

Building Confidence

Introduction 3

Who We Are..... 3

The Future of Warranty Coverage..... 3

Message from Leadership 4

By the Numbers 6

Building Confidence 9

2018 PRIORITIES 9

Consumer Protection 10

Ensuring Builders Are Equipped for Success 10

Protecting Consumers from Illegal Building 10

Holding Builders Accountable.....12

Warranty Coverage.....13

Expanding Warranty Coverage 14

Protecting Current and Future Homeowners.....14

Improving Customer Service 15

Expanding Accessibility 15

Making Warranty Claims

Processes Easier to Understand 15

Sharing Data to Improve

Builder Customer Service 16

Providing a Visual Guide

to Construction Standards 16

Tracking Our Daily Performance.....17

Improving Claims Resolution 18

Enriching Communication

Throughout the Claims Process.....18

Promoting Mediation as

a Path to Resolving Disputes.....18

Using Technology to Help Resolve Claims.....19

Appealing a Warranty Decision.....20

Ensuring Fair Treatment.....21

CONSUMER AND BUILDER EDUCATION 22

Helping Consumers Make Informed Decisions.....22

Offering Transparency and Accessibility.....22

Providing Educational Resources for

the New Home Market 23

Reaching Our Stakeholders in the Community.....24

Building Our Online Community 24

Contents

BUILDING STRONGER COMMUNITIES 25

MEASURING OUR IMPACT 27

Annual New Home Owner Survey 27

Why Survey?..... 27

Homeowner Survey – Year One..... 28

Annual Homeowner Survey – Years 2 to 7 29

Annual Builder Survey..... 30

Recognizing the Best in Customer Service 31

Homeowners' Choice Awards 31

Ernest Assaly Award 31

LOOKING AHEAD 32

Governance 33

Corporate Leadership Team..... 33

Board of Directors 34

Governance Policies..... 35

Committees of the Board 37

Directors' Attendance 43

Financials 44

Financial Commentary 45

Management's Responsibility..... 46

Auditor's Report 47

Actuary's Report 49

Statement of Financial Position 50

Statement of Comprehensive

Results of Operations 51

Statement of Changes in Equity..... 52

Statement of Cash Flows 53

Notes to the Financial Statements 54

The provincial standard for new home construction is set out in the Ontario Building Code (OBC). Municipalities are responsible for enforcing the OBC and issuing both building and occupancy permits. Tarion makes sure that builders have an understanding of the OBC before they receive their licence to build.

Once a homeowner takes possession of a home, they can expect the builder to repair defects or issues that may arise. The mandatory warranty program in Ontario requires that every builder provide a warranty that lasts seven years and is backstopped by Tarion. This means we guarantee that builders live up to their warranty obligations, and in the event they do not, we will step in to resolve the warranty claim with homeowners directly.

While we cannot eliminate all the risks involved in buying a new home, Tarion works hard to ensure that Ontarians looking to purchase a new home can buy with confidence, knowing that the home is protected in many different ways.

The Future of Warranty Coverage



In February 2019, the Ontario government announced plans to strengthen consumer protection for new home buyers. As part of their vision for the future of the New Home Warranty Program, they announced that they are establishing a separate regulator for new home builders and vendors to better address conflict of interest issues.

Also in 2019, the government initiated consultations on the feasibility of introducing a multi-provider insurance model to deliver the warranty program. Our organization remains committed to working with the provincial government as it develops its plan for the future, and continues to provide warranty and licensing services to Ontario home buyers and builders in the interim.



Message from Leadership

A new home has always been one of life's biggest purchases.

Today, with increasingly competitive housing markets and costs of construction on the rise, a new home commands an even larger proportion of a person's household income. As prices increase, so too do expectations.

Meeting those expectations isn't always easy – and everyone involved in the new home building industry has a role to play, including municipalities, government inspection entities, associations, builders, trades and, of course, Tarion.

Recently, the Ontario government announced changes to the New Home Warranty Program with the goal of enhancing consumer protection. Notably, a significant change involves the creation of a separate regulator to oversee the province's more than 5,500 new home builders and vendors. We understand how consumers may benefit from this change and are committed to supporting the government in the implementation of this plan. In addition, Tarion will be enhancing the information available to new home buyers through the Ontario Builder Directory and supporting the government's review of a multi-provider model for new home warranties.

These changes are just the latest in the continuing evolution of consumer protection – a process that Tarion has been supporting, together with our industry and government partners, for 43 years. We're proud of the progress that has been made to help ensure consumers receive quality built homes, backed by excellent customer service and a warranty they can rely on.

We continue to work to ensure that consumers can have confidence their builder will deliver on what they promise.

One ongoing challenge is that some homes in Ontario are sold by builders not registered with the New Home Warranty Program when they should be. Illegal building can put consumers at risk and can undermine confidence in the new home building industry as a whole. We work hard to address this problem. In 2018, based on leads from the public, Tarion's Compliance and Investigations team conducted 74 investigations and obtained 108 convictions in provincial courts. Increased fines that took effect January 1 now allow the courts to levy harsher penalties, with individuals being subject to fines up to \$50,000 and corporations up to \$250,000. Over the past year, Tarion paid out \$4 million in claims for illegally built homes.

However, prosecution is only one tool for combatting illegal building. We are in the process of adopting a broader compliance-based approach to builder conduct and illegal building issues, which is showing some early success in addressing homeowner concerns and enhancing consumer protection for purchasers.



Howard Bogach, President & CEO

Paul Golini Jr., Chair of the Board

Message from Leadership

But confidence involves more than coverage – it also means knowing that help is available when you need it. In 2018, Tarion paid claims on 805 homes, but this number is only a fraction of the number of homeowners that our staff worked with to resolve their concerns. In the majority of cases, warranty issues are resolved promptly by the builder or through Tarion's various dispute resolution channels. Over the past year, we continued to implement improvements to help homeowners and builders work through the claims process and overcome any communication obstacles and disputes that come up along the way. We're proud to say our early intervention and mediation services have been successful in facilitating positive outcomes, and we have expanded the number of staff trained to be able to provide these services. In the coming year, we will be looking at how we can engage more homeowners and builders with the goal of resolving issues earlier in the process.

2018 also saw the expansion of technology solutions to enhance our customer service in the future – for example, our virtual inspections pilot makes it possible for homeowners to use an app to show our Warranty Services staff potential warranty issues in their homes without requiring an onsite inspection. We've also implemented artificial intelligence tools to allow us to serve customers 24/7 and better predict the types of claims that may result in challenging situations.

With an average of 62,500 warranty forms submitted each year, Tarion is able to offer unique insights to help builders identify trends in homeowner-reported issues in the construction and finishing of homes. Leveraging warranty form data for the past five years, Tarion has piloted new provincial and builder-specific reports detailing the most commonly reported issues and how they were resolved through the warranty claims process. This quantitative and qualitative feedback gives builders the opportunity to flag and potentially remediate problem areas earlier in the construction process to increase customer satisfaction and reduce potential claims.

Data mining and artificial intelligence is allowing us to be more efficient, effective and accessible – but customer service still comes down to people helping people.

Every week, we receive glowing comments from both homeowners and builders who appreciate our staff's expertise, patience and professionalism. This feedback confirms the positive impact staff have on homeowners and builders day in and day out, and it reinforces the important role that we play in the new home building industry. Our 2018 homeowner surveys confirmed that the improvements we've been making are increasing satisfaction – in fact, our Service Orientation Index (one of Tarion's key performance indicators used to measure consumer satisfaction) was the highest it's been since 2012.

Tarion continues to evolve and we remain committed to assisting the government in the implementation of its vision for the New Home Warranty Program. We would like to thank Tarion's staff, management and Board of Directors not only for their hard work but for their enthusiasm in embracing change. Building confidence is about working with all our stakeholders in establishing trust and meeting – and exceeding – expectations throughout the home buying and ownership journey.

By the Numbers



383,845

**2018 TOTAL HOMES
UNDER WARRANTY***

2017	378,586
2016	376,963
2015	367,750
2014	367,272



63,009

2018 ENROLMENTS

2017	68,945
2016	58,648
2015	57,788
2014	49,890

33,429

**2018 CONDO
ENROLMENTS**

2017	32,166
2016	22,657
2015	23,398
2014	19,087

29,580

**2018 FREEHOLD
ENROLMENTS**

2017	36,779
2016	35,991
2015	34,390
2014	30,803

2,260

**2018 LOW-RISE
CONDO ENROLMENTS**

2017	2,657
2016	2,724
2015	2,196
2014	2,807

31,169

**2018 HIGH-RISE
CONDO ENROLMENTS**

2017	29,509
2016	19,933
2015	21,202
2014	16,280

By the Numbers

56,332

2018 NEW HOME POSSESSIONS*

2017	58,328
2016	56,042
2015	57,325
2014	55,175



* The numbers are based on the Year of Possession and restated every year. Statistics for Year-End Forms are not provided for the year 2018 because possessions for 2018 are not yet eligible for the Year-End form submission.



27,524

2018 NUMBER OF HOMES WITH 30-DAY FORMS SUBMITTED

2017	27,575 (47%)
2016	25,872 (46%)
2015	27,061 (47%)
2014	25,530 (46%)

NUMBER OF YEAR-END FORMS SUBMITTED

2017	24,152 (41%)
2016	21,022 (38%)
2015	22,366 (39%)
2014	20,632 (38%)



1,757

2018 HOMES WITH AN INSPECTION

2017	1,442
2016	1,432
2015	1,515
2014	1,172



805

2018 HOMES WITH CLAIMS PAID

2017	638
2016	721
2015	657
2014	477

By the Numbers



\$17.4M

2018 TOTAL CLAIMS PAID

2017	\$13.6M
2016	\$13.1M
2015	\$11.6M
2014	\$9.9M



\$266.4M

2018 TOTAL EQUITY

2017	\$275.2M
2016	\$252.2M
2015	\$228.7M
2014	\$227.6M



83.8%

2018 HOMEOWNER SATISFACTION*

2017	81.4%
2016	81.6%
2015	81%
2014	82%

* This is calculated according to data from our annual homeowner survey that measures satisfaction with Tarion's services and is referred to as our Homeowner Service Orientation Index.



79%

2018 BUILDER SATISFACTION*

2017	83%
2016	83%
2015	82%
2014	77%

* This is calculated according to data from our annual builder survey that measures satisfaction with Tarion's services and is referred to as our Builder Service Orientation Index.

When you look at a newly built home, you can see the walls and the roof – but you can't see the system of standards, permits and inspections that exist to ensure it is well built and safe.

Long before a shovel hits the ground, builders must meet statutory minimum standards to be licensed, including demonstrating technical competence and financial capacity. In order to be allowed to build, they must then obtain building permits. And once construction is underway, there are municipal inspections at various points in the process. Before a homeowner can take possession, a builder must obtain an occupancy permit, which requires the home to meet minimum standards set by the Ontario Building Code.

Along with the regulations governing licensing for builders and construction of homes, there is warranty protection. From the beginning of the purchase process and throughout the first seven years of ownership, the new home warranty provides varying levels of coverage for deposits, delays and defects.

As Ontario's new home building regulator and administrator of the New Home Warranty Program, Tarion is part of the network of entities that supports new home construction in Ontario.

From licensing builders and ensuring homes are enrolled in the warranty program to educating and resolving issues for homeowners, every day Tarion is helping consumers feel confident about buying a new home.

In 2018, Tarion implemented a one-year plan with a focus on operational improvements to our core services to bring the maximum benefit for our stakeholders.

Our 2018 plan focused on three main areas:

Consumer Protection



ENSURING BUILDERS ARE EQUIPPED FOR SUCCESS

A well-built home begins with a skilled builder. As the province's new home building regulator, we require builders to meet mandated standards to demonstrate that they have the knowledge, skill, capacity and financial resources to not only construct homes but also service the homes they build.

New home builders in Ontario must be registered with Tarion to legally build in the province. An important part of the registration criteria is seven educational requirements for new applicants building residential freehold and low-rise condominium construction under Part 9 of the Ontario Building Code. Based on the Canadian Home Builders' Association's National Education Benchmarks for residential construction, these seven core competencies include:

- Business planning and management;
- Financial planning and management;
- Project management and supervision;
- Legal issues in housing;
- Building codes in Ontario;
- Construction technology; and
- Customer service and Tarion requirements.

In 2018, 195 new builders fulfilled these criteria. To underscore the importance of compliance, those failing to meet these criteria were denied registration.

While registration requirements help ensure only those builders with the technical competence and financial resources are able to legally build, our Start Right program gives new builders the information and advice they need to understand their responsibilities under the New Home Warranty Program. First launched in 2017, Start Right offers newly registered builders the resources and support they need to navigate the warranty process before they ever receive their first warranty form. Through the program, Tarion Stakeholder Relations representatives connect with registered

builders at key milestones – such as the receipt of their first warranty form – to ensure they are aware of the steps required.

243 builders participated in Start Right in 2018. Start Right educational sessions have become an important part of new builder orientation with the goal of improving both consumer protection and customer service.

PROTECTING CONSUMERS FROM ILLEGAL BUILDING

Illegal building puts homeowners at risk, not only because they may be unaware of their warranty rights, but also because their homes may not meet the Ontario Building Code. Builders who fail to register with Tarion or do not enrol their homes in the New Home Warranty Program are in violation of the *New Home Warranties Plan Act* and are considered to be illegal builders.

Ontario is the only jurisdiction that provides warranty protection to homebuyers that are victims of illegal building. In 2018, Tarion paid out \$4 million in claims to Ontario homebuyers who bought defective homes from unregistered illegal builders.

Over the past year, Tarion has continued to evolve its approach to the prevention, investigation and prosecution of illegal building in the province. It begins with raising awareness in the community regarding the 'red flags' of illegal building. In cooperation with the Ontario Home Builders' Association and the Ontario Building Officials Association, we conducted media tours and sweeps across the province to help educate consumers and engage municipalities in illegal building prevention. During visits to communities around the province, Tarion's Stakeholder Relations staff met with local building officials, local homebuilders' associations and media to highlight the consequences of illegal building on homebuyers, the local economy and the building industry as a whole.



Consumer Protection



These outreach efforts garnered an increase in leads coming to our Compliance and Investigations team from the public. By implementing a more robust and standardized intake system for these calls, we have ensured that staff collect all the necessary details to evaluate a lead and initiate an investigation when warranted.

Some leads begin with a search of the Ontario Builder Directory. In 2018, Tarion added a new search function for homebuyers, real estate professionals, municipal officials and others to look up the enrolment status of a home. Launched in May, the enrolment search uses a municipal address or lot and plan number to pull up information on the enrolment date and warranty start date of a home. If a home is not listed, it may be illegally built.

Some illegal builders may deliberately flout the law, while others may be unaware of their legal obligations to register and enrol their homes with Tarion. As a deterrent to those who act willfully, effective January 1, 2018, fines

were increased under the *Ontario New Home Warranties Plan Act*. Builders found in violation of the law may now face fines up to \$50,000 (double the previous fine) as well as imprisonment for not more than two years, less a day (twice the previous jail time). Corporations building new homes will face the heaviest penalties, with maximum fines of \$250,000, up from the previous \$100,000. Even directors and officers of these delinquent companies are subject to penalties up to \$50,000.

In 2018, Tarion's Compliance and Investigations team obtained 108 convictions in provincial courts. A total of \$331,775 in fines, including victim surcharge fees, were levied by the provincial courts in those matters. However, not every investigation leads to a prosecution. Through a broadened approach to enforcement, we are putting greater emphasis on bringing builders into compliance with the Act to ensure homeowners receive the warranty coverage they are entitled to. With higher fines in place, we expect to see fewer convictions but, at the same time, a greater number of illegal builders being brought into compliance.

Case Study Kings Custom Homes

In January 2017, Tarion received a complaint from a realtor regarding a home which was listed for sale. The purchasers had provided \$40,000 in deposits, but the home was not enrolled in the New Home Warranty Program.

This was a red flag and led to an investigation by the Compliance and Investigations team, which uncovered that the builder had collected deposits for 29 new homes in the surrounding area. Construction hadn't started on any of the homes, nor were there any building permits issued.

Based on the findings of the investigation, Peterborough-area builder Kings Custom Homes Inc. and owner Corey Savary were convicted of illegal building and were fined \$76,625 by the Ontario Court of Justice.

In addition to the charges, Tarion revoked the registration of Kings Custom Homes Inc., which means the company and Mr. Savary are no longer allowed to build or sell new homes in Ontario.

In the end, Kings Custom Homes Inc. had collected more than \$1.1 million in deposits after entering into 29 agreements of purchase and sale for homes that were never built. As the purchase agreements were signed prior to January 1, 2018 (the date when the new deposit protection levels took effect), each purchaser was eligible for a maximum of \$40,000 in deposit protection under the *Ontario New Home Warranties Plan Act*. Tarion has subsequently paid out \$835,000 in deposit claims to date.

This case highlights the financial consequences of illegal building on homebuyers as well as the damage it can cause to consumer confidence in the new home building industry as a whole. It also serves as an example of how, in some cases, prosecution is the most effective approach and how leads from the public – coupled with the cooperation of municipal building officials – can result in successful convictions of illegal builders.

Consumer Protection



HOLDING BUILDERS ACCOUNTABLE

Tarion requires that registered builders operate with honesty and integrity and follow the law in fulfilling their warranty obligations. We take all matters of honesty and integrity seriously and we will, as appropriate, investigate complaints brought to our attention.

Once Tarion receives a complaint, we will review the concern to determine if it falls under the scope of honesty and integrity under the Act. Examples of behaviour that may lead to an investigation into honesty and integrity include:

- Allegations of illegal actions such as theft or fraud;
- Threatening and/or intimidating behaviour; or
- Intentionally misleading advertising.

If Tarion initiates an investigation, there are several possible outcomes, based on the nature of the complaint and the facts gathered throughout the investigation. Potential actions may include:

- Placing terms and conditions on a builder's registration (e.g., limiting number of homes that can be built each year or requiring a builder to post higher security amounts to Tarion);
- Requiring a builder and their staff to undergo relevant mandatory training or education; and
- Issuing a Notice of Proposal to revoke a builder's registration.

If a registration is revoked or if a builder appeals Tarion's proposal to revoke their registration, this will be referenced in the builder's search results on the Ontario Builder Directory. Other actions Tarion may take as terms and conditions of the builder's registration will not be publicly disclosed.

In 2018, the following actions occurred relating to complaints regarding dishonest builder conduct:

- Three complaints resulted in charges being laid (e.g., an offence under the *Ontario New Home Warranties Plan Act* or *Provincial Offences Act*)
- Three complaints resulted in terms and conditions which may include continuing education requirements or increased securities and limits on the number of homes allowed to be built;
- One resulted in a Notice of Proposal to refuse or revoke the registrant's registration; and
- Twenty-four files were reviewed or investigated and closed with no further action.

Consumer Protection



WARRANTY COVERAGE

Almost all newly constructed homes in Ontario have warranty coverage of up to \$300,000 over a seven-year term, including condominium conversion projects (as of January 1, 2018). This warranty coverage 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). The warranty remains with the home for seven years, even if it is sold during this period.



Coverage HIGHLIGHTS



DEPOSIT PROTECTION

of up to \$60,000 on homes with a purchase price of \$600,000 or less and up to \$100,000 on homes over \$600,000, for homes where the Agreement of Purchase and Sale was signed on or after January 1, 2018. Deposit coverage is \$20,000 for condominium units.*



DELAY COMPENSATION

of up to \$7,500 for certain types of delays in closing or occupancy.

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

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, and providing protection against certain kinds of improper substitutions.



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.



SEVEN-YEAR WARRANTY

that protects against work and material defects that result in structural failure, adversely affect a load-bearing part of the home's structure, or adversely affect the use of a significant part of the home.

Consumer Protection



EXPANDING WARRANTY COVERAGE

Whether in the market for a freehold home or condominium, the new home warranty gives buyers piece of mind that their builder's promises are backed by Tarion. And with changes that took effect in 2018, they will enjoy added levels of protection. Deposit coverage for non-condominium freehold homes increased – now, homes with a purchase price of less than \$600,000 have up to \$60,000 in deposit coverage, while those above \$600,000 are covered for 10 per cent of the purchase price to a maximum of \$100,000. In addition, the passage of the *Strengthening Protection for Ontario Consumers Act, 2017* extended deposit coverage to include other payments such as those made for upgrades and extras.

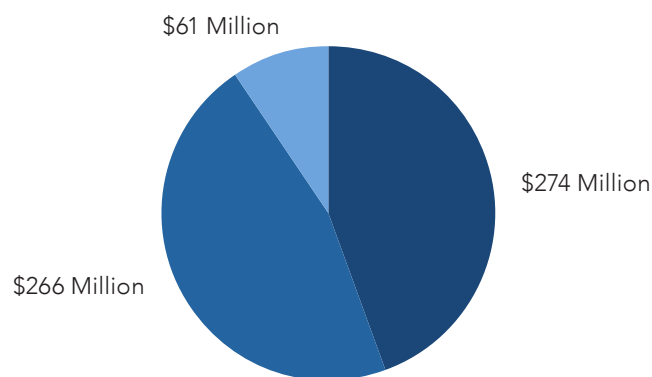
2018 also marked the beginning of warranty coverage for residential condominium conversion projects (a condominium in a converted warehouse or other pre-existing structure). Individual units and common elements are now covered by the one-year, two-year and seven-year warranties. The only exception to the coverage is that any pre-existing elements – which, for example, might include an exposed brick interior wall – are not covered by the one-year warranty for defects in work and materials. The new deposit protection levels and coverage for condominium conversion projects apply to purchase agreements signed on or after January 1, 2018.

PROTECTING CURRENT AND FUTURE HOMEOWNERS

Each home enrolled in the New Home Warranty Program is covered for up to \$300,000 for seven years. At any point in time, there may be as many as 300,000 to 400,000 homes within the seven-year warranty coverage lifecycle, as well as thousands more under construction, that are eligible for deposit protection. To ensure there are funds available to backstop any warranty claims for the length of each home's coverage, Tarion maintains a Guarantee Fund.

In addition to serving as a reserve to cover future claims, the Guarantee Fund also protects against catastrophic losses that have bankrupted other warranty programs in Canada and abroad. Issues with faulty building materials or construction methods that affect thousands of homes have the potential to result in millions, or even billions, of dollars in claims. For example, in British Columbia, the warranty program went bankrupt in 1999 when faced with \$708 million in claims related to leaky condos. More recently, the Quebec warranty program faced claims in excess of \$65 million as a result of defective concrete foundations. When the program did not have sufficient capital to meet those claims, the federal government had to step in, pledging \$30 million over three years to help homeowners.

The Guarantee Fund is what makes it possible for Tarion to backstop the new home warranty for current and future homeowners in Ontario.



Warranty Liabilities	For new home owner warranty coverage*
Equity	For future potential catastrophic events
Deposits from Builders Held as Security	For managing builders' warranty commitments

* These are amounts that relate to the expected normal course claims which may arise from all of the homes currently under warranty.



Improving Customer Service

Whether it involves answering questions, providing guidance or helping to resolve a dispute, customer service is part of everything we do and is key to how we measure our performance. With customer satisfaction as our goal, we are continually seeking new ways to make staff and services more accessible. We are also working hard to make our processes and information easier to navigate and understand.

EXPANDING ACCESSIBILITY

When a homeowner has a problem with their home, or a builder needs help with the registration process, they are both looking for a timely and helpful response. Taron's Customer Service team is often the first point of contact for these inquiries and hundreds of others that come in on a daily basis. In 2018, the team responded to more than 158,338 telephone calls and more than 43,210 emails, not just from homeowners, but also new home buyers, builders, lawyers, realtors and others who are involved in the new home buying or home-building industry in Ontario.

But in today's world, information needs to be accessible 24/7. When a homeowner has a warranty question at midnight, they don't necessarily want to wait until the next business day to get an answer. Thanks to the use of artificial intelligence, Tarion is expanding our accessibility and making it possible for us to respond to inquiries around the clock. In 2018, we introduced a ChatBot software that allows visitors to have their questions answered when staff may be unavailable to respond live. This technology is enabling Tarion to respond to a greater number of inquiries, and results show that 80 per cent of the 4,940 users who accessed the ChatBot received the answers they needed without having to send an email or make a call.

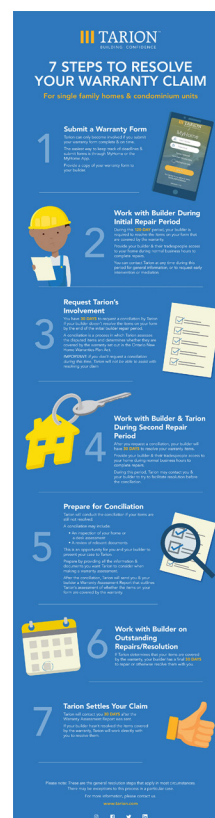
To further increase productivity and improve response times, we also implemented FRONT – a desktop management tool that allows our Customer Service team to capture, store, distribute and connect messages coming in via all our communication channels. This new tool enables more effective tracking and follow-up to ensure every inquiry receives an appropriate and timely response.

MAKING WARRANTY CLAIMS PROCESSES EASIER TO UNDERSTAND

The warranty claims process begins when a homeowner submits a statutory warranty form. Between this initial form submission and the eventual resolution of a claim, there are multiple steps with deadlines to meet and responsibilities for both homeowners and builders.

To ensure all parties understand not only how to navigate the process but also at what points Tarion gets involved, we introduced new resources to serve as guides throughout the journey of a claim from identification to resolution.

Our Warranty Process Manual, launched in September, maps out both a builder's and Tarion's responsibilities in investigative inspections, conciliations, emergencies and other warranty-related processes. The manual helps builders better understand when each process kicks in and the expectations and necessary actions at each step along the way.



For homeowners, 7 Steps to Resolve Your Warranty Claim is a concise visual guide for the warranty claim process that includes the associated timelines and tips for each step. As a conciliation can often be a critical part of resolving disputed claims, Tarion also produced a video – 10 Things You Need to Know about Your Conciliation – to help homeowners understand what to expect and be able to prepare accordingly. In 2019, we will be adding a complementary resource to the Warranty Process Manual for homeowners – a user-friendly guide that will provide step-by-step information for our warranty processes to assist them in understanding not only the claims process but also Tarion's dispute resolution avenues.

Improving Customer Service

SHARING DATA TO IMPROVE BUILDER CUSTOMER SERVICE

Each year, Tarion receives an average of 62,500 warranty forms from new home owners who are at various points in the lifecycles of their warranties. In 2018, using new technology, Tarion was able to analyze the text written by homeowners on their warranty forms and categorize their concerns. This data offers invaluable insights into the most commonly reported issues and how they were resolved.

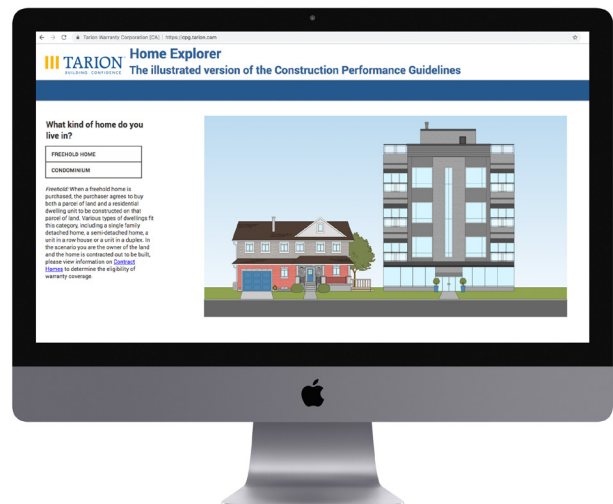
Using this raw data, we created a provincial report template that allows builders to see trends in customer service issues throughout the province over the past five years. For example, the report identified door issues as the number one reported issue on 30-day forms while interior walls and ceiling issues were the most common issues reported on year-end forms. After piloting these reports with a test group, they were shared with all registered builders in Ontario.

In 2019, Taron is adding a customized report for individual builders, which will give them a more holistic view of how their customer service compares to industry trends. By sharing these analytics, our goal is to assist builders in identifying potential areas of concern during the construction and after-sales processes that can be addressed before they become warranty issues.

PROVIDING A VISUAL GUIDE TO CONSTRUCTION STANDARDS

Tarion's Construction Performance Guidelines (CPG) serve as a practical reference for the most commonly encountered kinds of defects in new home construction as well as a guide to how Tarion will decide disputes on these issues when they arise.

In 2018, Tarion developed an illustrated version – Home Explorer – which allows homeowners and builders alike to find a potential defect within a simulated home or condominium unit and learn about whether it is or isn't covered under the warranty. Since its launch in May, the tool has continued to evolve based on user feedback, including the addition of improved graphics and prompts.



As a guide to warranty standards, the CPG is intended to reduce uncertainty around warranty decisions for both homeowners and builders. Home Explorer makes the CPG more accessible as well as easier to navigate and understand. To date, the new tool has been accessed 6,943 times and has received positive feedback from users.

Improving Customer Service

TRACKING OUR DAILY PERFORMANCE

Every time Tarion staff respond to inquiries, conduct inspections or help resolve disputes, it's an opportunity to exceed the expectations of our stakeholders. In 2018, we introduced interaction surveys to gauge satisfaction levels with our daily customer service, specifically contact centre calls and conciliation inspections. Over the course of the year, 4,809 homeowners and 132 builders completed surveys following interactions with our Customer Service staff. Survey responses rated staff's ability to answer questions, the timeliness of their response and their follow-through. The ratings were then calculated into an overall satisfaction score. Homeowners rated their satisfaction as 82 per cent while builders' overall rating was 79 per cent. Another 265 homeowners rated their conciliation experience as 81 per cent satisfactory while the 281 builders that completed post-conciliation surveys rated their experience at 91 per cent satisfactory.

With this real-time data, we are able to identify key areas for improvement and make adjustments throughout the year to staff training and procedures. For example, one of the top suggestions for improvement from homeowners was shorter hold times on the phone. Consequently, our Customer Service team is working with our IS department to review new call management systems with enhanced callback capabilities. This would allow callers to request a callback so they don't have to endure long periods on hold.

In addition to our annual homeowner and builder surveys, the new interaction surveys will be tracked as part of Tarion's key performance indicators. Although survey participation is a continuing challenge, the overall results showed a general upward trend throughout the year, demonstrating that our continuous improvement efforts are making an impact on our stakeholders.

In 2018, we introduced interaction surveys to gauge satisfaction levels with our daily customer service.



4,809
HOMEOWNERS

+



132
BUILDERS

completed surveys that rated their overall satisfaction.

HOMEOWNER
SATISFACTION

82%

BUILDER
SATISFACTION

79%

265
HOMEOWNERS

+

281
BUILDERS

completed surveys that rated their conciliation experience.

HOMEOWNER
SATISFACTION

81%

BUILDER
SATISFACTION

91%

Improving Claims Resolution



The New Home Warranty Program exists to ensure that homeowners are protected if there are defects in their new homes. When issues do arise, Tarion is here to work with homeowners and builders to make sure claims are resolved. In 2018, we continued to improve our dispute resolution processes, tools and communications to make them more effective and easier to understand and navigate.

ENRICHING COMMUNICATION THROUGHOUT THE CLAIMS PROCESS

In 2015, in response to homeowner feedback, Tarion initiated an external review of our dispute resolution processes. The subsequent report triggered a series of improvements as well as new initiatives that have continued to evolve Tarion's dispute resolution approach. In 2018, we made a number of additional changes based upon recommendations from the external review.

- 1) For dispute resolution to be successful, both parties need to first understand the claims process. To provide greater clarity for both homeowners and builders, Tarion revamped its correspondence to include additional information regarding what to expect at each stage of the claims process.
- 2) Equal access to information helps promote fairness in the conciliation process. Previously, homeowners and builders were not always aware that Tarion has the authority to require the sharing of drawings, specifications, or other information pertinent to the warranty claim between the parties. With revisions to our communications materials, we now highlight that either party can request additional explanatory documentation via Tarion.
- 3) Decision letters document Tarion's judgment regarding whether particular defects in dispute are warranted or not. In 2018, Warranty Services representatives and managers completed training to help improve their decision letter writing skills, and we will continue this training in the coming

year. We also added an additional step wherein each decision letter is reviewed by an advisor who is not associated with the file and who can independently assess and critique its readability.

- 4) From conciliation to early intervention to mediation, Tarion has a variety of dispute resolution mechanisms that can be employed to resolve warranty claims. To promote awareness and understanding of the claims process and the various dispute resolution options and how they work, we produced a number of new resources, including the Warranty Process Manual, the 7 Steps to Resolve Your Warranty Claim infographic, the 10 Steps You Need to Know about Your Conciliation video, a podcast on dispute resolution, and several blog posts and articles on conciliation, early intervention and how to make a warranty claim.

Through the continued evolution of our tools, communications and processes, Tarion is helping to ensure both homeowners and builders understand their warranty rights and responsibilities, are aware of the resources available to them and are able to make informed decisions throughout the claims process.

PROMOTING MEDIATION AS A PATH TO RESOLVING DISPUTES

The warranty claims process can grind to a halt in situations when a homeowner and a builder reach an impasse over disputed issues. Mediation can help the parties find a way forward, eventually leading to a resolution before the matter escalates.

Mediation requires both the homeowner and the builder to agree to participate and, ideally, to sign off on the final negotiated agreement. During the process, both sides have an opportunity to tell their side of the story and what they would like to see done about the issue. The mediator considers both points of view, reviews all the information and documents provided by both parties, helps in the discussion of possible solutions and facilitates in negotiating an agreement.



Improving Claims Resolution

As part of our mediation pilot, first launched in 2017, a number of staff were trained to act as mediators. In 2018, nine successful mediations took place and, based on the positive feedback from the participants, Tarion will continue to develop and potentially expand this option.

USING TECHNOLOGY TO HELP RESOLVE CLAIMS

Over the past decade, Tarion has introduced a variety of technology solutions to assist homeowners and builders in managing and fulfilling their warranty obligations using their desktop computers or smart devices.

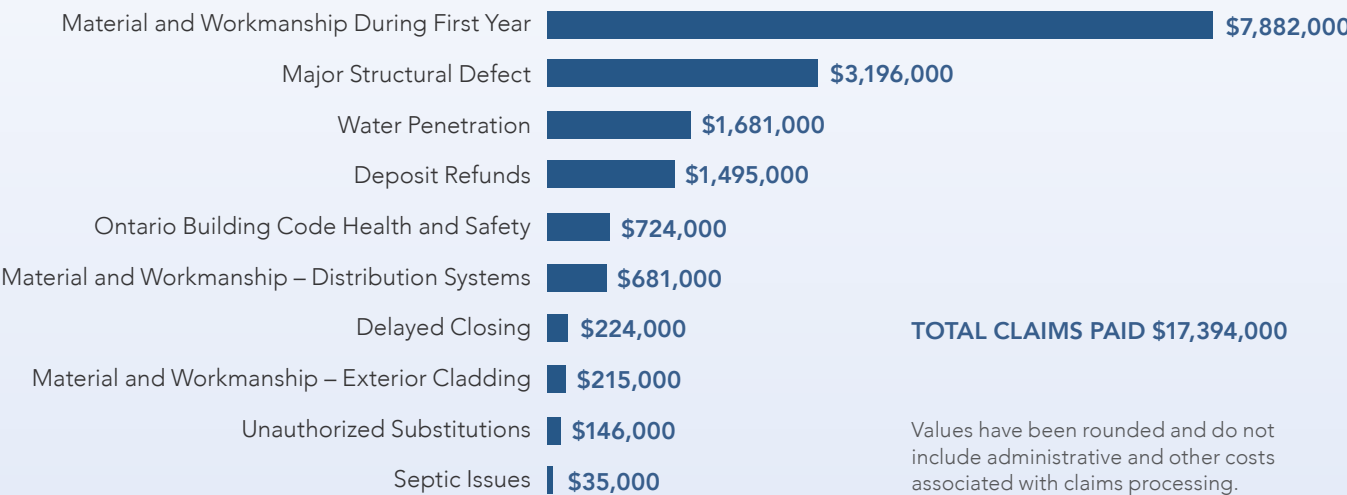
Virtual Inspection Pilot: When a homeowner first identifies an issue in their home, they may need advice as to whether it will be warranted. Instead of requesting an onsite inspection, the homeowner can download an app on their phone, call Tarion and use the app to provide a live video feed that appears in a dashboard on a Tarion representative’s desktop. Being able to see exactly what the homeowner is seeing, the Tarion representative can ask questions, provide feedback and even take measurements using this virtual inspection technology. This virtual inspection process was tested

as a pilot in 2018 and has shown promise as an area where technology may help us better resolve claims and improve consumer service.

TarionConnect Project: For the next step in the warranty process, the MyHome portal allows homeowners to submit forms and track deadlines while BuilderLink gives builders the ability to view the completed warranty forms and track repair timelines.

Previously, there had been no capability for homeowners and builders to communicate with each other via these tools. But in the past year, we developed and launched a pilot of a new digital warranty management system called TarionConnect, which will help facilitate the claims process by making it possible for homeowners and builders to have an online, interactive exchange about warranty items. A homeowner’s submitted items will appear in TarionConnect and they can add additional notes or photos. The builder, in turn, can log in and update the items as ‘in progress’, ‘completed’ or ‘in dispute’. When there are items that are in dispute, Tarion will receive an alert so we can review the file and intervene to help resolve the issue before it escalates. TarionConnect has shown potential to be a game-changing tool in the warranty management process.

2018 Claim Payments by Type of Coverage



Improving Claims Resolution



APPEALING A WARRANTY DECISION

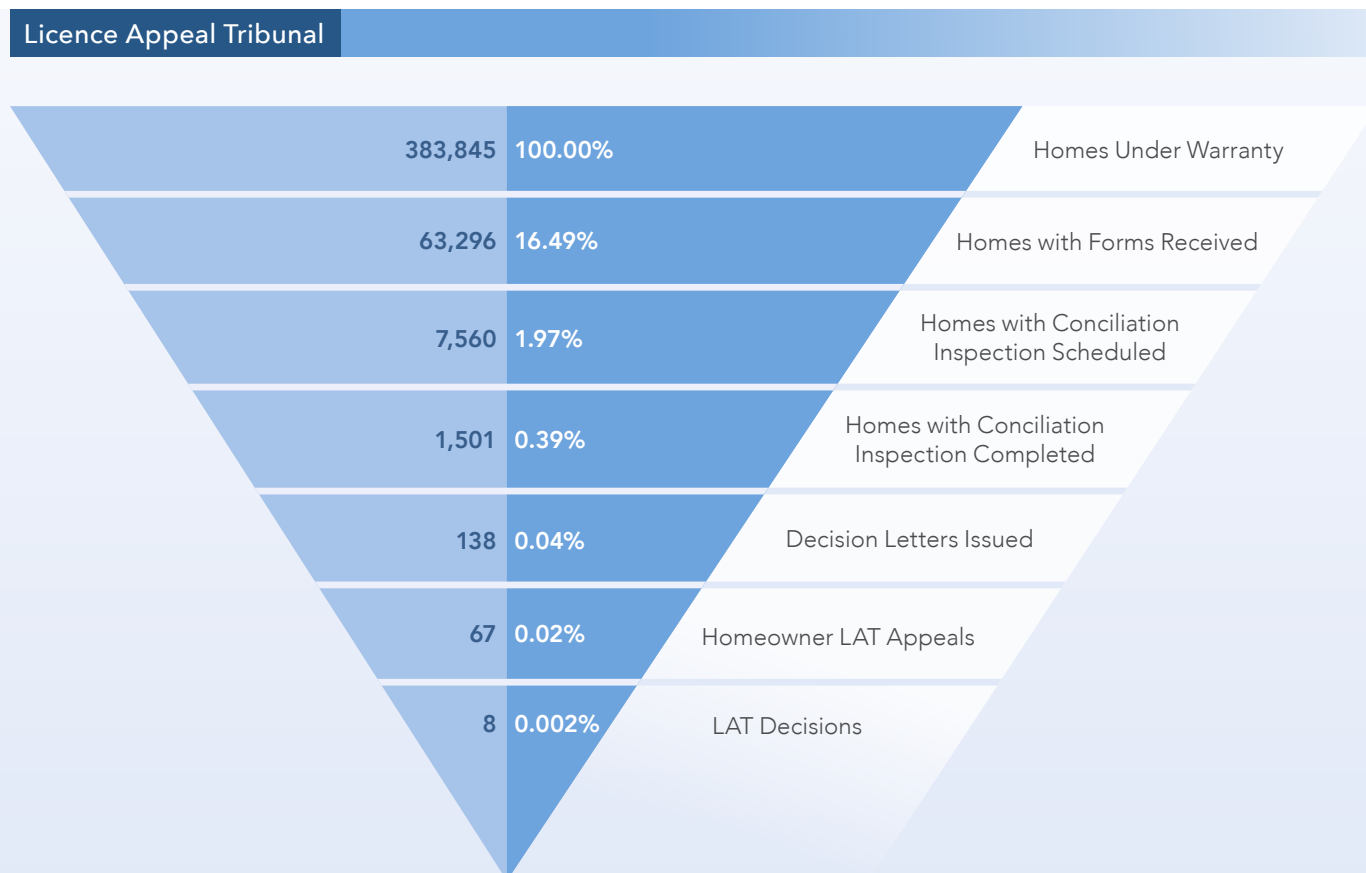
In approximately 99 per cent of cases, warranty claims are resolved by builders or through Tarion's dispute resolution processes. However, if a homeowner is not satisfied with a decision, they can appeal to the Licence Appeal Tribunal (LAT) – an adjudicative tribunal of the Province of Ontario.

Tarion is one of the only warranty providers in Canada that gives homebuyers the ability to access a fully independent tribunal to review its warranty findings, separate and apart from taking the dispute to civil court.

To pursue a LAT hearing, a homeowner must request a decision letter to appeal the matter before the LAT. In 2018, Tarion issued 138 decision letters, which was a 16 per cent drop from 2017.

The LAT provides a pre-hearing process (known as a case conference) that includes case mediation by an independent adjudicator. If there's no resolution in one or more pre-hearings, the matter proceeds to a new hearing by a different adjudicator.

In 2018, just over 16 per cent of homes under warranty had a warranty form submitted while less than 1 per cent of homeowners under warranty submitted an appeal to the LAT. Our goal is to continue to improve our dispute resolution processes to reduce the number of claims that proceed to this formal adjudication process.



Improving Claims Resolution



ENSURING FAIR TREATMENT

Tarion aims to resolve all claims fairly, but there can be occasions when homeowners feel they have not been treated fairly. The Tarion Ombudsperson Office exists to promote and protect fairness by investigating and seeking resolutions to complaints. Tarion was the first designated administrative authority to introduce this service for consumers, and 2018 marked the 10th anniversary of the Ombudsperson Office. The Office is an impartial, independent and confidential resource that functions independently from the rest of Tarion and reports directly to the Board of Directors.

When homeowners submit complaints, the Ombudsperson Office objectively determines whether Tarion's process and decision were fair. Their role is meant to supplement – not replace – existing dispute resolution processes and formal channels of appeal. As such, it does not make warranty decisions or policies, nor does it formally adjudicate issues for Tarion.

In 2018, the Ombudsperson Office received 471 complaints. A summary of their activities, case studies, observations and recommendations for process improvement and/or policy changes can be found in the Ombudsperson Annual Report.

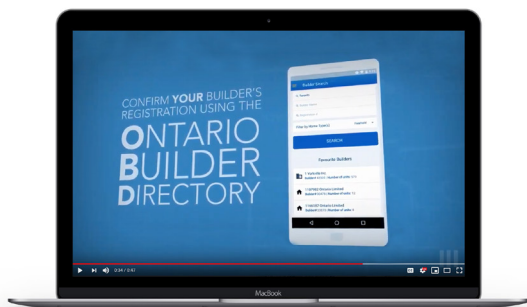
Consumer & Builder Education

As part of Tarion's consumer protection mandate, we educate homebuyers, homeowners, builders and industry partners about Ontario's New Home Warranty Program and our role as regulator. Using a variety of online and face-to-face channels, we strive to make our information and resources accessible to our stakeholders, no matter where they are.

HELPING CONSUMERS MAKE INFORMED DECISIONS

Buying a home is a journey – from choosing a location and builder through taking possession to managing your warranty. To help make this process easier, Tarion offers tips, advice and how-to information via a variety of media so consumers understand the risks, responsibilities and processes involved.

During Fraud Prevention Month in March, for example, Tarion launched an awareness campaign on illegal building which highlighted the potential consequences and provided tips on how to recognize an illegal builder. The campaign had a total reach of over 2.2 million while more than 395,000 people viewed the video.



In the fall, Tarion released a video on the risks of radon for National Radon Action Month. To accompany the video, an audio news release, blog and infographic highlighted important facts about radon and the link to lung cancer, explained how radon is detected and encouraged homeowners to consider getting their homes tested.



To further the public's understanding of the warranty and related issues, we also published 35 blog posts, six podcasts, two webcasts and 56 columns in publications such as *Toronto Sun*, *Condo Life*, *NextHome*, *Homes Magazine* and *Hooshmand Magazine* (a Farsi publication). We also distributed consumer-oriented articles to regional media which were picked up 809 times.

OFFERING TRANSPARENCY AND ACCESSIBILITY

Tarion's Annual Public Meeting (APM) is an opportunity for Ontarians to learn more about what we do and to ask questions about the New Home Warranty Program. In 2016, Tarion introduced a webcast-only APM to accommodate people who couldn't attend because they lived too far away.

Our 2018 webcast (held on May 24) attracted 1,582 people from across the province, including those who were travelling at the time of the meeting and participated from other provinces and countries (as far away as Brazil, New Zealand and Uganda). The webcast was closed captioned in real time to increase accessibility. Tarion's Warranty Services staff fielded over 100 questions that were sent in advance of the event and handled another 60 inquiries during the webcast, while our senior management panel answered 28 questions live.

In a post-APM survey, 85 per cent of respondents indicated that they found the APM useful. For those who were not able to participate, the APM recording was posted on our YouTube channel. Questions that were not answered during the webcast were posted with answers on our website.

Consumer & Builder Education

PROVIDING EDUCATIONAL RESOURCES FOR THE NEW HOME MARKET

Who builds, sells, inspects and manages a home is just as important as who ultimately purchases it. That's why it's critical that everyone involved throughout the homeownership journey understands their roles and responsibilities.

Under the *New Home Warranties Plan Act*, new home builders are legally required to be registered with Tarion. As the requirements for new freehold builders have evolved with the introduction of the seven educational competencies, in 2018, we created a *How to Become a New Home Builder* brochure to provide an easy reference to help clarify what's involved in the registration process. This publication complements the content on Tarion's website and can serve as an additional tool to encourage compliance.

Building permits, occupancy permits and pre-delivery inspections (PDIs) represent important steps between construction and possession of a new home. Municipal building officials and home inspectors are key to identifying potential illegal builders, flagging Ontario Building Code violations and helping to educate homebuyers about potential issues or risks. As part of Tarion's collaborative approach to consumer protection, we launched several new educational resources in 2018 to ensure these important industry stakeholders have the most up-to-date information on warranty and industry issues. These resources include customized continuing education curricula as well as e-newsletters and dedicated resource libraries for these two groups on Tarion.com. The courses and educational materials include information on PDIs, illegal building, radon, warranty coverage and the Construction Performance Guidelines.

A new home purchase is both a financial and a legal transaction that involves agreeing to a variety of terms and conditions. We recognize the importance of purchasers having legal advice before signing the Agreement of Purchase and Sale and the Addendum, and we see real estate lawyers as important partners in protecting a homeowner's warranty rights. In 2018, in response to the rise in condo enrolments and changes to deposit protection, Tarion created a new brochure on common elements for real estate lawyers. We also revised our existing brochure for real estate lawyers to ensure these legal advisors have the most up-to-date information for their clients.

Through these efforts to educate the new home building community, Tarion is helping to ensure consumers receive the best service, advice and protection as they embark upon the journey of homeownership.



Consumer & Builder Education

REACHING OUR STAKEHOLDERS IN THE COMMUNITY

Accessibility is key to Tarion’s customer service commitment. And although much of today’s communication is digital, our staff believe that connecting in the community helps put a face to Tarion and can build stronger relationships with our stakeholders.

In 2018, Tarion employees participated in more than 700 events across the province, providing important information on warranty coverage, Construction Performance Guidelines and policy changes, as well as helpful advice on resolving issues.

In the past year, Tarion also launched a municipal outreach strategy to further solidify longstanding relations with municipalities and improve information sharing between all parties. Municipal building officials play an important role in ensuring Ontario homes are built safely and according to the Ontario Building Code. They are also an essential resource for Tarion when assessing defects and planning for remediation.

Tarion sees our partnership with municipalities as vital to increasing consumer confidence in the new home marketplace. We look forward to our continuing to work together to address emerging trends and create joint training opportunities.

BUILDING OUR ONLINE COMMUNITY



Twitter

2018	1,925 followers 36,063 total engagements
2017	1,655 followers 11,288 total engagements



Facebook

2018	8,292 page likes 3,098,811 total reach
2017	8,149 page likes 9,373,115 total reach



LinkedIn

2018	1,874 followers
2017	1,425 followers



Instagram

2018	1,336 followers
2017	726 followers



YouTube

2018	26 new videos published 204 subscribers 1,010,690 total video views
2017	38 new videos published 887 subscribers 439,526 total video views

A home does not exist in isolation – it is part of a wider community. Tarion and our over 200 employees take this truth to heart each year as we help to strengthen Ontario’s communities through a wide assortment of charitable activities.

- Through our employee-driven Taron Cares Committee, staff raised over \$7,000 for more than 15 charities including Ernestine's Women's Shelter, Eva's Initiatives for Homeless Youth, the Newcomer Centre for Peel, Me to We and the Canadian Red Cross;
- Through our charitable golf tournament, we raised \$20,000 to support the Children's Wish Foundation;
- We raised close to \$4,000 and entered a team in the Bright Run, an annual event held in support of breast cancer research at Hamilton's Juravinski Cancer Centre.



25 | Tarion Annual Report 2018

Helping to Build Stronger Communities

Tarion also continued our decades-long relationship with Habitat for Humanity, an international organization and registered Ontario builder whose mission is to build affordable housing for deserving families. In addition to waiving the enrolment fee for 1,149 Habitat for Humanity homes since 1993, the collective efforts of employees from across the organization in 2018 made it possible for Tarion to send 10 employees to assist in the construction of a home for an immigrant family in Orleans.

Whether we are protecting one of life's biggest investments or supporting organizations and initiatives around us, community is at the heart of what Tarion does.



Annual New Home Owner Survey

Each year, Tarion conducts an annual customer satisfaction survey of Ontario's new home owners. The survey allows homeowners to rate the performance of both their builder and Tarion and share their experience throughout the purchase, possession and after-sales stages of ownership.

To allow the maximum number of homeowners to participate, we send out two separate homeowner surveys. The first survey went to 54,518 new home owners in their first year of ownership: specifically, people who took possession or occupancy of their new home or condo between October 1, 2017 and September 30, 2018. Despite the challenge of rotating Canada Post strikes that lasted five weeks, we managed to exceed last year's response rate, receiving 11,376 completed responses, representing a response rate of 21 per cent versus our 2017 response rate of 20 per cent.

Our second survey of homeowners was directed to people in their second to seventh year of homeownership. We almost doubled the number of surveys sent out – either by email or postage mail – from 68,708 to 114,409. Although the number of completed responses increased from 10,835 to 14,050, the overall response rate was only 12 per cent (as compared to 16 per cent in 2017).

Both surveys were conducted by Forum Research Inc., a highly respected third-party research firm based in Toronto. Executive Summaries of all our customer satisfaction surveys are published on our website.

WHY SURVEY?

The goals of this research are threefold. First, we want to better understand homeowners' perceptions of Tarion's service and processes across all stages of the new home warranty lifecycle. Tarion uses the insights gained from this research to gauge its corporate performance each year. Second, we use homeowner feedback about their builder to acknowledge best practices in customer service and to provide feedback to builders on how they can improve their processes. Where responses are statistically valid, builders are provided with a copy of their results, as well as a comparison of their results to those in their category. Tarion also offers customer service training to builders who need or want to improve their service and results.

Finally, the results of the first-year survey are used to determine the finalists and recipients of the Homeowners' Choice Awards in four categories: High-Rise (more than 100 high-rise possessions in the year); Large Volume (more than 100 freehold possessions in the year); Medium Volume (21–100 possessions in the year); and Small Volume (5–20 possessions in the year). These awards recognize service excellence and the recipients have their awards listed in their profiles on the Ontario Builder Directory.

Annual New Home Owner Survey

HOMEOWNER SURVEY – YEAR ONE

Survey results show that almost two-thirds of first-year homeowners feel their builder met or exceeded their expectations (62 per cent – unchanged from 2017) and just over half would recommend their builder to family or friends (53 per cent – up 1 percentage point from 2017). Homeowners of micro-volume builders (1–4 possessions per year) are generally the most satisfied with their experience with their new home and their builder (70 per cent – down 2 percentage points from 2017) while homeowners of large-volume builders are generally the least satisfied (58 per cent – an increase of 2 percentage points from 2017).

Although overall homeowner satisfaction with builders is relatively unchanged, their satisfaction with Tarion – measured by the Service Orientation Index – rose almost 3 percentage points from 2017. After remaining relatively stable since 2014, this is the most significant jump since 2012.

KPI Elements	2018 (%)	2017 (%)	2016 (%)	2015 (%)
Tarion is accessible to homeowners	87.4	85.7	85.8	87.3
Tarion listens to the needs and concerns of homeowners	81.9	78.9	79.5	78.4
Tarion is easy to do business with	82.0	79.5	79.6	76.8
Homeowner Service Orientation Index	83.8	81.4	81.6	81.0

Survey results also showed that the overall impression of Tarion is favourable amongst homeowners in all builder volume categories (85 per cent) and has actually risen 4 percentage points from 2017. As in past years, Tarion received the highest rating for accessibility and there was a 3 percentage point increase (from 79 percent to 82 per cent) in scores for the 'Gives buyers confidence in the homebuying experience' and 'Ensures fairness in overseeing warranty rights and obligations' criteria.

Annual New Home Owner Survey

ANNUAL HOMEOWNER SURVEY – YEARS 2 TO 7

A total of 114,409 new home owners who took possession of their homes between October 1, 2017 and September 30, 2018 received survey invitations by email or postage mail. We received 14,050 completed surveys providing a total margin of error of +/- 0.77 percentage points.

2018 Year 2 to 7 Survey results remain unchanged from 2017 on the key measurables.

% Agree Tarion...	2018	2017	2016	2015	2014	2013	2012	2011
Is accessible	84	84	85	84	83	81	84	81
Helps new home owners understand their warranty rights and obligations	78	78	79	77	77	72	77	76
Listens to needs and concerns	74	74	73	72	69	65	71	68
Is easy to do business with	74	74	75	70	68	64	69	66
Makes sure new home builders fulfill their warranty obligations	72	72	71	68	67	61	67	63

In most cases, the opinions of homeowners in the first-year possession survey are quite similar to the opinions of homeowners in their second year of possession. Satisfaction levels generally decline marginally in each of years 1, 2 and 3. The results on virtually every comparable measure show there is a further incremental "step down" whereby those homeowners in their fourth and fifth year of possession share similar but less favourable views. Similarly, homeowners in their sixth and seventh years of possession share similar but even less favourable views than those earlier in the warranty lifecycle.

It should be noted that homeowners in later warranty stages were significantly less likely to have had contact with Tarion in the last year. For example, approximately two-thirds of homeowners in the second year of their warranty contacted Tarion (64 per cent) while only 15 per cent of homeowners in the seventh year had any contact with Tarion.

Overall, 87 per cent of homeowners in years 2 to 7 felt Tarion's commitment to customer service had improved or remained the same based on their experiences.



Annual Builder Survey

ANNUAL BUILDER SURVEY

Tarion's annual builder survey is conducted concurrently with our annual homeowner surveys each year.

Forum Research Inc. conducted this survey by telephone with 267 builders across all categories (micro, small, medium and large volume as well as high-rise). In order to better gauge the satisfaction of smaller builders in the province, over half the sample was micro or small builders. Results from 2018 showed a significant drop in the key measurables, with the Service Orientation Index decreasing from 83 per cent to 79 per cent.

KPI Elements	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2013 (%)	2011 (%)
Tarion is accessible to builders	86	91	92	90	88	94
Tarion listens to the needs and concerns of builders	72	77	77	76	70	77
Tarion is easy to do business with	78	82	80	78	74	77
Service Orientation Index	79	83	83	82	77	83

Overall, based on their personal experiences, 81 per cent of builders across all size categories have a favourable impression of Tarion, with the highest ranking from high-rise builders. Similar to the 2017 results, builders were most likely to identify the following characteristics with Tarion:

- Integrity;
- Accessibility;
- Dependability; and
- Trustworthiness.

With regard to performance, builders in all categories ranked Tarion highest in the 'Encouraging builders to provide good customer service', 'Courtesy' and 'Applying builder licensing policies and processes effectively' criteria.

Recognizing the Best in Customer Service



HOMEOWNERS' CHOICE AWARDS

A new home purchase is not just a transaction but an experience – and it's up to the builder to make it a positive one.

The Homeowners' Choice Awards are the only awards that give Ontario's new home buyers the power to have their new home builder recognized for excellent customer service.

The finalists and recipients are selected via annual customer service satisfaction surveys sent to new home owners who have taken possession of a home in the previous year. The survey asks homeowners to rate their satisfaction with their builders, from the point of signing of the agreement of purchase and sale, through construction and the pre-delivery period, to after-sales service.

The 2018 Homeowners' Choice Awards were based on the results of over 11,500 surveys completed by homeowners.

Tarion hosted a luncheon to recognize the finalists and recipients, and awards were presented to:

- Kolody Homes – Small Volume Category
- Talos Custom Homes Ltd. – Medium Volume Category
- Hayhoe Homes – Large Volume Category
- Plazacorp Investments – High-Rise Category



ERNEST ASSALY AWARD

In 2017, Tarion announced a new award – the Ernest Assaly Award – for a new home builder recognized as a leader in quality home building, innovation and community service.

The award is named after Mr. Ernest Assaly, Tarion's first Board Chair (1976 to 1988). He was a passionate voice for the builder's warranty program and a highly respected, award-winning builder and leader in Ontario's residential construction industry. Similar to a lifetime achievement award, a builder can only receive this recognition once.

Ontario has more than 5,000 registered builders, but only 90 met the challenging eligibility criteria and were invited to make a full nomination submission to Tarion. Finalists and this year's recipient were selected by Tarion's Board of Directors.

The winner of the 2018 Ernest Assaly Award was Tridel.

Looking Ahead

In February 2019, the Ontario government announced plans to strengthen consumer protection by:

- Establishing a separate regulator from Tarion for new home builders and vendors to address conflicts of interest.
- Planning to introduce legislative amendments to make executive and Board compensation publicly available and move to a more balanced, skills-based Board composition.
- Exploring the feasibility of a multi-provider insurance model for new home warranties and protections in Ontario.
- Introducing new initiatives to better inform and protect purchasers of cancelled condominium projects.

We look forward to supporting the government to achieve these goals, while continuing to deliver our core services to new home owners, builders and vendors while the transformation is underway.

Additional updates with respect to our progress will be made throughout the year.

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



Assistant Vice President,
Law & Associate General Counsel

Assistant Vice President, Finance

Tarion is governed by a Board of Directors with members representing key stakeholders including new home buyers, builders, consumer advocates, the financial community, and provincial and municipal levels of government across Ontario.

Among its key responsibilities, the Board:

- Approves Taron's strategic plan, business plan and budget, ensuring the integrity of the organization's financial reporting;
- Monitors the strategic environment and ensures appropriate enterprise-wide risk management;
- Monitors corporate performance against the strategic plan, business plan, and operating and capital budget;
- Oversees board and management succession planning, including appointing and monitoring the performance of the President & Chief Executive Officer;
- Assesses the Board and each committee or ad hoc committee's effectiveness in fulfilling its responsibilities, including monitoring the effectiveness of individual directors;
- Ensures the integrity of the company's internal control system and management information systems;
- Develops the company's approach to corporate governance, including refreshing the corporate governance principles and guidelines.

The Board of Directors of Taron Warranty Corporation is committed to a series of governance policies that are intended to support the oversight role of the Board and to ensure that the Board acts in the best interest of the company (fiduciary duty), taking into account its consumer protection mandate and the interests of its stakeholders (duty of care). Some highlights of the Board's current governance practices include the following:

INDEPENDENCE

To ensure the independence of the Board and management, the Board is composed entirely of independent professionals chosen via a nomination process. The Chair of the Board is then elected by the Board members.

BOARD COMPOSITION

Tarion's Board of Directors has 16 members who are nominated in accordance with the by-laws of the company. The Board of Directors consists 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 as follows:

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

Nominated directors are chosen based on needs identified in a competency framework/skills matrix. 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.

MEETINGS

The Board and its committees meet regularly according to a schedule established each year by the Board, and at such other times as the Board may determine necessary for uninterrupted running of the company's business. Meeting agendas are developed in consultation with the Board and committee chairs, respectively. 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 and committee meeting. At a minimum, they are required to have read the material provided to them prior to the meeting. During the 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 environment that is conducive to open discussion and debate.

The Board and its committees meet without the presence of management for some portion of each of their meetings.

FINANCIAL CONTROLS

The Audit Committee of the Board is composed entirely of independent directors whose responsibilities are set forth in a detailed Committee Terms of Reference. 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, or any independent advisor for receiving assurance on any issues. Consistent with the best practices of regulated financial institutions, Tarion has established an internal audit mandate. To fulfill this mandate, the company has engaged the services of a public accounting firm to provide internal auditing to maintain and improve the company's internal control environment. The internal auditor has a direct reporting relationship to the Audit Committee.

Committees of the Board

GOVERNANCE COMMITTEE

Justin Rangooni, Chair

Scott Reid, *Vice Chair*

Loralea Carruthers

Paul Golini Jr., ICD.D

Greg Graham

Hari Panday, FCPA, FCGA, ICD.D

Lynn Peterson, ICD

Lea Ray, CPA, CA, ICD.D

The Governance Committee, composed of eight members of the Board, provides recommendations to the Board about governance matters affecting the company. The Governance Committee has responsibility for developing and monitoring the effectiveness of Tarion's system of corporate governance. This includes making recommendations to the Board of Directors on appropriate and necessary governance policies, governance structure and Board committees. The Governance Committee works with an external governance expert who advises on governance best practices and assists with the Board's self-assessment and peer evaluation.

Among its key responsibilities, the Governance Committee:

- Recommends procedures for the recruitment of director candidates to the Board of Directors of Tarion and provides oversight over the election process through the Nominations Committee;
- Provides input to the Board of Directors and the Nominations Committee on an appropriate director nomination process to ensure that the Board has the appropriate skills and background to address the business issues of the company, including expertise in the areas of insurance, claims management, governance, consumer issues, new home construction, risk management and financial matters;

- Oversees the development and implementation of orientation procedures for new directors as well as the development and implementation of director training policies and programs;
- Recommends to the Board of Directors the evaluation process to be followed by the Board each year in keeping with the requirements of the Accountability Agreement. The Governance Committee is responsible for the conduct of this process, ensuring results of the evaluation are acted upon and that a policy is in place to proactively address full Board and individual director training and development;
- Recommends governance improvements to the Board of Directors, based on current trends and needs of the Board, as well as from best-practice trends in corporate governance in Canada; and,
- Develops, maintains and updates as necessary the Code of Conduct and Governance Practices of the company, to ensure every director signs a copy of the Code each year and agrees to abide by each of its principles.

Committees of the Board

CONDOMINIUM TASK FORCE

Scott Reid, Chair

Sheldon Libfeld, *Vice Chair*

Loralea Carruthers

Frank Giannone, ICD

Paul Golini Jr., ICD.D

Rob Cooper, Industry Appointee

Sandy Ewen, Industry Appointee

Harry Herskowitz, Industry Appointee

Marc Sammons, Industry Appointee

Sally Thompson, Industry Appointee

The Condominium Task Force is composed of five directors and five industry appointees experienced in the condominium area. The Condominium Task Force was established as a forum to facilitate research, provide informed opinions and discussion and make progressive recommendations about the condominium industry to Tarion management and the Board.

Board of Directors	11 meetings
Audit Committee	7 meetings
Consumer Committee	4 meetings
Governance Committee	5 meetings
Human Resources & Compensation Committee	4 meetings
Investment Committee	4 meetings
Nominations Committee	2 meetings
Regulatory Affairs Committee	3 meetings
Strategic Transition Committee	11 meetings
Total	51 meetings

The table below shows directors whose terms ended and/or commenced concurrent with the Annual Meeting of Members in April 2018.

	Board of Directors		Committee		Total	
Director	Held	Attended	Held	Attended	Held	Attended
Basciano, Mark*	3	3	5	5	8	8
Carruthers, Lorealea**	7	7	7	7	14	14
Finnigan, Bob***	7	7	9	9	16	16
Fiume, Victor	11	11	10	9	21	20
Gabriele, Daniel	11	10	4	3	15	13
Giannone, Frank	11	10	7	5	18	15
Golini, Paul	11	10	11	9	22	19
Graham, Greg	11	11	13	12	24	23
Kenins, Andy	11	11	11	10	22	21
Libfeld, Sheldon	11	10	12	11	23	21
Lieou, John	11	7	4	2	15	9
Panday, Hari	11	11	16	14	27	25
Peterson, Lynn****	7	7	12	10	19	17
Rangooni, Justin	11	11	12	10	23	21
Ray, Lea	11	11	15	14	26	25
Reid, Scott	11	10	9	9	20	19
Rinella, Wendy	11	9	12	11	23	20

The President & CEO and key senior executives attend all meetings of the Board and each of its committees.

* Term ended April 2018

** On leave March 9 – June 7, 2018

*** Term started April 2018

**** On compassionate leave August 15 – September 30, 2018

Financials

FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Commentary	45
Management's Responsibility for Financial Reporting	46
Independent Auditor's Report	47
Appointed Actuary's Report	49
Statement of Financial Position	50
Statement of Comprehensive Results of Operations	51
Statement of Changes in Equity	52
Statement of Cash Flows	53
Notes to Financial Statements.....	54

2018 FINANCIAL COMMENTARY

Rising interest rates, mortgage stress tests and affordability softened the housing market in Ontario and across Canada. The year ended with total enrolment levels at 63,009 compared to 68,945 in 2017, mainly driven by lower enrolment levels of freehold units. Nevertheless, increase in the average sales price and enrolment fee per unit led to higher enrolment fees received, despite the reduced number of units enrolled. Enrolment fees earned were up \$2.0 million from 2017, primarily from the emergence of prior years' deferred enrolment fees and an update in the earnings pattern leading to accelerated fee recognition for freehold enrolments in their fifth year of coverage.

Tarion ended the year with the Guarantee Fund growing to \$592.3 million (2017: \$583.4 million), of which \$274.1 million (2017: \$258.0 million) supports warranty liabilities for the benefit of new home owners. The company's ending equity position of \$266.4 million (2017: \$275.2 million) is available for future warranty and service improvements and protection against possible catastrophic warranty losses.

Auditor's Report PAGE 1 OF 3

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Tarion Warranty Corporation

Opinion

We have audited the financial statements of
Tarion Warranty Corporation (the "Corporation"),
which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive results of operations for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tarion Warranty Corporation as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Financial Statements"* section of our auditors' report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the uncertainty surrounding legislative developments that could affect the mandate and operations of the corporation.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in Tarion's 2018 Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

PAGE 2 OF 3

We have nothing to report in this regard.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.

Actuary's Report

- KPMG LLP

April 25, 2019
Toronto, Canada

Page 6

Pierre Laurin
Fellow, Canadian Institute of Actuaries
April 25, 2019

For the year ended December 31, 2018 (\$CAD thousands)

See accompanying notes to financial statements.

Approved by the Board of Directors

Director and Chair of the Board

Director and Chair of Audit Committee

For the year ended December 31, 2018 (\$CAD thousands)

See accompanying notes to financial statements.

For the year ended December 31, 2018 (\$CAD thousands)

See accompanying notes to financial statements.

For the year ended December 31, 2018 (\$CAD thousands)

See accompanying notes to financial statements.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

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 (guarantee fund) which is used 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. Among other things, the Act affords new home buyers a right of compensation 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 builder construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

In December 2017, a provincial legislation was passed which mandates the separation of the activities over regulating new home builders and vendors into a separate regulatory authority, and activities over providing warranty coverage for new homes in Ontario into a separate entity. Included in the legislation is an amendment to the Act that authorizes the Corporation to use the guarantee fund to make payments or loans to any corporation that is designated to administer any successor Act or that, according to the Minister, may be so designated.

In February 2019, the Government of Ontario announced its plan to continue transforming the Corporation and the Act, and the following activities are planned to be undertaken within an 18-month timeframe:

- Reaffirmed the establishment of a separate regulator from the Corporation for new home builders and vendors to address conflicts of interest and directing the Corporation to negotiate a funding agreement between the Corporation and the newly formed regulatory authority. See Note 11D.
- Planning to introduce legislative amendments that, if passed, will enable the government to require the Corporation to make executive and board compensation publicly available and move to a more balanced skills-based board composition.
- Exploring the feasibility of a multi-provider insurance model for new home warranties and protections in Ontario.
- Introducing new initiatives to better inform and protect purchasers of cancelled condominium projects.

While these changes may materially impact the mandate and operations, the Corporation intends to continue to deliver its mandate until the above changes are finalized.

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, 2018, were approved by the Corporation's Board of Directors and authorized for issue on April 25, 2019.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

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.

A. Changes to significant accounting policies

The Corporation has adopted IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) and the amended version of IFRS 9 – Financial Instruments published in 2014 (“IFRS 9 (2014)”), effective January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 has replaced IAS 18 – Revenue and has established a single-revenue model to determine how and when revenue should be recognized. The Corporation has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard at the date of application on January 1, 2018.

The Corporation has determined that there is no impact from applying IFRS 15 as majority of revenue contracts are considered insurance contracts within the scope of IFRS 4 – Insurance Contracts. Revenue contracts under IFRS 15 are limited to:

- Builder renewal and registration fees
- Other revenue, including:
 - Administration and other processing fees related to claims handling;
 - One-time alternative measure fees; and
 - Conciliation Fees from homeowners and builders

Further details on the nature, timing and satisfaction of performance obligations are described in Note 2L. The adoption of IFRS 15 did not result in a transition adjustment on the date of adoption.

IFRS 9 (2014) – Financial Instruments

The Corporation had previously adopted a version of IFRS 9, which was published in 2010 which covered classification and measurement of financial instruments. The final version of IFRS 9 published in 2014 has introduced a single impairment model that relies on forward-looking information to measure the impairment of financial assets on the basis of expected credit losses ("ECL"). The ECL model replaces the incurred loss model previously required by IAS 39. The effect of adopting IFRS 9 impacts the impairment losses recognized on trade receivables. An adjustment of \$96 to opening equity was recognized as at January 1, 2018.

Due to the transition methods chosen by the Corporation in applying IFRS 15 and IFRS 9, comparative information throughout these financial statements were not adjusted.

B. Cash and cash equivalents

Cash and cash equivalents comprises of cash on hand and at the bank, any short-term deposits with a maturity of up to three months on the date of purchase, net of any bank overdrafts payable on demand. Cash equivalents held for investment purposes are included in the fixed income portfolio.

C. Prepaid expenses and other assets

Prepaid expenses are measured at historical costs which approximates their fair value due to their short-term nature. Prepaid expenses are generally settled within one year.

Other assets include unsettled investment trade receivable. These are investments trades made within three business days of the end of the reporting period and are generally settled immediately after the end of the reporting period.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Financial instruments

Financial assets are classified 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 through profit or loss.

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

Cash and cash equivalents, 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 / (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 method. Dividend income on the equity portfolio is recognized as of the declaration date in investment income. The gains /(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 less accumulated impairment. 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, the existence of guarantees, other forward-looking information and the time value of money.

Under IFRS 9, loss allowances will be established for all financial assets impaired based on a 12-month expected credit losses or life-time expected credit losses if the credit risk increases significantly.

The Corporation has elected to apply the IFRS 9 Simplified Approach, which measures expected credit losses based on a lifetime expected loss allowance. This represents expected credit losses that result from all possible default events over the expected life of a financial instrument.

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 impairment loss on trade and other receivables as part of the net claims incurred, at an amount that reduces the carrying value of the financial assets to their recoverable amounts. See note 5C Movement in Trade Receivables for impairment charge.

- *Other financial liabilities*

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

For the year ended December 31, 2018
(\$CAD thousands)

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

H. Warranty liabilities

Warranty liabilities include estimates of costs for claims reported and in process, 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, and deferred home enrolment fees to be taken into revenue as earned based on the expected claims experience over the warranty period.

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, which is further described in Note 3. Annual reviews are performed by management and reviewed by the 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.

The warranty claims 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 income 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 actual timing of settlements may differ from expected timing.

Net 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 in the current year from builders on claims incurred during the current or 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 in trade and other receivables from vendors and builders as described in Note 5.

I. Excess loss reinsurance premium

Benefits to which the Corporation is entitled under its reinsurance contract are recognized as reinsurance assets. Amounts recoverable are dependent on the expected claims and benefits arising under the related reinsured new home warranty contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts. The reinsurance premium paid are recognized as an expense over the terms of coverage they provide. The enrolment-based policy is expensed based on the same earnings pattern recognized for the home enrolment over the life of the warranty period.

The Corporation assesses its reinsurance assets for impairment on an annual basis. If the reinsurance asset is impaired, the Corporation reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the Statement of Comprehensive Results of Operations. A reinsurance asset is impaired if there is objective evidence, which is determined using the same approach adopted from non-financial assets.

The Corporation reflects reinsurance balances on the Statement of Financial Position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to homeowners and on a gross basis in the Statement of Comprehensive Results of Operations to indicate the results of home enrolment fees earned.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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 of 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.

K. Employee future benefits liabilities

In addition to participating in government managed employee benefit plans, the Corporation offers a (i) pension plan and (ii) a post-employment medical and dental benefits plan for its employees.

The pension plan ("Old Plan") consists of a fully vested and closed defined benefit component, and an active defined contribution component. The Corporation has applied to the Financial Services Commission of Ontario to wind up the defined benefit component of the pension plan effective April 30, 2018. As a result of this wind up application, a new defined contribution pension plan ("New DC Plan") was established from May 1, 2018 and contains the same terms and provisions as the defined contribution provisions of the Old Plan.

- Members who participated under the defined contribution component of the Old Plan became a member of the New DC Plan at May 1, 2018. On January 17, 2019, the Corporation received approval from FSCO to transfer all existing assets of the defined contribution component under the Old Plan to the New DC Plan. The assets transfer of \$21,745,934 was made on March 8, 2019.
- Members who participated under the defined benefit component of the Old Plan as at April 30, 2018 were provided with an option form that describe their wind-up entitlements and the options available to them. A wind-up report on the Old Plan with respect to the defined benefit component has been submitted to FSCO for approval. On March 8, 2019, the Corporation received approval from FSCO to wind up the Pension Plan and proceed with the distribution of the assets of the Old Plan. The Corporation will fund any remaining deficit and settle the pension liabilities according to choices made by the members. Members who elected to receive lump sum transfers of their benefits will receive the commuted value of their pension benefits. Immediate and deferred annuities will be purchased from an insurance company to settle the pension liabilities for pensioners and any other members who elected an annuity option.

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/(losses) are recognized in the Statement of Comprehensive Results of Operations in the period they occur. They are not reclassified to excess of revenue over expenses in subsequent periods.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 determined 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.

L. Revenue recognition

Home enrolment fees are remitted by builders during the year. These fees are deferred to the Statement of Financial Position as warranty liabilities and taken into revenue as gross home enrolment fees earned based on the expected claims experience over the warranty period. The earning patterns are reviewed annually. When the initially selected patterns for prior years' enrolments differ from the actual claims emergence, the patterns are updated prospectively. 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. The Corporation's obligation is to review the application and determine whether the builder satisfies all the conditions to grant the license. Fees are only refunded when builders request for a withdrawal of their application prior to grant of license.

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 upon the delivery of the services. Within other revenue are homeowner conciliation fees which are refundable if the conciliating item is found to be warrantable as well as builders conciliation fees which are charged if items are found warrantable and the builders failed to repair or resolved the item(s) during the applicable repair period. These fees are deferred to the Statement of Financial Position as a liability and earned into revenue when the conciliation inspection results in unwarrantable items. The Corporation has recorded the contract liability under accounts payable and accrued liabilities.

M. 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 method. Accrued interest is included within the carrying value of the interest-bearing liability.

N. Impairment of non-financial assets

The Corporation assesses at each reporting date for 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 to not be recoverable.

O. 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 exchange rate prevailing at the date of the transaction.

For the year ended December 31, 2018
(\$CAD thousands)

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

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 reporting date. Actual amounts could differ from those estimates.

A. 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:

- the technical feasibility can be demonstrated;
- management has the intention to complete the intangible asset and use it;
- management has the ability to use the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and use the intangible asset; and
- expenditures attributable to the intangible asset can be measured reliably.

Legislative Changes

The legislative developments identified in Note 1 represent material uncertainties that will significantly impact the structure of the Corporation in future years. While these changes are finalized and implemented, the Corporation will continue to deliver its mandate as a going concern.

B. 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 claims liabilities

Warranty claims liabilities involve a high level of estimation uncertainty as described in Note 2. The amount of claims liabilities equals the present value of cash flows on account of claims and related expenses incurred before the reporting date. The ultimate cost of outstanding claims is estimated by using actuarial valuation techniques, 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 12. The warranty liabilities amounts presented for these claims are stated at the 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

As described in Note 2, trade and other receivables are measured at amortized cost less accumulated 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 5.

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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 12.

Valuation of employee future benefits liabilities

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 14.

4. CASH AND CASH EQUIVALENTS

At December 31, 2018, cash and cash equivalents was solely cash at the bank and on hand of \$4,215 (2017: \$4,770) with no short-term deposits or bank overdrafts payable on demand.

The Corporation also has a \$2,000 (2017: \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2018 is nil (2017: Nil).

5. 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 accumulated 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 registration fees.

	2018	2017
Gross trade receivables	31,292	31,795
Less: Allowance for impairment	(28,648)	(29,306)
Trade receivables	2,644	2,489
Amounts recoverable from vendors and builders	5,305	6,724
Other receivables from vendors and builders	503	492
Total trade and other receivables from vendors and builders	8,452	9,705

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (Continued)

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 the point of registration renewal or earlier if additional risk factors surface.

As at December 31, 2018, there was one vendor and builder (2017: 2 vendors and builders) 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, 2018 was only \$189 (2017: \$662).

As described in Note 13, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2018 there is \$3,111 (2017: \$3,816) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

A. 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, 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, 2018 are amounts recoverable from unregistered vendors and builders of \$268 (2017: \$210).

B. Expected credit losses and impact on discounting (adoption of IFRS 9 (2014))

In determining the lifetime expected credit losses of 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 and builder, their current and expected financial condition, security held, legal action sought and judgment awarded. Other forward-looking information such as ongoing builder interactions is also considered during the assessment to determine the builder's financial outlook. For accounts less than \$50, a historical 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. The Corporation has determined that incorporating forward-looking information to the recovery rate will have an immaterial impact on the net trade receivables balance.

Actual recovery on these balances may differ if the financial health of the vendor and 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, judgments awarded, and other forward-looking information.

For the year ended December 31, 2018
(\$CAD thousands)

As at December 31, 2018, the trade and other receivables from vendors and builders includes \$1,410 (2017: \$1,570) 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. The trade receivables may take significant time to settle and collect due to complex claims cases and/or when litigation is involved. A discount rate of 4.95% (Prime + 1%) has been applied on the trade receivables balance greater than 360 days, which is consistent with the fair value measurement of funds held as securities.

C. Movement in trade receivables

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 when a settlement agreement is reached. Until such time, an allowance for impairment is carried; included in the 2018 change in allowance is a reversal of \$5,700 (2017: \$2,500).

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

6. FINANCIAL INSTRUMENTS

Investments in the fixed income portfolio and the equity portfolio represent accumulated proceeds from the enrolment and builder registrations fees. These investments are made by the Corporation in accordance with the Statement of Investment Policies and Procedures, and represent the guarantee fund which supports:

- i. Ability to fulfil current and future estimated warranty obligations: Investments held support the Corporation's ability to fulfil current and future estimated warranty obligations. Due to the long warranty coverage period of up to seven years and to other factors explained in Note 12, warranty obligations are subject to a high level of measurement uncertainty and variability;
- ii. Funds held as security from the builders: 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, as noted in Note 13. Security received in cash is invested as part of the Corporation's investment portfolio, and is recorded at amortized cost on the Statement of Financial Position as a liability; and
- iii. Financial stability of the Corporation: Financial stability of the Corporation is achieved by applying the capital management framework, as noted in Note 17, which has been modeled after the framework used by the property and casualty insurance industry in Canada. Carried capital of the Corporation has been determined by management to be sufficient to cover possible losses from future catastrophic events, and is supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year and reflects the Corporation's inability to raise capital in traditional ways.

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 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 5 on the valuation methodology used.

The carrying value for accounts payable and accrued liabilities approximates fair value due to their short-term nature. Under IFRS 13 – Fair Value Measurement, 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 as security, the estimated duration periods of such funds by building types and a discount rate of 4.95% (2017: 4.20%).

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

6. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

Fair value measurements are classified using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the types of 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, 2018:

	2018			2018
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	-	157,001	-	157,001
Financial institution bonds	-	130,126	-	130,126
Other corporate bonds	-	84,116	-	84,116
Treasury bills and short-term notes	-	6,812	-	6,812
MortgageTrust Fund	-	11,112	-	11,112
Fixed income portfolio	-	389,167	-	389,167
Equity portfolio	49,697	153,398	-	203,095
Total investments	49,697	542,565	-	592,262
Cash and cash equivalents	4,215			4,215
Total financial assets	53,912	542,565	-	596,477
Financial liabilities measured at FVTPL				
Unsettled investment payable	-	-	-	-
Financial liabilities measured at amortized cost				
Funds held as security	-	-	56,079	56,079
Total financial liabilities	-	-	56,079	56,079

For the year ended December 31, 2018
(\$CAD thousands)

	2017			2017
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	-	165,854	-	165,854
Financial institution bonds	-	118,822	-	118,822
Other corporate bonds	-	74,647	-	74,647
Treasury bills and short-term notes	-	2,547	-	2,547
MortgageTrust Fund	-	11,298	-	11,298
Fixed income portfolio	-	373,168	-	373,168
Equity portfolio	49,557	160,699	-	210,256
Total investments	49,557	533,867	-	583,424
Cash and cash equivalents	4,770	-	-	4,770
Total financial assets	54,327	533,867	-	588,194
Financial liabilities measured at FVTPL				
Unsettled investment payable	478	-	-	478
Financial liabilities measured at amortized cost				
Funds held as security	-	-	52,652	52,652
Total financial liabilities	478	-	52,652	53,130

B. Market Risk

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

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 on the next page.

For the year ended December 31, 2018
(\$CAD thousands)

	2018				
Terms of Maturity (1)	Due within one year	Due one through five years	Due after five years	Due after ten years	Total
Government					
Federal	4,126	129,122	133	0	133,381
Yield to Maturity (YTM)	1.8%	2.1%	1.9%	0.0%	2.1%
Provincial	0	23,217	0	0	23,217
YTM	0.0%	2.4%	0.0%	0.0%	2.4%
Treasury Bills	6,801	0	0	0	6,801
YTM	1.6%	0.0%	0.0%	0.0%	1.6%
Total Government	10,927	152,339	133	0	163,399
YTM	1.7%	2.1%	1.9%	0.0%	2.1%
Financial Institutions	5,415	123,828	90	0	129,333
YTM	1.5%	2.3%	2.6%	0.0%	2.2%
Other Corporate	12,956	67,567	2,657	0	83,180
YTM	2.9%	2.8%	3.2%	0.0%	2.8%
Mortgage Trust Fund	2,459	5,715	2,868	69	11,111
YTM	1.6%	3.5%	3.6%	3.7%	3.2%
Total Fixed Income	31,757	349,449	5,748	69	387,023
Accrued Interest	2,144	0	0	0	2,144
Total Fixed Income with Accrued Interest	33,901	349,449	5,748	69	389,167
YTM	2.1%	2.3%	3.4%	3.7%	2.3%

69 | Tarion Annual Report 2018

For the year ended December 31, 2018
(\$CAD thousands)

	2017				
Terms of Maturity (1)	Due within one year	Due one through five years	Due after five years	Due after ten years	Total
Government					
Federal	7,302	129,142	8,259	-	144,703
Yield to Maturity (YTM)	1.3%	1.8%	1.9%	-	1.8%
Provincial	367	20,480	-	-	20,847
YTM	1.8%	2.0%	-	-	2.0%
Treasury Bills	2,546	-	-	-	2,546
YTM	0.9%	-	-	-	0.9%
Total Government	10,215	149,622	8,259	-	168,096
YTM	1.3%	1.9%	1.9%	-	1.8%
Financial Institutions	8,277	109,727	325	-	118,329
YTM	1.6%	2.3%	2.9%	-	2.3%
Other Corporate	8,623	62,080	3,299	-	74,002
YTM	2.0%	2.3%	2.7%	-	2.3%
Mortgage Trust Fund	2,691	5,404	3,172	30	11,297
YTM	1.7%	3.5%	3.8%	3.9%	3.2%
Total Fixed Income	29,806	326,833	15,055	30	371,724
Accrued Interest	1,444	-	-	-	1,444
Total Fixed Income with Accrued Interest	31,250	326,833	15,055	30	373,168
YTM	1.6%	2.1%	2.5%	3.9%	2.1%

70 | Tarion Annual Report 2018

For the year ended December 31, 2018
(\$CAD thousands)

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.

	2018		2017	
Financials	53,885	27%	61,185	29%
Industrials	28,310	14%	31,544	15%
Materials	21,019	10%	17,933	9%
Energy	19,855	10%	23,500	11%
Consumer Discretionary	18,685	9%	22,196	11%
Consumer Staples	16,116	8%	13,488	6%
Information Technology	14,372	7%	15,699	7%
Telecommunication	12,803	6%	7,671	4%
Health Care	7,809	4%	7,013	3%
Utilities	2,371	1%	3,165	2%
Real Estate	1,964	1%	1,983	1%
Cash	5,546	3%	4,879	2%
Total equity portfolio	203,095	100%	210,256	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 U.S. denominated investments. As at December 31, 2018, the Corporation had approximately 20.0% (2017: 21.2%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 6.6% (2017: 7.9%) of the total

portfolio. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment portfolio.

To mitigate the foreign currency risk the Corporation has access to a foreign currency hedging facility and various hedging strategies are initiated when certain pre-determined foreign exchange fluctuations occur. During the year, the Corporation did not utilize the foreign currency hedging facility since those pre-determined thresholds were not reached.

For the year ended December 31, 2018
(\$CAD thousands)

Sensitivity analysis on market risk

The stress scenarios for 2018 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 applied on the carrying value of the funds held as security excluding accrued interest as 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 all foreign currencies in the portfolio.

	2018						
	Fair Value	Interest Rate Risk		Equity Price Risk		Foreign Exchange	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio	389,167	2,530	(2,508)				
Equity portfolio							
Domestic	84,771			(8,465)	8,465		
United States Dollar	39,284					(1,964)	1,964
Great Britain Pound	17,275					(864)	864
Euro	14,317					(716)	716
Other Currencies	47,448					(2,372)	2,372
Foreign	118,324			(11,832)	11,832	(5,916)	5,916
Financial Liabilities							
Funds held as security	58,820	147	(147)				

For the year ended December 31, 2018
(\$CAD thousands)

	2017						
	Fair Value	Interest Rate Risk		Equity Price Risk		Foreign Exchange	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio	373,168	2,561	(2,538)				
Equity portfolio							
Domestic	86,845			(8,671)	8,671		
United States Dollar	46,279					(2,314)	2,314
Great Britain Pound	17,154					(858)	858
Euro	13,452					(673)	673
Other Currencies	46,526					(2,326)	2,326
Foreign	123,411			(12,341)	12,341	(6,171)	6,171
Financial Liabilities							
Funds held as security	54,898	137	(137)				

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 investments, and trade and other receivables from vendors and builders. The carrying value of financial assets, including 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:

- ### 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 investments, and trade and other receivables from vendors and builders. The carrying value of financial assets, including 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, 2018, 99.7% of the debt securities have a rating of A or better (2017: 99.2%).
 - 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 12, 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.

For the year ended December 31, 2018
(\$CAD thousands)

7. EXCESS LOSS REINSURANCE PREMIUM

The Corporation entered into a reinsurance contract on an “excess-of-loss” basis for premiums of \$1,400 (2017: \$1,925). The reinsurance contract limits the Corporation’s exposure by providing a maximum of \$55M in coverage on claims from specified enrolment years in excess of the retained amount of \$75M. The reinsurance contract does not relieve the Corporation of its primary warranty obligation to homeowners.

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. The cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 12). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily converted into cash.

In 2018, the excess of loss premium earned was \$376 (2017: \$1,037). The unearned excess loss premium at the end of the year was \$2,939 (2017: \$1,915) which is recorded on the Statement of Financial Position. The reinsurance asset for recoveries under the contract as at December 31, 2018 was nil (2017: Nil).

The Corporation also has a \$2,000 (2017: \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2018 is nil (2017: Nil).

8. EQUIPMENT AND LEASEHOLDS

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

	Computer Equipment	Furniture and Office Equipment	Leasehold Improvements	Computer/Office Equipment Under Finance Lease	Total
At cost					
Balance at December 31, 2017	1,283	1,563	2,445	1,474	6,765
Additions	291	-	-	513	804
Disposals	-	-	-	(1,077)	(1,077)
Balance at December 31, 2018	1,574	1,563	2,445	910	6,492
Accumulated depreciation					
Balance at December 31, 2017	1,008	1,423	1,825	1,101	5,357
Depreciation expense	249	28	195	270	742
Disposals	-	-	-	(953)	(953)
Balance at December 31, 2018	1,257	1,451	2,020	418	5,146
Carrying amount					
Balance at December 31, 2018	317	112	425	492	1,346
Balance at December 31, 2017	275	140	620	373	1,408

For the year ended December 31, 2018
(\$CAD thousands)

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

Development costs were recognized as an expense under general and administrative in the Statement of Comprehensive Results of Operations during the year amount to \$2,346 (2017: \$474).

These amounts are expected to be settled within one year from December 31:

	2018	2017
Salaries and benefits	2,973	3,257
Trade and supplier accruals	1,744	2,036
Amounts due to vendors and builders	1,044	1,052
Unsettled investment trade payable	-	478
Contract liabilities	498	234
Other liabilities	1,434	1,719
Total accounts payable and accrued liabilities	7,693	8,776

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

11. 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 warranty liabilities on the Statement of Financial Position.

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, 2018 and 2017.

A. 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 2018, the Corporation recognized lease payments of \$867 (2017: \$859) 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 leases are as follows:

	2018	2017
	Minimum lease payments	Minimum lease payments
Within one year	861	850
Between one and five years	1,028	1,867
Minimum lease payments	1,889	2,717

For the year ended December 31, 2018
(\$CAD thousands)

A. Components of Warranty Liabilities

For the year ended December 31, 2018
(\$CAD thousands)

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

12. WARRANTY LIABILITIES (Continued)

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

- The Corporation also maintains a proactive claims management program to ensure the adequacy of the warranty liabilities:
- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
 - Obtain 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 liabilities 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 from the assumptions used in the calculation.
- Future claims adjustment cost – This assumption reflects the costs generally related to claims administration, including claims staff salaries and 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.
 - 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 in Note 12E.
 - 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), which can occur due to actual experience differing from the experience assumed.

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:

For the year ended December 31, 2018
(\$CAD thousands)

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 behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis in Note 12E.

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:

	2017			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	6,521	6,864	159	13,544
Incurred but not reported	2,373	841	42	3,256
Provision for adverse deviation	1,135	1,565	19	2,719
Unallocated loss adjustment expense	3,601	3,006	128	6,735
Discount and inflation impact	(179)	486	(2)	305
	6,930	5,898	187	13,015
Total warranty claim liabilities	13,451	12,762	346	26,559

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

12. 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 are traded in a highly liquid market and can be readily converted to cash.

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 reporting 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 claims liabilities. The impact of changes in interest rate is set out in the sensitivity analysis in Note 12E.

- 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 in Note 12E.

D. Excess of loss reinsurance

During 2018, no claims expenses exceeded the retention of \$75M layer of the reinsurance coverage, as such, no claims and claims expenses included in the Statement of Comprehensive Results of Operations were decreased on account of the reinsurance arrangements. Such reinsurance arrangements limit the Corporation's liability in the event of large losses in excess of \$75M, up to \$55M for each enrolment year; the corporation currently has policies in force for enrolment years 2016 to 2018.

E. Sensitivity analysis and maturity profile on warranty claims liabilities

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the Statement of Financial Position:

	2018	2017
Discount rate	2.9%	2.4%
Inflation rate	5.0%	4.8%
Future claims adjustment costs	24.0%	25.5%

For the year ended December 31, 2018
(\$CAD thousands)

Sensitivity analysis on warranty claims liabilities

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2018		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate	1.0%	(432)	446	432	(446)	432	(446)
Inflation rate	1.0%	297	(292)	(297)	292	(297)	292
Future claims adjustment costs	1.0%	185	(186)	(185)	186	(185)	186
2017							
Discount rate	1.0%	(461)	476	461	(476)	461	(476)
Inflation rate	1.0%	311	(305)	(311)	305	(311)	305
Future claims adjustment costs	1.0%	191	(191)	(191)	191	(191)	191

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

	Due within one year	Due two through five years	Total
2018	17,678	7,587	25,265
2017	18,570	7,989	26,559

For the year ended December 31, 2018
(\$CAD thousands)

For the year ended December 31, 2018
(\$CAD thousands)

G. Claims history

[illegible]

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

13. 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, 2018, the funds held as security of \$60,710 (2017: \$56,379), presented at amortized cost 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, 2018 of \$1,890 (2017: \$1,481).

The fair value of the funds held as security is \$56,079 as at December 31, 2018 (2017: \$52,652). 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 \$797 (2017: \$444) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth months.

14. EMPLOYEE FUTURE BENEFIT PLANS

The Pension Plan for the Employees of Tarion Warranty Corporation is comprised of a defined benefit component and a defined contribution component which are closed to further accruals ("Closed Pension Plan").

The Defined Contribution Pension Plan for Employees of Taron Warranty Corporation ("New DC Plan") was set up effective May 1, 2018 and has the same provisions as the defined contribution component of the Closed Pension Plan.

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

A. Defined contribution plan

The New DC Plan is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the New DC Plan, employees contribute a percentage of eligible 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. The SERP operates on an unfunded basis. See note 14F for the notional contribution and liabilities relating to the SERP.

B. Closed Pension Plan and other post-employment benefits

The defined benefit component of the Closed Pension 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 and participated in the defined contribution component of the Closed Pension Plan for service between January 1, 1999 and April 30, 2018. Effective May 1, 2018 all members participates in the New DC Plan for service subsequent

For the year ended December 31, 2018
(\$CAD thousands)

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

F. Significant risks to which the plan exposes the Corporation

The Corporation has adopted an Liability driven investment strategy for the defined benefit component of the Closed Pension Plan to minimize interest rate risk. In addition to the traditional risks (interest rate risk, market risk, credit risk, currency risk, longevity risk, etc.), the plan exposes the Corporation to no other unusual risk. The amounts recognized in the Statement of Financial Position for employee future benefits liabilities at the reporting date are shown in the table below:

	2018			2017		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Fair value of DB assets	4,318	-	4,318	4,558	-	4,558
Present value of the defined benefit	(4,734)	(5,979)	(10,713)	(4,699)	(5,972)	(10,671)
Net defined benefit obligation	(416)	(5,979)	(6,395)	(141)	(5,972)	(6,113)
Impact of asset ceiling	-	-	-	-	-	-
Accrued liability	(416)	(5,979)	(6,395)	(141)	(5,972)	(6,113)
Employer liability	213	104	317	65	69	134
Employer contributions	-	-	-	-	-	-
Benefit payments and transfers to other plans	176	104	280	159	69	228

The present value of the SERP obligation as at December 31, 2018 was \$979 (2017: \$955), which is included in the OPEB & SERP amount in the table above. The benefit payments from the SERP for the year ended December 31, 2018 were \$31 (2017: \$12). For the year ended December 31, 2018, the employer contributions to the DC Plan were \$1,113 (2017: \$1,093), and the employee contributions to the DC Plan were \$584 (2017: \$587). The net notional employer contributions for the SERP were \$52 (2017: \$169).

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

	2018	2017
Fair value of DB assets	4,318	4,558
Accrued benefit obligation, DB Plan	(4,734)	(4,699)
Defecit DB Plan	(416)	(141)
Accrued benefit obligation, OPEB	(5,000)	(5,017)
Accrued benefit obligation, SERP	(979)	(955)
Net employee benefits obligation reported	(6,395)	(6,113)
Financial/Experience adjustments on employee future benefits liabilities	309	224
Financial/Experience adjustments on pension assets	(246)	285

As of December 31, 2018, the current liabilities were \$72 (2017: \$57) with respect to the OPEB plan and \$31 (2017: \$12) with respect to the SERP plan.

For the year ended December 31, 2018
(\$CAD thousands)

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

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	
	2018	2017
International and US equity securities	-	35%
Canadian equity securities	-	33%
Bonds	100%	30%
Cash	-	2%
	100%	100%

The expected income on the DB Plan assets net of investment expenses is determined based on the liability discount rate at the beginning of the year (i.e. 3.40% for 2018 and 3.75% for 2017). The actual return on the DB Plan assets net of investment expenses was \$90 in 2018 (2017: \$444).

A discount rate of 3.50% per annum and 3.90% per annum was used for the disclosures at December 31, 2018 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, 2018.

For the year ended December 31, 2018
(\$CAD thousands)

The amounts recognized in the Statement of Comprehensive Results of Operations in respect of the employee benefits liabilities are as follows:

	2018			2017		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Current service costs	-	311	311	-	338	338
Administration costs (non-investment related)	187	n/a	187	71	n/a	71
Past service cost (including curtailment)	-	-	-	-	-	-
Losses/(gains) on settlement	-	-	-	-	-	-
Service Cost	187	311	498	71	338	409
Interest cost on the defined benefit obligation	157	163	320	164	296	460
Expected income on plan assets	(156)	-	(156)	(159)	-	(159)
Interest on the effect of the asset ceiling	-	-	-	-	-	-
Net interest on the net defined benefit liability	1	163	164	5	296	301
Expense/(income) recognized in results of operations	188	474	662	76	634	710
Remeasurements of the net defined benefit liability						
Actuarial losses/(gains) on the defined benefit liability	54	(363)	(309)	245	(469)	(224)
Return on plan assets less expected income on plan assets	246	-	246	(285)	-	(285)
Change in the effect of the asset ceiling, excluding interest	-	-	-	-	-	-
Total recognized in other comprehensive results of operations	300	(363)	(63)	(40)	(469)	(509)

The net expense for the SERP in 2018 was \$55 (2017: \$170) included in the OPEB & SERP amounts above. The net expense for the DC Plan in 2018 was \$1,113 (2017: \$1,093).

Service cost is reported as part of the Corporation's salaries and benefit expense in the Statement of Comprehensive Results of Operations.

For the year ended December 31, 2018
(\$CAD thousands)

G. Significant assumptions

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

92 | Tarion Annual Report 2018

For the year ended December 31, 2018
(\$CAD thousands)

Notes to the Financial Statements

For the year ended December 31, 2018
(\$CAD thousands)

16. INTEREST EXPENSE

	Notes	2018	2017
Interest on funds held as security	13	797	444
Interest on lease obligations	11	11	39
Total investment income/(loss)		808	483

17. 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 12. As part of the Corporation's capital management framework, reinsurance arrangement was put in place since 2016; the excess loss limits from the reinsurance arrangement were established after a review of large historic claim losses of other jurisdictions.

In applying the framework, the total equity of the Corporation as at December 31, 2018 and 2017 has been determined by management to be sufficient to cover possible losses from plausible future event as supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year.

18. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to homeowners 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, 2018, there are no collection and litigation account receivables and cash securities recognized due from related parties (2017: 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 2018, the Corporation incurred a fee of \$266 (2017: \$300).

For the year ended December 31, 2018
(\$CAD thousands)

Key management personnel compensation

	2018	2017
Short-term employee benefits	3,211	3,633
Board of directors fees	535	554
Post-employment benefits	345	368
Compensation for key leadership personnel	4,091	4,555

Contact Us

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Our representatives are available to assist you by phone from 8 am to 5 pm, Monday to Friday.

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VISIT US

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