estimates and settlements. In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. The impact of changes in incurred but not reported claims is set out in the sensitivity analysis on page 79.

3. Adverse deviation
   The liability has inherent measurement uncertainty that arises because:
   (i) actual investment returns may differ from the discount rate used in actuarial calculations; and
   (ii) actual claims settlements may occur for amounts or at times that differ from estimates (claim risk) – this risk of loss can occur due to actual experience differing from the experience assumed.

The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgment; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities, can be influenced by many factors including market and general economic conditions. Their behaviour also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis on page 79.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES (continued)

*Liquidity Risk*

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio is traded in a highly liquid market and can be readily converted to cash. The Corporation also has a $3,000 unsecured demand operating facility that it can draw on and current cash equivalents of $2,863 (2013 - $2,465).

*Concentration of Insurance Risk*

The Corporation's exposure to concentration of insurance risk is mitigated by the establishment of a diversified portfolio of competent builders through the Corporation's strong regulating and licensing strategy. Builders' registration and renewals are assessed annually. The table below shows the warranty claim liabilities by claim types as at December 31:

| | | Condominium | | |
|---|---|---|---|---|
| **2014** | **Freehold** | **High-rise** | **Low-rise** | **Total** |
| **Unpaid claims** | **$ 3,882** | **$ 5,548** | **$ 430** | **$ 9,860** |
| **Incurred but not reported** | **1,731** | **1,925** | **183** | **3,839** |
| **Provision for adverse deviation** | **824** | **1,404** | **112** | **2,340** |
| **Unallocated loss adjustment expense** | **2,746** | **2,803** | **281** | **5,830** |
| **Discount and inflation impact** | **(85)** | **144** | **7** | **66** |
| | **5,216** | **6,276** | **583** | **12,075** |
| **Balance as at December 31, 2014** | **$ 9,098** | **$ 11,824** | **$ 1,013** | **$ 21,935** |
| 2013 | | | | |
| Unpaid claims | $ 3,856 | $ 6,374 | $ 259 | $ 10,489 |
| Incurred but not reported | 1,722 | 3,529 | 200 | 5,451 |
| Provision for adverse deviation | 779 | 1,764 | 69 | 2,612 |
| Unallocated loss adjustment expense | 1,618 | 2,872 | 133 | 4,623 |
| Discount and inflation impact | (103) | 27 | (1) | (77) |
| | 4,016 | 8,192 | 401 | 12,609 |
| Balance as at December 31, 2013 | $ 7,872 | $ 14,566 | $ 660 | $ 23,098 |

## 10. WARRANTY LIABILITIES (continued)

*Market Risk*

Market risk is the risk that the fair value or future cash flows of the warranty liabilities will fluctuate because of changes in market prices. This risk is comprised of:

- Interest rate risk

  Interest rate risk is the risk that the value of future cash-flows of a financial instrument will fluctuate because of changes in market interest rates. Warranty claims liabilities are discounted to reflect the time value of money over the periods between the statement of financial position date and settlement date based on accepted actuarial practice. The discount rate used is based on market yield of the fixed income portfolio supporting the warranty liabilities. The impact of changes in interest rate is set out in the sensitivity analysis on page 79.

- Inflation rate

  The cost to resolve claims are subject to inflationary pressure. The Corporation used the Construction Price Index as the basis of inflationary index, adjusted by expected economic and housing industry implications based on management's past experiences and expertise. The impact of changes in inflation rate is set out in the sensitivity analysis on page 79.

### 10-D. CHANGES TO ASSUMPTIONS DURING THE CURRENT YEAR

*Earnings Pattern*

In 2014, as part of the earnings pattern review the actual claims emergence of unamortized enrolment fees for prior years' enrollments was analyzed. The results showed that the current expected patterns of incurrence of claim costs were more consistent to the actual claims emergence relative to their initial selected earnings patterns. Hence, their earning patterns were updated. The result was an additional $6,773 of revenue being deferred to future years. The earned revenue on the statement of comprehensive results of operations was reduced by $6,773 and the deferred enrolment fees on the statement of financial position was increased by a similar amount. No adjustments to prior years are required.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES (continued)

### 10-E. SENSITIVITY ANALYSIS AND MATURITY PROFILE ON WARRANTY CLAIMS

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the statement of financial position:

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **1.7%** | 1.8% |
| Inflation rate | **2.8%** | 2.5% |
| Future claims adjustment costs | **29.0%** | 29.0% |

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact to warranty claim liabilities, statement of comprehensive results of operations and equity.

| | **Change in Assumption** | **Impact on Warranty Liability** | | **Impact on Comprehensive Results of Operations** | | **Impact on Equity** | |
|---|---|---|---|---|---|---|---|
| **2014** | | Increase | Decrease | Increase | Decrease | Increase | Decrease |
| Discount rate | 1.0% | $ (398) | $ 412 | $ 398 | $ (412) | $ 398 | $ (412) |
| Inflation rate | 1.0% | $ 274 | $ (269) | $ (274) | $ 269 | $ (274) | $ 269 |
| Future claims adjustment costs | 1.0% | $ 155 | $ (155) | $ (155) | $ 155 | $ (155) | $ 155 |
| **2013** | | | | | | | |
| Discount rate | 1.0% | $ (459) | $ 475 | $ 459 | $ (475) | $ 459 | $ (475) |
| Inflation rate | 1.0% | $ 307 | $ (301) | $ (307) | $ 301 | $ (307) | $ 301 |
| Future claims adjustment costs | 1.0% | $ 180 | $ (180) | $ (180) | $ 180 | $ (180) | $ 180 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES (continued)

*Maturity profile*

The table below summarizes the maturity profile of the warranty claim liabilities. The maturity profiles are determined based on estimated timing of net cash outflows from the recognized warranty liabilities.

| Warranty Liability | Due within One Year | Due Two through Five Years | Total |
|---|---|---|---|
| **2014** | **$ 13,968** | **$ 7,967** | **$ 21,935** |
| 2013 | $ 11,662 | $ 11,436 | $ 23,098 |

### 10-F. SENSITIVITY ANALYSIS ON DEFERRED HOME ENROLMENT FEES

Shifts in claims patterns affect the earning pattern and how enrolment fees are recognized. The analysis below is performed for reasonably possible movements in the earning pattern with all other assumptions held constant, showing the impact to warranty liabilities, statement of comprehensive results of operations and equity. Below is the sensitivity analysis of a +/- 2.5% change in the 2014 earning factors for all enrolment years:

| | **Change in Assumption** | Impact on Warranty Liability | | Impact on Comprehensive Results of Operations | | Impact on Equity | |
|---|---|---|---|---|---|---|---|
| **2014** | | Accelerated | Decelerated | Accelerated | Decelerated | Accelerated | Decelerated |
| Earning pattern | 2.5% | $ (6,262) | $ 6,262 | $ 6,262 | $ (6,262) | $ 6,262 | $ (6,262) |
| **2013** | | | | | | | |
| Earning pattern | 2.5% | $ (7,761) | $ 7,707 | $ 7,761 | $ (7,707) | $ 7,761 | $ (7,707) |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES (continued)

### 10-G. CLAIMS HISTORY

Claims are classified, managed, analyzed and reserved for based on specific known cases and potential cases and the liability is adjusted for adverse deviation.

The following two tables illustrate the past experience related to the claims the Corporation has settled:

| | All Prior Years Claims with Outstanding Liability | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| **ESTIMATE OF CUMULATIVE CLAIMS** | | | | | | | | | | |
| All prior years | $ 25,470 | | | | | | | | | |
| At end of occurence year | | 14,670 | 29,550 | 26,571 | 16,095 | 6,425 | 4,955 | 5,999 | **7,162** | |
| One year later | | 16,712 | 22,424 | 20,773 | 12,538 | 9,058 | 5,823 | 6,164 | – | |
| Two years later | | 15,832 | 20,625 | 19,179 | 12,752 | 9,438 | 6,014 | – | – | |
| Three years later | | 12,360 | 20,446 | 19,276 | 12,583 | 9,885 | – | – | – | |
| Four years later | | 12,053 | 20,474 | 19,613 | 13,703 | – | – | – | – | |
| Five years later | | 12,129 | 20,404 | 19,589 | – | – | – | – | – | |
| Six years later | | 12,121 | 20,415 | – | – | – | – | – | – | |
| Seven years later | | 12,280 | – | – | – | – | – | – | – | |
| **CURRENT ESTIMATE OF CUMULATIVE CLAIMS** | 25,470 | 12,280 | 20,415 | 19,589 | 13,703 | 9,885 | 6,014 | 6,164 | **7,162** | **$ 120,682** |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 10. WARRANTY LIABILITIES (continued)

Continued from previous page:

| | All Prior Years Claims with Outstanding Liability | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT ESTIMATE OF CUMULATIVE CLAIMS** | $ 25,470 | 12,280 | 20,415 | 19,589 | 13,703 | 9,885 | 6,014 | 6,164 | **7,162** | **$ 120,682** |
| **CLAIMS PAID** | | | | | | | | | | |
| All prior years | $ 25,038 | | | | | | | | | |
| At end of occurence year | | 5,521 | 7,831 | 9,914 | 5,720 | 3,628 | 2,267 | 3,047 | **3,474** | |
| One year later | | 4,083 | 7,944 | 6,831 | 3,506 | 2,635 | 1,877 | 2,333 | – | |
| Two years later | | 1,640 | 3,862 | 625 | 1,300 | 681 | 905 | – | – | |
| Three years later | | 572 | 194 | 339 | 803 | 1,149 | – | – | – | |
| Four years later | | 39 | 214 | 698 | 1,639 | – | – | – | – | |
| Five years later | | 211 | 65 | 111 | – | – | – | – | – | |
| Six years later | | 43 | 74 | – | – | – | – | – | – | |
| Seven years later | | 9 | – | – | – | – | – | – | – | |
| **CUMULATIVE CLAIMS PAID** | 25,038 | 12,118 | 20,184 | 18,518 | 12,968 | 8,093 | 5,049 | 5,380 | **3,474** | **$ 110,822** |
| Reconciliation to the statement of financial position | | | | | | | | | | |
| **Current provision before discounting** | 432 | 162 | 231 | 1,071 | 735 | 1,792 | 965 | 784 | **3,688** | **9,860** |
| Actuarial reserves | | | | | | | | | | **12,009** |
| Discounting | | | | | | | | | | **66** |
| **Present value recognized on the statement of financial position** | | | | | | | | | | **$ 21,935** |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 11. FUNDS HELD AS SECURITY

The Corporation receives security in the form of cash, letters of credit and other guarantees, from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners. The funds held as security do not have any fixed contractual maturities and are to be returned to the builders or released only upon satisfactory completion of certain requirements, such as there being no or minimal deposit or financial loss risk and the completion of outstanding warranty obligations under the Act.

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2014, the funds held as security of $46,741 (2013 - $40,989), presented on the statement of financial position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2014 of $1,246 (2013 - $1,230). Letters of credit and other guarantees are available to be drawn upon to settle known claims. Such drawn amounts would reduce the amounts recoverable from builders in the statement of financial position.

During the year, the Corporation incurred interest of $411 (2013 - $382) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth months.

## 12. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Act.

To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in the warranty liabilities on the statement of financial position. Other lawsuits are at various stages of legal proceedings, the outcome of which are currently not determinable and are not expected to have a significant impact on the Corporation's financial position. Accordingly, no provision for any liability has been made in these financial statements as at December 31, 2014 (2013 - Nil).

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. Accordingly, no amounts have been accrued related to these agreements as at December 31, 2014 and 2013.

### OPERATING LEASE COMMITMENTS

The Corporation has entered into commercial leases on premises and other miscellaneous equipment which are recognized and reported as part of general and administrative costs in the statement of comprehensive results of operations. For 2014, the Corporation recognized lease payments of $765 (2013 - $757) in the statement of comprehensive results of operations. These leases have an average life of three years with renewal option included in the miscellaneous equipment contracts. There are no restrictions placed upon the Corporation by entering into these leases. The future minimum annual lease payments under operating lease for the next five years and thereafter as follows:

| | **2014** | 2013 |
|---|---|---|
| Operating Lease | **Minimum Lease Payments** | Minimum Lease Payments |
| Within one year | **$ 767** | $ 765 |
| Between one and five years | **3,335** | 3,261 |
| More than five years | **1,027** | 1,867 |
| Minimum lease payments | **$ 5129** | $ 5,893 |

### FINANCE LEASE OBLIGATIONS

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported separately on the statement of financial position. The total value of these obligations as at December 31, 2014 is $979 (2013 - $1,221). Interest expense of $150 was incurred during 2014 (2013 - $138) on the leases and is reported in the statement of comprehensive results of operations. These leases have renewal options for either single or multi-years. They may contain purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 12. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

Future minimum lease payments and the present value of the net minimum lease payments under the finance leases are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Minimum Lease Payments | Present Value Minimum Payments | Minimum Lease Payments | Present Value Minimum Payments |
| Within one year | $ 662 | $ 534 | $ 800 | $ 664 |
| Between one and five years | 544 | 445 | 666 | 557 |
| More than five years | – | – | – | – |
| | 1,206 | 979 | 1,466 | 1,221 |
| Less amounts representing finance charges | 227 | – | 245 | – |
| Present value of minimum lease payments | $ $979 | $ $979 | $ 1,221 | $ 1,221 |

### LEASE INDUCEMENTS

The Corporation received various forms of lease inducements for its current Corporate offices including reduced rent and leasehold improvements. These lease inducements are amortized over the term of the lease agreements and offset against rent expenses which are included in general and administrative on the statement of comprehensive results of operations. The amortized benefits in December 31, 2014 were $96 (2013 - $96). As of December 31, 2014, the total unamortized lease inducements reported on the statement of financial position is $1,088 (2013 - $1,184).

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These amounts are expected to be settled in one year:

| | 2014 | 2013 |
|---|---|---|
| Trade and supplier accruals | $ 1,890 | $ 1,743 |
| Amounts due to vendors and builders | 1,607 | 1,389 |
| Salaries and benefits | 2,738 | 2,851 |
| Unsettled investment trade payable | 16 | 1,333 |
| Other liabilities | 930 | 1,075 |
| Total accounts payable and accrued liabilities | $ 7,181 | $ 8,391 |

## 14. INVESTMENT INCOME

| | 2014 | 2013 |
|---|---|---|
| Change in fair value of fixed income portfolio | $ (1,100) | $ (4,505) |
| Interest income from fixed income portfolio | 9,224 | 9,686 |
| Change in fair value of equity portfolio | 6,335 | 23,684 |
| Dividends from equity portfolio | 9,045 | 3,582 |
| Foreign exchange (losses) gains | – | 2,100 |
| Total investment income | $ 23,504 | $ 34,547 |

NOTES TO FINANCIAL STATEMENTS – For the year ended December 31, 2014 ($CAD thousands)

## 15. INTEREST EXPENSE

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Interest on funds held as security (note 12) | $ | **411** | $ | 382 |
| Interest on lease obligations (note 13) | | **150** | | 138 |
| Total interest expense | $ | **561** | $ | 520 |

## 16. CAPITAL MANAGEMENT

The Corporation's capital consists of its equity. Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the property and casualty insurance industry in Canada and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 10.

In applying the framework, the total equity of the Corporation as at December 31, 2014 and 2013 has been determined by management to be sufficient to cover possible losses from a future catastrophic event as further supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year.

## 17. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to home owners and builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with builders related with the Corporation's Board of Directors through a relationship of principal, director, officer and/or guarantor.

As at December 31, 2014, there are no collection and litigation account receivables and cash securities recognized due from related parties (2013 - Nil). Letters of credit and other guarantees lodged by related parties are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims. Transactions between related parties are made at normal market prices.

The Corporation pays an oversight fee to the Government of Ontario for each calendar year. The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year of the Government of Ontario (April 1 to March 31) at five dollars per enrolment. The Corporation is required to pay an amount not less than $200 and not more than $300 per annum. In 2014, the Corporation incurred a fee of $249 (2013 - $258).

### KEY MANAGEMENT PERSONNEL COMPENSATION

IAS 24, *Related Party Disclosures*, defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The key leadership personnel of the Corporation are members of the board of directors and the Corporate management leadership team. Compensation for these leadership personnel includes the following expenses:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Employee salary compensation and short-term benefits | $ | **3,694** | $ | 3,692 |
| Board of directors fees | | **464** | | 421 |
| Post-employment benefits | | **347** | | 361 |
| | $ | **4,505** | $ | 4,474 |

## 18. ADOPTION OF REVISED ACCOUNTING STANDARDS

In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21 Levies ("IFRIC 21") was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The adoption of IFRIC 21 has no impact to the Corporation's Financial Statements.

# CONTACT TARION

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