

Transforming Consumer Protection

for Ontario New Home Buyers

ANNUAL REPORT 2020



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By the Numbers

58,074

2020 New Home Possessions*

2019	52,199
2018	56,313
2017	58,479
2016	56,192

*The numbers are based on the Year of Possession and restated every year.



2,669

2020 Low-Rise Condo Enrolments

2019	2,072
2018	2,260
2017	2,657
2016	2,724

31,976

2020 High-Rise Condo Enrolments

2019	30,755
2018	31,169
2017	29,509
2016	19,933

68,559

2020 Total Enrolments

2019	64,964
2018	63,009
2017	68,945
2016	58,648

34,645

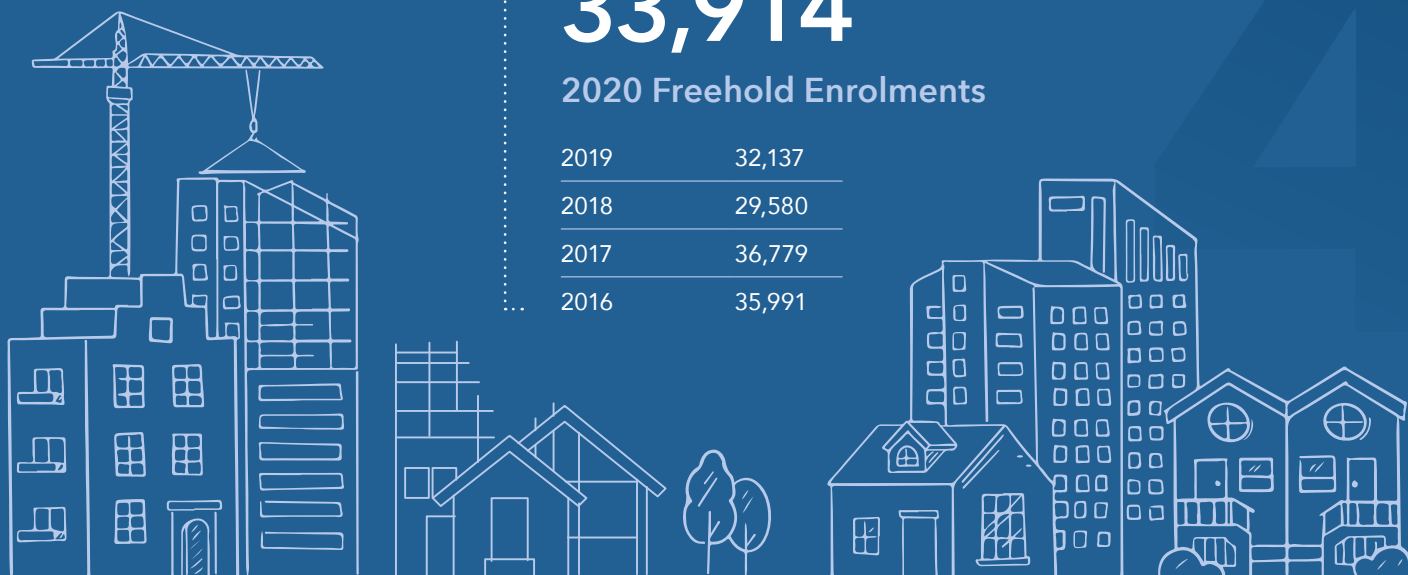
2020 Condo Enrolments

2019	32,827
2018	33,429
2017	32,166
2016	22,657

33,914

2020 Freehold Enrolments

2019	32,137
2018	29,580
2017	36,779
2016	35,991



393,915

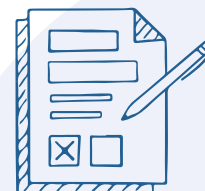
2020 Total Homes Under Warranty*

2019	386,880
2018	384,323
2017	379,089
2016	377,303

29,020 (50%)

2020 Number of Homes with 30-Day Forms Submitted*

2019	25,822 (49%)
2018	27,546 (49%)
2017	27,571 (47%)
2016	25,872 (46%)



* The numbers are based on the Year of Possession and restated every year. Statistics for Year-End Forms are not provided for the year 2020 because possessions for 2020 are not yet eligible for the Year-End Form submission.

1,297

2020 Number of Homes with an Inspection

2019	1,913
2018	1,757
2017	1,442
2016	1,432

2020 Number of Year-End Forms Submitted*

2019	21,311 (41%)
2018	22,520 (40%)
2017	24,157 (41%)
2016	21,022 (38%)

125

2020 Number of Homes with Early Intervention Completed



65,099

2020 Number of Forms Submitted via MyHome



This represents 95.7 per cent of all forms submitted.

782

2020 Number of Homes with Claims Paid

2019	901
2018	805
2017	638
2016	721

\$23M

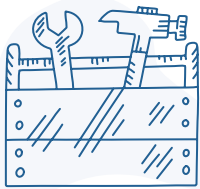
2020 Total Compensation Paid to Homeowners (\$)

2019	\$18.5M
2018	\$17.4M
2017	\$13.6M
2016	\$13.1M

Introduction

Protecting New Homes in Ontario

A new home is an investment in the future. New home buyers in Ontario can have confidence that their homes are protected in various ways throughout their homeownership journey.



People and Companies Who Build and Sell New Homes Must Be Licensed

Prior to building or selling a new home, both builders and vendors must be licensed. In order to be granted a licence, they need to meet specific requirements covering technical knowledge, building experience, business management and financial planning. Since its launch on February 1, 2021, the Home Construction Regulatory Authority (the HCRA) is responsible for licensing and regulating builders and vendors of new homes in the province under the *New Home Construction Licensing Act, 2017*.



New Homes in Ontario Come with a Warranty

Under the *Ontario New Home Warranties Plan Act*, new homes built in Ontario come with a warranty provided by the builder. The warranty offers protections prior to possession as well as for seven years after possession.



Transforming Consumer Protection for Ontario New Home Buyers

Tarion is an independent not-for-profit corporation responsible for administering the *Ontario New Home Warranties Plan Act* and the province's new home warranty and protection plan for people who buy new homes from licensed vendors and builders in Ontario.

In the past, Tarion was responsible for registering new home builders and vendors and ensuring that buyers of newly built homes in Ontario received the coverage they were entitled to under their builder's warranty.

In order to further enhance consumer protection and transparency for homeowners and homebuilders, the Government of Ontario passed legislation to separate the regulation of the new home building industry from the new home warranty program.

Effective February 1, 2021, the responsibility for licensing builders and vendors of new homes moved from Tarion to the Home Construction Regulatory Authority (HCRA) as the new regulator for the new home building industry in Ontario under the *New Home Construction Licensing Act, 2017*. Tarion has since ceased to provide the function of registering (licensing) and regulating builders and vendors of new homes in Ontario but continues to deliver Ontario's new home warranty and protection program, backstopping the statutory warranty coverage provided by builders and vendors to purchasers of new homes under the *Ontario New Home Warranties Plan Act*.

The following outlines the key responsibilities of the two organizations:



- Backstop the new home warranties, provide issues resolution and administer warranty claims and claim payouts;
- Educate and support consumers through the warranty process;
- Enrol new homes in the warranty and protection program;
- Handle underwriting and risk management of vendors and builders;
- Conduct pre-possession risk-based inspections;
- Promote the construction of properly built homes and a fair and informed new home marketplace.



- Regulate and license new home builders and vendors;
- Enforce high professional standards for competence and conduct;
- Handle home buyer concerns about the conduct of their builder or vendor;
- Host the Ontario Builder Directory.

By having two distinct organizations – one to oversee the people and companies that build new homes and a separate organization to manage the warranty that covers those homes – Ontarians benefit from greater protection. This new structure represents an important step in ensuring a fair marketplace and the transparent and accountable new home warranty and protection program that Ontarians expect and deserve.

The Ontario New Home Warranty & Protection Plan

In Ontario, purchasers of newly built homes are entitled to warranty coverage from their builder. The Ontario New Home Warranty and Protection Plan covers defects in workmanship, water penetration and major structural defects and also provides deposit protection and delayed closing/occupancy compensation.

How is a Home Protected?

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). There is also separate coverage 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.



Before Possession

- Deposit protection (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*. Deposit coverage of \$20,000 for condominium units**)
- Delayed closing/occupancy (up to \$7,500)
- Financial loss for contract homes (up to \$40,000)



One Year

- Defects in work and materials
- Unauthorized substitution of materials
- Ontario Building Code violations



Two Years

- Ontario Building Code health and safety violations
- Water penetration through the basement or foundation
- Water penetration into the building envelope
- Defects in the electrical, plumbing or heating systems
- Defects in the exterior cladding



Seven Years

- Major defects in the building structure
- Defects that materially and adversely affect the use of a significant portion of the home
- Environmentally harmful substances or hazards

* For agreements of purchase signed on or after January 1, 2018.

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

Increased Warranty Limits

To further enhance coverage for homeowners, Tarion implemented the following changes to warranty coverage limits:

- For standard condominium projects where the first agreement of purchase and sale was signed after February 1, 2021, the maximum coverage for condominium common elements is \$100,000 times the number of units, up to a maximum of \$3.5 million.
- For homes with agreements of purchase and sale signed after February 1, 2021, there is a maximum of \$50,000 for warranted damage caused by environmentally harmful substances or hazards (including mould and radon).

■ How Does the Warranty Work?

New homes must be qualified for enrolment before they are sold and enrolled in the warranty plan before they are built. The warranty is in effect as soon as the purchase agreement is signed and lasts for seven years after a homeowner takes occupancy or possession.

What Are the Roles of Builders, Homeowners and Tarion under the Warranty?

BUILDER'S ROLE

- Ensure that a home is built properly. This means that it is constructed in accordance with Ontario's Building Code, is fit for habitation, and is free from defects in workmanship and materials and major structural defects;
- Provide the homeowner with information about their warranty coverage at the time of purchase;
- Conduct a pre-delivery inspection (PDI) with the homeowner on or before the closing date and explain how the various systems in the home work;
- Provide the homeowner with a warranty certificate upon their home's completion which indicates when the new home warranty takes effect;
- Be reasonably accessible to the homeowner to address customer service issues, including investigating issues with the home to determine if they are covered by the warranty; and
- Resolve valid warranty requests in a timely manner by performing repairs or offering an acceptable alternative resolution.

HOMEOWNER'S ROLE

- Understand their home's warranty coverage and the process for making warranty service requests and claims;
- Participate in the pre-delivery inspection (PDI) by identifying incomplete, damaged or missing items and learning how to operate the home's systems;
- Properly maintain the home in order to preserve its warranty coverage;
- Bring any warranty service requests to the builder's attention in writing as soon as possible;
- Provide the builder with reasonable access to the home to investigate and address warranty service requests; and
- If warranty assistance is needed from Tarion, ensure that the claim is submitted within the appropriate timelines.

TARION'S ROLE

- Administer the MyHome online portal, which allows homeowners to manage their warranty and report defects to the builder and Tarion;
- Facilitate the fair resolution of disputes between homeowners and builders over warranty coverage, repairs or customer service;
- Assess warranty claims to determine if they are valid either through an on-site inspection or an alternative method of investigation;
- In cases where a builder fails to address a valid warranty claim, resolve the claim directly with the homeowner either through compensation or repairs by a third party;
- Manage a guarantee fund to protect new home buyers, out of which compensation for warranty claims is paid;
- Educate new homeowners and builders about the warranty process; and
- Work proactively, through targeted inspections, ongoing licensing recommendations and monitoring of customer service performance, to encourage improved building quality and customer service in the province.

A Test of Resilience

Message from the Board Chair



My first year as Tarion's Chair has been a test of our resilience and ability to deal with disruption, both in our operations and for our stakeholders. I want to thank the entire team here at Tarion and all our stakeholders, including our homeowners, industry partners, the Ministry of Government and Consumer Services (MGCS), advisors and community partners, for their patience, cooperation and support during 2020.

At the outset of 2020, we faced an ambitious agenda of change. We committed to move forward with implementing the direction set out in the orders made by the Honourable Lisa Thompson, Minister of Government and Consumer Services. Additionally, Tarion's new direction was set by the *Rebuilding Consumer Confidence Act* which amended the *Ontario New Home Warranties Plan Act* that required Tarion to enter into an administrative agreement with the Minister. I appreciate the opportunity extended to me during 2020 to reflect on the enhanced focus that Tarion needed for its new mandate. Further, we carefully weighed in on the resources that had to be earmarked in the formation, establishment and launch of the Home Construction Regulatory Authority. This set us on a journey of transformation of Ontario's new warranty and protection program that is consumer-focused, provides enhanced dispute resolution, encourages better-built homes, and sets the tone for Tarion as a new and improved single administrator of surety and protections delivery.

Tarion's Governance Structure

Throughout the year, our Board made a number of changes to its structure, composition and policies. In response to the Minister's orders, we reduced the overall size of the Board from 16 to 12 members and worked under new directives through our Nominations Committee and the Minister's Office to finalize the election and appointment of several new directors. This new leadership team has skillfully executed on its decisions to modernize operations for Tarion's future while dealing with the realities of the present. Numerous structural changes have been made during 2020 in the midst of a pandemic. These started with changes to our by-laws and the implementation of updated policies, procedures and a governance framework needed for us as a forward-looking surety provider. In addition, the Board established a Stakeholders' Committee (SC), as a standing committee, with a focus on stakeholder engagement and satisfaction while preserving the provincial principle of prohibiting dominance by any special interest group in the Board's decision-making process. Under the SC, we now have two advisory bodies, one focusing on consumer perspectives and the other on the industry, to provide input to the Board on issues and policies. The administrative agreement further strengthened the independence of the New Home Ombuds. The Ombudsperson continues to report to the Board and its standing committees, ensuring the independence of the office.

I have been pleased with all that we achieved in reconstituting our Board and in our onboarding of new members who are working effectively, providing oversight and direction, and supporting the organization in dealing with emergencies during a pandemic.

Transition of Tarion's Licensing Responsibilities

A key priority in 2020 was the separation of Tarion's licensing and warranty administration functions. This change was proposed by the government after an in-depth examination, and I am pleased to report it is completed and has equipped Tarion for its new mandate duly focusing as a standalone surety provider. Along with extending financial, operational and technology resources from Tarion, we all worked diligently with the Ontario government to support the establishment of a separate regulator for builders and vendors of new homes. As of February 1, 2021, the *New Home Construction Licensing Act, 2017 (NHCLA)*, designated the HCRA as the regulatory authority responsible for licensing and regulating builders and vendors of new homes. We look forward to the positive impact Tarion and the HCRA will have as two separate and focused organizations boosting consumer confidence in the new home market in Ontario.

Operational Improvements

As we continue to act upon the recommendations from the Auditor General of Ontario's 2019 Special Audit of Tarion, I am pleased to report on the strong progress we have made. This progress has enhanced our internal control systems and brought a number of benefits to homeowners – such as improved warranty coverage, new education tools for homeowners and more options for dispute resolution. These achievements reflect our continued journey towards a more transparent, fair, accountable and consumer-focused warranty and protection program.

COVID-19

COVID-19 has required Tarion to adapt to a remote working environment, and respond to evolving public health restrictions and challenges to the construction and repair of new homes. From the initial lockdown in March 2020 to the implementation of the government's Framework for Reopening Our Province, Tarion's priority has been, and continues to be, the health and safety of homeowners, builders and our staff. Holistically, the COVID-19 outbreak affected our stakeholders in multiple ways – homeowners faced delayed closings and backlogs in warranty repairs and inspections while builders faced construction delays, trade scheduling issues and supply shortages. Tarion continued to evolve its approach to servicing needs as the situation and public health guidance dictated – there was no 'one size fits all' solution. I am pleased that homeowner and builder feedback via our annual surveys showed that overall the measures taken and our communications were seen as effective.

As COVID-19 continues to impact our stakeholders, we will continue to take the necessary measures to keep everyone safe.

Our People

As we look forward, we see a strong team that is excelling in a service-oriented culture, supporting the digital transformation of Tarion, believing in upskilling and cross-training, and adapting with the trends toward more flexible ways of working.

In closing, on behalf of our Board of Directors, I would like to take this opportunity to once again thank the management and staff for their adaptability and continued commitment to provincial direction and customer service during this unique and challenging time. As I complete my first year as the Board Chair, I see a bright and energized future ahead. Our resilience will see Ontario and Canada conquer COVID-19 together.

Sincerely,

Hari Panday, FCPA, FCGA, ICD.D
Chair of the Board

A Year of Milestones

Message from the President & CEO



The year 2020 was a challenging one for all of Ontario. I am extremely proud of the accomplishments made by Tarion staff over the course of the past year as they have, with determination and resiliency, met the challenge of working and providing customer service in a pandemic environment.

I would like to highlight two projects that stand out.

First, the continued delivery of our commitments arising from the Auditor General's report. The team achieved all of the 2020 commitments on a timely basis, even during the turbulence that became the norm in 2020. Second, the launch of the Home Construction Regulatory Authority (HCRA). Our team worked collaboratively with the HCRA team and with the Ministry of Government and Consumer Services to set the stage for the successful launch of the HCRA in 2021.

These projects were significant achievements made possible through the diligence and teamwork of all of the staff at Tarion. So, I want to thank them for their perseverance and effort throughout the year.

But these projects tell only half the story of 2020. On a day-to-day basis, our team also delivered on our primary purpose to help homeowners. The following is an example of positive feedback that one of our staff received for her assistance in getting issues with a home resolved:

"I just wanted to take the time to thank you. You truly worked so hard in allowing me to have my voice heard in all my troubles with the house. Your dedication and commitment to the people you encounter shines in all that you accomplish, and I'm thankful for all that you have done for my family and me." The compliment reflects the reason that our program exists: to help make sure that Ontario's new home buyers can have peace of mind with respect to one of life's biggest purchases.

Our annual homeowner surveys also reflect the positive consumer outcomes we were able to achieve in 2020. Our overall homeowner satisfaction score rose three percentage points, increasing from 80.5 per cent in 2019 to 83.4 per cent in 2020. This 83 per cent satisfaction rate is based on a survey sent to over 42,000 new home buyers, and which is independently administered by Forum Research. This kind of objective, independent feedback reinforces the positive direction in which we are headed.

As I mentioned at the outset, 2020 was an especially challenging year. For Tarion, it was a critical year in our journey to build a better warranty program. I believe that our 2020 accomplishments have provided us with a strong foundation on which we can continue to build in the coming years.

Sincerely,

Peter Balasubramanian
President & CEO

Response to COVID-19

In the spring of 2020, the Ontario government issued its first emergency order to limit the spread of the COVID-19 virus. Over the intervening weeks and months, increasing COVID-19 case numbers in Ontario, across Canada and worldwide led to construction delays, supply shortages and repair backlogs affecting new homes.



The COVID-19 pandemic required Tarion to be nimble in order to adapt our operations and policies to the evolving public health measures and the changing situation. Our greatest priority with every business decision was to safeguard the health and safety of homeowners, builders, our employees and the greater community.

The first emergency order led to the suspension of warranty submission timelines, repair periods and inspections. This affected over 60,000 homeowners in one way or another based on outstanding claims or submission deadlines. Throughout the period between the original suspension of timelines and the reinstatement in August 2020, Warranty Services staff continued to manage homeowner files and resolve issues where possible using virtual inspections and other means. At the same time, Tarion endeavoured to keep homeowners informed through a dedicated COVID-19 web page with advisories and Q&As, email alerts, updates on MyHome, social media posts, recorded webinars and a CEO video. We also set up a dedicated email address for COVID-19 related inquiries. As the province then moved into its colour-coded re-opening framework, Tarion continued to revise

its messaging for homeowners as various regions transitioned into increasingly strict lockdown measures. Although the Customer Service team was busy throughout the pandemic responding to inquiries, the largest spike was in August and September when call volume increased by 30 per cent and 88 per cent respectively and emails increased by 133 per cent and 215 per cent over the same months the previous year.

During the initial lockdown in March 2020, builders had to cease both construction and repairs, and there was a great deal of concern about delays and the inability to address warranty issues. As the public health restrictions continued to evolve, builders looked to Tarion for guidance on PDIs, repairs, access to homes, health and safety protocols, and chargeability. We created an industry working group which met bi-weekly and allowed us to hear directly from builders in different areas of the province regarding COVID-19 related issues impacting them (e.g. trade shortages, lumber shortages, etc.) and created an opportunity for Tarion to clarify our COVID-19 policies. Tarion also maintained a steady flow of communication via its dedicated web page, advisories, Q&As, webinars, e-newsletters and alerts, and social media updates to homeowners and builders.

Throughout the changing conditions created by COVID-19, Tarion acted quickly to adjust operations and implement health and safety protocols, and we made every effort to keep all our stakeholders informed along the way. To evaluate the effectiveness of our measures and communications to both homeowners and builders, we added COVID-19 related questions to our annual homeowner and builder surveys. The majority of homeowners (86 per cent) saw Tarion's actions in response to COVID-19 as appropriate and 84 per cent felt Tarion had kept them informed of the measures being taken. Builders were generally appreciative that Tarion was responsive and accessible as the industry struggled to cope with changing public health restrictions. In our builder satisfaction survey, 92 per cent of builders agreed that Tarion's COVID-19 measures were appropriate. Our COVID-19 communications received the highest reviews from high-rise and large builders (86 per cent and 81 per cent, respectively).

At this time, the province is still operating under various levels of public health restrictions as governments at all levels continue to manage the COVID-19 response. Tarion continues to provide updates to homeowners and builders and adjust our procedures to adapt to the changing situation. The lingering effects of COVID-19 can be expected to impact Tarion's operations and its stakeholders for the remainder of 2021.



Response to the Auditor General's Recommendations



In October 2019, the Auditor General of Ontario published a *Special Audit of the Tarion Warranty Corporation*, which included findings and recommendations resulting from a comprehensive review of Tarion's operations.

Throughout 2020, Tarion worked in collaboration with the Ministry of Government and Consumer Services on initiatives to address the Auditor General's 32 recommendations. Of the 25 recommendations directed to Tarion in the report, 19 were completed in 2020. Tarion is committed to completing the remaining six items in 2021.

The following are some notable changes now in place:

- Strengthened corporate governance by protecting the New Home Ombuds independence, reducing executive compensation and revising our corporate by-laws.
- Improved customer service by ensuring service targets are met, developing clear customer standards and enhancing quality assurance measures.
- Enhanced consumer protection by eliminating the backlog of investigations into illegal building and homeowner complaints in advance of the HCRA assuming responsibility for licensing and regulation of builders and vendors of new homes.
- Increased homeowner access to timely and cost-effective ways to dispute Tarion's warranty assessments, including launching a mediation program for homeowners.
- Implemented a new risk-based inspection program to proactively identify potential deficiencies during construction, including those related to the Ontario Building Code.

- Increased consumer access to warranty information by creating a new Warranty Information Sheet to be attached to purchase agreements as well as additional education tools, including new warranty coverage brochures and an online learning hub.
- Created greater transparency by publicly reporting on outstanding issues raised by the New Home Ombuds and substantially expanding the Ontario Builder Directory (OBD) by adding past convictions and information about exceptions to displaying the dollars in claims paid, retroactive to 2018 (OBD now hosted by the HCRA).
- Stronger oversight of builders by ensuring past performance is considered, requiring better evidence of financial means to complete projects, and investigating all reasons leading to the cancellation of projects.
- Increased warranty compensation limits on claims related to harmful substances, condominium common elements and septic systems.

The full list of recommendations and actions taken to date are available in our [Implementation Plan](#) posted on Tarion.com. We look forward to completing this work as part of our efforts to create a stronger new home warranty and protection program for Ontarians.

Increasing Consumer Confidence

Buying a new home is a multi-step process that typically involves a lot of information, decision-making and a certain degree of risk. Tarion is committed to helping to minimize the risk for new home buyers and to ensuring that they have the knowledge and the assistance they need to navigate the home buying and ownership journey.



Over the past year, we have implemented a variety of new and enhanced initiatives to protect, inform and assist new home buyers.¹

■ Risk-based Inspections

In 2019, the government identified risk-based inspections as a key priority to help promote better building practices. In response, Tarion developed and launched a pilot program to conduct inspections of homes during the construction process. The goal is to identify root causes of deficiencies (e.g., sub-standard building practices) to encourage builders to improve construction practices and reduce the risk of future problems.

The program consists of two types of inspections. The first is the proactive Site and Practices Inspection, which involves one-on-one meetings with high-risk builders and a review of the entire job site, including sample homes. This type of proactive inspection has been successful in identifying issues with building practices – for example, a builder allowing finishing trades in before a home

is watertight or failing to install proper flashing before adding cladding to the home. In both cases, these practices can lead to water penetration, but pinpointing them during construction allows for changes that can help protect all the homes in a project and avoid future warranty claims.

The second type of inspection is a Targeted Construction Inspection triggered by complaints from homeowners, a builder's claims history or findings from a Site and Practices Inspection. These are technical inspections that focus on a specific element of the building – for example, condensation on basement insulation – and can help ensure that the cause of a problem is identified and corrected before the home is completed.

Tarion will continue to evolve the inspection program based on key learnings and feedback. During 2020, a combination of Tarion staff and external experts completed 59 inspections as part of the pilot. The number of inspections will increase as the full program is rolled out and COVID-19 restrictions are eased.

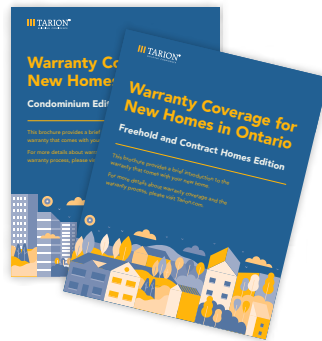
1. Unless specifically noted, the initiatives outlined relate to individual home buyers or homeowners, not condominium corporations.

Warranty Information: When, Where and How It's Needed

New home buyers can find the purchase process a little overwhelming based on the sheer volume of information they need to absorb. To make the learning curve more manageable, Tarion has introduced several new education tools that give both buyers and homeowners options in how and when they access important information, which can assist them in making informed decisions about their home purchase and their warranty.

From the time the purchase agreement is signed, a home buyer has protections for deposits, delayed closing and financial loss (for contract homes). To help buyers be aware of their rights during the pre-possession period and beyond, every purchase agreement (signed on or after February 1, 2021) will include a **Warranty Information Sheet** that provides a concise overview of the new home warranty, highlights the importance of the pre-delivery inspection and points buyers toward additional resources.

For more comprehensive warranty information, the **Warranty Coverage for New Homes in Ontario brochure** (in two versions – Condominium and Freehold/Contract Homes) provides a summary of coverage, an overview of the warranty claims process and a breakdown of the roles and responsibilities of homeowners, builders and Tarion. For new home buyers, realtors and other industry sources, the brochures are available online as well as via downloadable PDF or print versions.



The Learning Hub is a versatile and interactive consumer education resource. Replacing Tarion's Homeowner Information Package, the Learning Hub offers online modules with relevant warranty information for key stages in the home buying and ownership journey. Users can progress through them at their own pace and take advantage of embedded links to other resources such as videos and checklists. The modules are compatible with screen readers to ensure accessibility.

Together, these tools will help ensure that new home buyers have access to the warranty information they need for every stage of the journey of home ownership.

Easier Access to Assistance

Expanded Access for Major Warranty Issues

One of the main concerns raised by the Auditor General was the possibility that the warranty timelines could result in a homeowner being unable to get Tarion assistance for a major issue. To help address this, Tarion has reviewed and amended the process around requesting assistance for major issues such as: water penetration issues, health and safety issues (including things like mould and radon), and any major structural issues. For these kinds of issues, claims can be made at any time during the relevant warranty period, will be dealt with in accordance with an 'emergency procedure', and do not have to proceed according to the standard warranty timelines. This flexible approach ensures that high-priority issues are dealt with promptly and not limited by administrative timelines.

More Flexible Timelines

Every year, Tarion receives more than 50,000 warranty claim forms, and while most arrive within the required deadlines, a certain percentage arrive late. This delay can impact a homeowner's ability to take advantage of their warranty rights. When reviewing Tarion's warranty form submissions during the Auditor General's (AG) 2019 review, the AG found that over a five-year period, 97 per cent of the total forms received (316,524) arrived within the required timeframes, while about 3 per cent (9,700) were rejected because they missed one of the submission deadlines (either the first 30 days or the last 30 days of the first-year warranty period).

The Customer Service Standard (CSS) establishes the steps, timelines and responsibilities for homeowners, builders and Tarion in resolving warranty claims. To address the issue of missed deadlines, we looked at what interim and long-term measures could be taken under the CSS with the goal of making it easier for homeowners to obtain assistance from Tarion.

Tarion sought public input on interim changes to the CSS from January to March of 2020, including hosting eight roundtables with over 250 homeowners and receiving over 100 written submissions. In September 2020, Tarion implemented the following interim changes:

- Added 10-day grace periods to:
 - The initial 30-day claim submission period;
 - The initial 30-day request for conciliation period;
 - The year-end claim submission period with written evidence the homeowner reported items to their builder during the first-year warranty period; and
 - The year-end request for conciliation period.
- Gave homeowners the ability to add additional items to forms during the 30-day and year-end claim submission periods;
- Increased the types of claims that can be addressed any time in the first year by expanding the definition of emergency claims to include any water penetration claims.

Improved Response Times

Every year, Tarion's Customer Service group fields an average of 75,000 calls from homeowners and builders with questions or looking for assistance. While call volumes fluctuated greatly in 2020 due to COVID-19 related inquiries, we continually strive to reduce wait times and ensure that callers receive a timely response and accurate, helpful information. As part of Tarion's response to the Auditor General's recommendations, our Customer Service group implemented new customer service standards, including a target to answer 80 per cent of calls within 60 seconds. In addition, we put in place regular quality assurance reviews to help ensure that the information provided is in line with current policies and processes.

Increased Warranty Coverage

Tarion regularly reviews the coverage limits under the new home warranty to make adjustments where needed to keep pace with claim costs. In 2020, after public consultation on proposed warranty limit increases, Tarion implemented the following changes, to take effect for purchase agreements signed on or after February 1, 2021:

- maximum coverage for condominium common elements increased to \$100,000 per unit to a maximum of \$3.5 million (this applies to standard condominium projects where the first agreement of purchase and sale was signed after February 1, 2021);
- maximum coverage for warranted damage caused by environmentally harmful substances or hazards (including mould and radon) increased to \$50,000; and
- limit on septic systems coverage was removed.

Assessing Building Code Violations

Building code violations in a newly built home can range from straightforward issues (such as missing railings) to more complex problems involving structural elements. New homes in Ontario must comply with specific parts of the Ontario Building Code — either Part 3 (covering mid-rise and high-rise construction) or Part 9 (covering detached, semi-detached or townhomes). While many of Tarion's warranty services representatives have Ontario Building Code training, one of the Auditor General's recommendations was to have staff obtain Ontario Building Code certification (a level of training equivalent to municipal building inspectors). To address this recommendation and to increase the number of staff with building code certification available for inspections, Tarion embarked upon a training initiative in 2020 and implemented an internal process to ensure that assessments involving alleged building code violations are reviewed by warranty services representatives with the appropriate qualifications or by external experts with building code certification.

Expanded Options for Resolving Claims

The warranty claims process begins when a homeowner (or condominium corporation, in the case of a common elements issue) submits a warranty claim form to the builder and to Tarion. The majority of issues identified on these forms are successfully dealt with by the builder working with the homeowner to resolve them. When there are disputes over whether or not items are warranted, delays in repairs, communication breakdowns or other problems, Tarion staff can step in to help get the warranty process back on track.

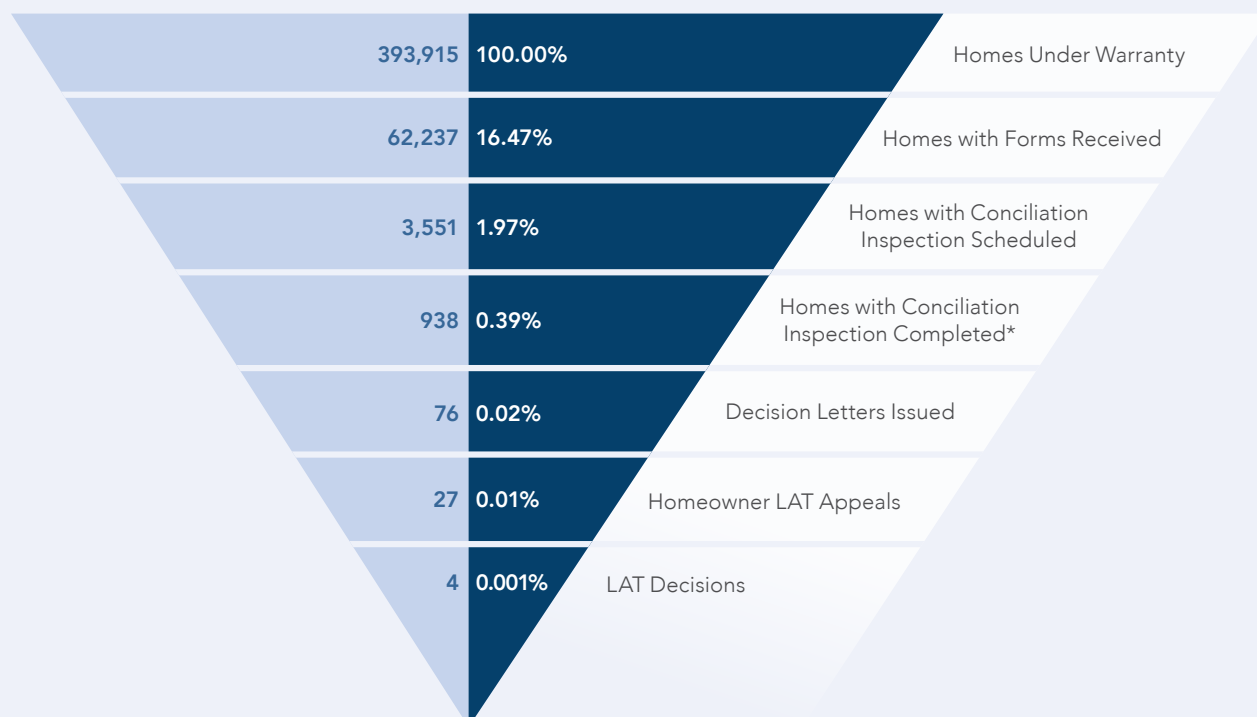
There are various means by which homeowners can obtain assistance throughout the warranty claims process – for example, investigative inspections,

early intervention, and mediation – and Tarion has continued to enhance alternatives for homeowners to resolve issues with their builders.

After completing a successful pilot, Tarion implemented an independent mediation program in 2020 that gives homeowners who wish to dispute a Tarion decision the option of having a third-party mediator help resolve the issue. This service is available to any homeowner and is paid for by Tarion. The objective of the mediation is to find ways to resolve warranty disputes without having to go through a formal hearing process at the Licence Appeal Tribunal (LAT).

Resolving Claims

The diagram below demonstrates that the warranty claims and dispute resolution process is successful in resolving the large majority of claims earlier, resulting in fewer cases needing to advance to more formal steps in the process.



*This includes both in-person and virtual inspections.

The Claims Process at Work

The warranty claims process consists of several steps, and the outcomes may differ depending upon the type of claim and whether it is covered under the warranty. The following is an example of how the process might work for a first-year warranty claim:

STEP 1 – CLAIM SUBMISSION & DESCRIPTION:

The homeowner files a Year-End Form stating that water was accumulating and not draining from the flat roof on top of the porch. The homeowner has described the location and symptoms of their concern, so they have fulfilled their responsibility at this stage.

STEP 2 – BUILDER REPAIR PERIOD:

The builder takes the position that, since there is no water penetrating into the interior of the home, the condition is acceptable and no repairs are needed.

STEP 3 – REQUEST FOR CONCILIATION:

The homeowner requests conciliation.

STEP 4 – CLAIM ASSESSMENT:

Tarion refers to Article 5.19 of the Construction Performance Guidelines, which provides that flat roofs shall be installed to drain water (unless the roof is designed for water retention). Tarion hires a contractor to assess the roof and the contractor finds that there are no drainage measures in place. Tarion concludes that there is a warranted defect.

STEP 5 – CLAIM INSPECTION:

The builder does not resolve the warranted defect in the post-conciliation repair period, so Tarion steps in to resolve the claim with the homeowner. Tarion hires a consultant to assist in preparing a scope of work and quote for the necessary repairs.

STEP 6 – COMPENSATION FROM GUARANTEE FUND:

Damages are evident in this case. Tarion concludes that the homeowner is entitled to compensation for the cost to install the missing drainage measures. In most cases, this information is recorded on the Ontario Builder Directory (OBD), which is now hosted by the Home Construction Regulatory Authority (HCRA).

For more examples of how the warranty claims process works, visit [Tarion.com](https://tarion.com).

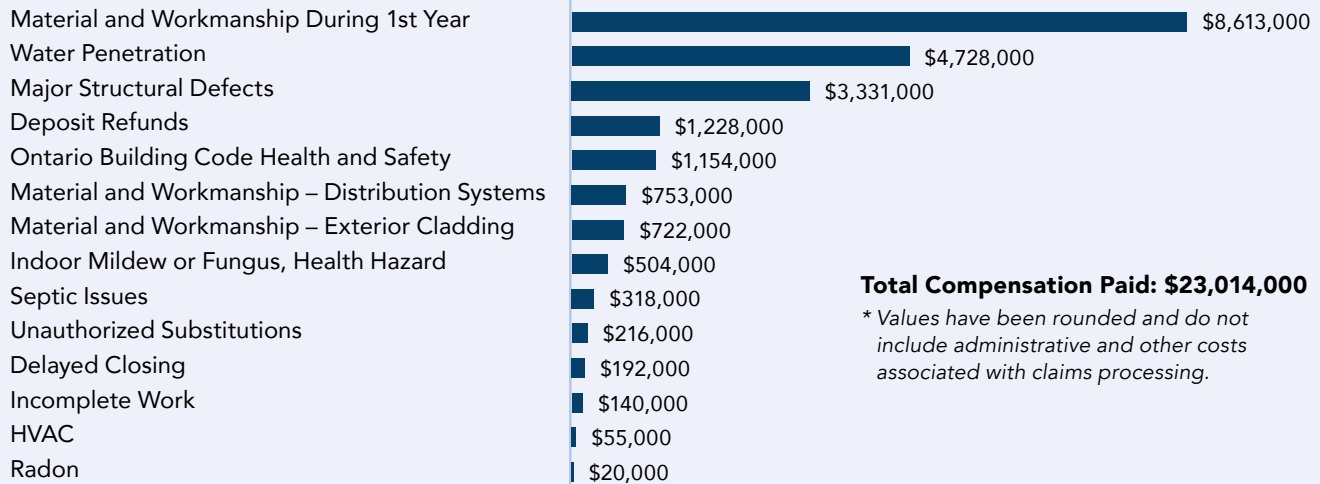
What's Involved for Homeowners?

When a homeowner submits a warranty claim, they must explain the reasons for the concern giving rise to the claim. This includes, if applicable, a description of the symptoms of the concern they observed or experienced. Sufficient detail will help the builder to identify what the concern is and what part of the home is affected. Homeowners are required to provide information at various stages in the warranty claims process, as outlined below:

- **CLAIM SUBMISSION:** When making a claim, the homeowner must provide a description of the symptoms of the concern that they have observed or experienced. The homeowner is not required to prove the cause of the concern giving rise to the claim. For example, the homeowner can report on the warranty form that “when a light switch is flipped, the light doesn’t come on” without identifying why the light doesn’t come on.
- **CONCILIATION:** During the conciliation, the homeowner’s responsibility for each item is to show Tarion the existing condition or symptoms of the concern that was reported on the warranty form. The homeowner does not have to identify the cause of the concern but should provide any supporting documentation (if they have not already done so).
- **WARRANTY ASSESSMENT:** If a homeowner wishes to challenge Tarion’s warranty assessment after a conciliation, the homeowner must show why the assessment is wrong.
- **CLAIM INSPECTION:** The homeowner must provide their position on any outstanding warranted item. For example, if the homeowner feels that the builder’s repair or settlement offer is unacceptable, they must raise the issue to Tarion and provide reasons to support their position.
- **COMPENSATION:** To receive compensation, the homeowner must show that they suffered damages as a result of the warranty breach. In most cases, this will be obvious – e.g., mould will require remediation and damages are the cost to carry this out.

The responsibilities of homeowners, builders and Tarion at each step of the warranty claims process are explained in detail on [Tarion.com](https://tarion.com).

2020 Homeowner Compensation by Type of Coverage*



Protecting Homeowners for Future Claims

New homes are covered under the new home warranty for seven years and up to a maximum of \$300,000. Within this seven-year window, there may be over 350,000 homes eligible for coverage at any given time. As the backstop for the warranty, Tarion maintains a Guarantee Fund to ensure that there will be sufficient funds to cover any future claims.

On rare occasions, widespread issues with building materials or construction methods have led to millions in claims for warranty programs. These types of catastrophic losses have the potential to bankrupt warranty programs that do not have sufficient reserves to cover claims on hundreds or even thousands of homes all at once. There have been instances of these types of catastrophic situations in Canada where governments had to step in when a warranty program could not handle the financial burden. Tarion's Guarantee Fund not only serves as a reserve against normal claim volumes but also ensures that homeowners would still be covered in a case of a catastrophic event.



Changes to Industry Regulation

To build or sell a new home in Ontario, builders and vendors must fulfill stringent requirements under provincial law as well as comply with various regulations governing approvals of projects and warranty obligations.



On February 1, 2021, the Ontario government designated the Home Construction Regulatory Authority (HCRA) as the regulatory authority under the *New Home Construction Licensing Act, 2017* (NHCLA), responsible for licensing and regulating builders and vendors of new homes in the province. This marks a significant change for the new home building industry and strengthens consumer protection in Ontario.

■ Licensing

Builders and vendors of new homes must be licensed to legally construct or sell homes in the province, and licensing is now handled by the HCRA. As of February 1, 2021, all Tarion registrations were transitioned to HCRA licences, and the HCRA established its own licence application process for both new licences and renewals.

For those builders whose registration would have expired right before or after the February 1 transition, Tarion extended their registration renewal by 150 days, to facilitate a smooth transition.

Builders and vendors of new homes must be licensed by the HCRA prior to enrolling homes with the new home warranty and protection program administered by Tarion.

■ Enrolment of Homes

Once a builder or vendor of a new home has obtained a licence from the HCRA, they can approach Tarion to get approval to enrol homes that they intend to build or sell. With the separation of its licensing and warranty administration roles, Tarion created a new Qualification for Enrolment (QFE) process that requires builders and vendors to apply for a QFE Confirmation for a home they are considering selling and prior to the enrolment of the home. In addition to conditions imposed in the *Ontario New Home Warranties Plan Act* and regulations, Tarion may propose additional conditions that must be satisfied by the builder or vendor prior to Tarion confirming that the proposed home has QFE or is enrolled in the new home warranty and protection program.

The application process varies depending on the type of home sale/construction transaction. The three types are:

- Homes (condominium or freehold) where the land and home are to be sold before construction begins;
- Homes (condominium or freehold) where the land and home are to be sold after construction has begun; and
- Contract homes where the dwelling is to be built on land owned by the prospective homeowner.

As part of the QFE process, Tarion assesses the nature and scope of a builder or vendor's project and their financial capacity to complete the project and fulfill the warranty obligations. This then leads to a determination of terms and conditions and required security.

The warranty enrolment fee is payable to Tarion as a term and condition of an Enrolment Confirmation. For freehold homes, the fee is payable on or before the date the building permit for the home is issued. For condominium projects, the fee is payable at least 30 days before construction begins. Following public feedback, Tarion implemented a reduction in home enrolment fees of \$55 (+HST) per enrolment to partially offset the new fees being charged by the HCRA for licensing and regulatory oversight.

The HCRA has put in place a Regulatory Oversight Fee of \$145 (+HST) for every new home enrolled on or after February 1, 2021. In order to ease administrative burden on licensed builders and vendors of new homes, Tarion collects the HCRA Regulatory Oversight Fee at the same time that the Tarion Enrolment Fee is collected and the Regulatory Oversight Fee is remitted to the HCRA on behalf of the vendor or builder after it is paid.

Builder Conduct Complaints and Illegal Building

Licensed builders and vendors of new homes are accountable for their conduct, competence and financial responsibility. Previously, Tarion's Compliance and Investigations team would follow up on homeowner complaints about their builder, investigate potential illegal building and pursue charges under the *Ontario New Home Warranties Plan Act*, where applicable.

Since February 1, 2021, the HCRA is responsible for receiving and responding to homeowner complaints about their builders' conduct and potential illegal building activity and for enforcing professional standards for competence and conduct in the home building industry. Homeowners can submit their concerns online via the [HCRA's complaint process](#). As part of this transition, the HCRA also took on the hosting of the [Ontario Builder Directory](#) and will post information regarding builders' licence status, convictions and warranty record.

Under its more focused mandate, Tarion will continue to respond to complaints related to a builder's fulfillment of their warranty obligations.

Regulatory Governance and New Bulletins

To build and sell new homes, builders and vendors must comply with the *New Home Construction Licensing Act, 2017* and the *Ontario New Home Warranties Plan Act*. Information on requirements can be found in [Tarion's Registrar Bulletins](#) and the [HCRA's Directives and Advisories](#) as well as on the HCRA's website and application process.

As part of the transition of responsibilities, Tarion undertook a review of its Builder Bulletins and retired those that were no longer applicable due to changes in legislation or changes in responsibility. Tarion also created new Registrar Bulletins to outline requirements for new processes, including the Qualification for Enrolment process and risk-based inspections, as well as to update requirements for security and enrolment fees. Advisories and directives related to licensing, compliance and enforcement under the *New Home Construction Licensing Act, 2017* have been developed by the HCRA's Registrar and are posted on the [HCRA's website](#). Tarion and the HCRA are each responsible for builder and vendor compliance with their respective regulatory requirements.

Updated Addendum

To coincide with the launch of the HCRA, Tarion was required to make small updates to the addendum. There are no substantive changes to the content of the addendum, but small updates were made to reflect the changes to Tarion's mandate and the launch of a new regulator, such as the Tarion registration number being replaced by an HCRA licence number. Every new agreement of purchase and sale signed on, or after, February 1 must have this [new version](#) attached (dated October 7, 2020).

Warranty Education for Purchasers

A new home buyer's warranty rights begin once they sign a purchase agreement. In the past, builders and vendors were required to provide Tarion's Homeowner Information Package (HIP) to purchasers prior to or upon a buyer taking possession of their new home. Often, purchasers would receive the HIP at the time of the pre-delivery inspection, which meant that they lacked important information to help them prepare for this inspection. In the Auditor General's report, the AG recommended that Tarion find ways to ensure home buyers received information about the warranty and the PDI earlier in the home buying process.

In response to this recommendation, Tarion implemented new regulatory requirements that require builders and vendors to attach a Warranty Information Sheet to each purchase agreement that outlines the basics of warranty coverage and highlights the importance of the PDI. The Warranty Information Sheet creates a consistent standard for providing new home purchasers with information at the time of purchase.

In addition, builders and vendors must now provide Tarion with contact information for purchasers within 30 days of signing the agreement of purchase and sale. With access to purchaser contact details, Tarion can reach out to purchasers during the pre-possession period to help them understand their warranty rights and responsibilities.

Warranty Coverage Limits

In addition to the changes made to address the recommendations of the Auditor General of Ontario, Tarion has also made additional consumer protection improvements by making changes to some warranty compensation limits.

Tarion has increased the compensation limits for claims involving hazardous substances or hazards (such as mould and radon) from \$15,000 to a new maximum of \$50,000. Additionally, Tarion increased the coverage for condominium common elements (such as parking garages and exterior cladding) from \$50,000 times the number of units, up to a maximum of \$2.5 million to a new maximum of \$100,000 times the number of units, up to a maximum of \$3.5 million.

Tarion also removed the previous limit on septic system issues where homes have a separate septic system.

Performance Measurement

Tarion uses a number of measures to gauge and improve our customer service performance each year, and these metrics are included in our key performance indicators.



■ Annual Homeowner Surveys

Our annual customer satisfaction surveys give homeowners the opportunity to provide feedback on both their builder and Tarion based on their experience throughout the purchase, possession and after-sales stages of ownership. Homeowners are invited to participate in the surveys in the fall of each year.

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. 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.



The following represents our survey sample and response rates for 2020:

Customer Satisfaction Survey	Number of Homeowners Invited to Take the Survey	Number of Survey Responses	Completion Rate
Homeowners in Year 1 of possession	42,100	6,679	13.9%
Homeowners in Years 2 to 7 of possession	181,565	11,120	6.1%

Homeowner Survey – Year 1

Survey results showed that 65 per cent of homeowners felt that their builder had met or exceeded their expectations while 57 per cent would recommend their builder to family or friends. In general, the 'likelihood to recommend' trended upward for all sizes of builders over 2019 (increases of 3 to 7 percentage points) with the exception of high-rise builders, which had a 6 percentage point decrease. Across all builder categories, 54 per cent of homeowners were very satisfied or extremely satisfied with their builder's customer service before moving in, but the rating decreased to 46 per cent for customer service after moving into their home. As in previous years, smaller volume builders received the highest ratings for overall customer service.

Satisfaction with Tarion – measured by the Service Orientation Index – increased by almost 3 percentage points, from 80.5 per cent in 2019 to 83.4 per cent in 2020. This index is based on three measurables: accessibility, listening and ease of doing business. Tarion continues to rate the highest on accessibility, but all three measures increased over the previous year, with the highest increase being in 'easy to do business with'. Tarion's homeowner materials (including the website, MyHome portal and warranty forms) received ratings from 84 per cent to 88 per cent for how easy they were to understand.

Key Performance Indicator Elements	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Tarion is accessible to homeowners	87.9	85.0	87.4	85.7	85.8
Tarion listens to the needs and concerns of homeowners	80.5	78.1	81.9	78.9	79.5
Tarion is easy to do business with	81.9	78.5	82.0	79.5	79.6
Homeowner Service Orientation Index	83.4	80.5	83.8	81.4	81.6

Annual Homeowner Survey – Years 2 to 7

Homeowners in Years 2 to 7 reported improvements in their satisfaction with how their builder met expectations (61 per cent over 58 per cent in 2019) and with their builder's commitment to customer service (72 per cent over 70 per cent in 2019). Half of all homeowners who responded to the survey would recommend their builder.

Homeowners' interactions with Tarion tend to be less frequent the further along they are in their warranty lifecycle – for example, 70 per cent of homeowners in their second year had contacted Tarion as compared to 19 per cent in years 4 to 7. Generally, Tarion's scores on key indicators – including accessibility, listening and ease of doing business – trended upward from 2019. In addition, 87 per cent of Year 2 to 7 homeowners report that customer service has improved or stayed the same, which represents a 2 percentage point increase over 2019.

Respondents Agree Tarion...	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Is accessible	83	81	84	84	85
Helps new homeowners understand their warranty rights and obligations	78	75	78	78	79
Listens to needs and concerns	74	70	74	74	73
Is easy to do business with	74	71	74	74	75
Makes sure new home builders fulfill their warranty obligations	70	69	72	72	71

■ Annual Builder Survey

Tarion's annual builder survey gathered feedback from 245 builders across all categories (micro, small, medium and large volume as well as high-rise). To ensure smaller builders in the province were well represented, over half the sample was micro or small builders. The overall index remained consistent with 2019 but accessibility dropped by 9 percentage points while other indicators rose by approximately 3 percentage points.



Key Performance Indicator Elements	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Tarion is accessible to builders	69	78	86	91	92
Tarion listens to the needs and concerns of builders	67	64	72	77	77
Tarion is easy to do business with	79	75	78	82	80
Service Orientation Index	72	72	79	83	83

■ Interaction Surveys

With the many issues affecting the construction and repair of new homes in 2020, it's not surprising that the number of calls and emails to Tarion's Customer Service team increased. Over the course of the year, the team received 77,970 calls and fielded 79,981 emails. Our interaction surveys help gauge our customer service in real time by asking homeowners or builders to rate their satisfaction with the service they received – including elements such as professionalism, courtesy, ability to answer questions and follow-through. A total of 5,150 homeowners and 70 builders completed surveys on their Customer Service group interactions and rated their satisfaction as 89 per cent and 88 per cent, respectively. Homeowners rated Tarion staff highest on professionalism, courtesy, responsiveness and ability to answer questions.

Due to public health restrictions, Tarion's in-person conciliations were suspended for many weeks and Tarion staff used virtual inspections to resolve issues as the situation allowed. We consequently had a lower number of responses for our post-conciliation surveys. A total of 96 homeowners and 65 builders completed the survey and rated their satisfaction as 74 per cent and 75 per cent, respectively. Despite these lower overall scores, both homeowners and builders gave Tarion staff high marks for courtesy, professionalism and ability to respond to questions.



■ Homeowners' Choice Awards

The Homeowners' Choice Awards recognize builders for their customer service based on the opinions of their homeowners. The awards promote good customer service by recognizing registered builders who fulfill their warranty obligations and serve their homeowners well.

The finalists and recipients are selected via annual customer service satisfaction surveys sent to new homeowners 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.

2020 Homeowners' Choice Award Recipients:

C. Kelos Homes Limited, Thunder Bay – Small Volume Category
Talos Custom Homes Ltd., Richmond – Medium Volume Category
Hayhoe Homes, St. Thomas – Large Volume Category
Plazacorp Investments, Toronto – High-Rise Category



■ Ernest Assaly Award

Tarion presents the Ernest Assaly Award to recognize a new home builder who has shown longstanding leadership in quality home building, customer service, innovation and community service. While Tarion's Homeowners' Choice Awards focus primarily on customer service, the Ernest Assaly Award is similar to a lifetime achievement award.

The winner of the 2020 Ernest Assaly Award was Waito Homes.

Governance

Leadership Team



Peter Balasubramanian
President & CEO



Gena Argitis
Vice President &
Chief Administrative Officer



Kevin Brodie
Vice President, Underwriting



Sophie Vlahakis
Vice President, Warranty Services



Edmond Lee
Vice President &
Chief Financial Officer



Tieu-Minh To
Assistant Vice President, Finance



Tim Schumacher
Vice President & General Counsel



Lesley Ross
Corporate Secretary



Bill Wallace
Vice President &
Chief Information Officer

2021 Board of Directors



Hari Panday, FCPA, FCGA, ICD.D
Chair, Director at Large



Andy Kenins, CPA, CA, ICD.D
Vice Chair, Director at Large



Marni Dicker, ICD.D, LLB, BCL
Director at Large



RJ Falconi, B.Sc., JD., ICD.D
Ministerial Appointee



Greg Graham, Pro.Dir
Industry Nominee



Sheldon Libfeld
Industry Nominee



**John A. Macintyre, C.Dir.,
H.R.C.C.C.**
Director at Large



**Sameer Malik, BA, ITIL,
TOGAF Certified**
Ministerial Appointee



Marc Sammons
Industry Nominee



Peter Shurman
Ministerial Appointee



Toby Stolee
Industry Nominee



Amanda Walton, ICD.D
Ministerial Appointee

The following is a list of individuals who served on the Board for all or part of 2020. The Board was reduced from 16 members to 12 in March 2020.

March 2020 to December 2020

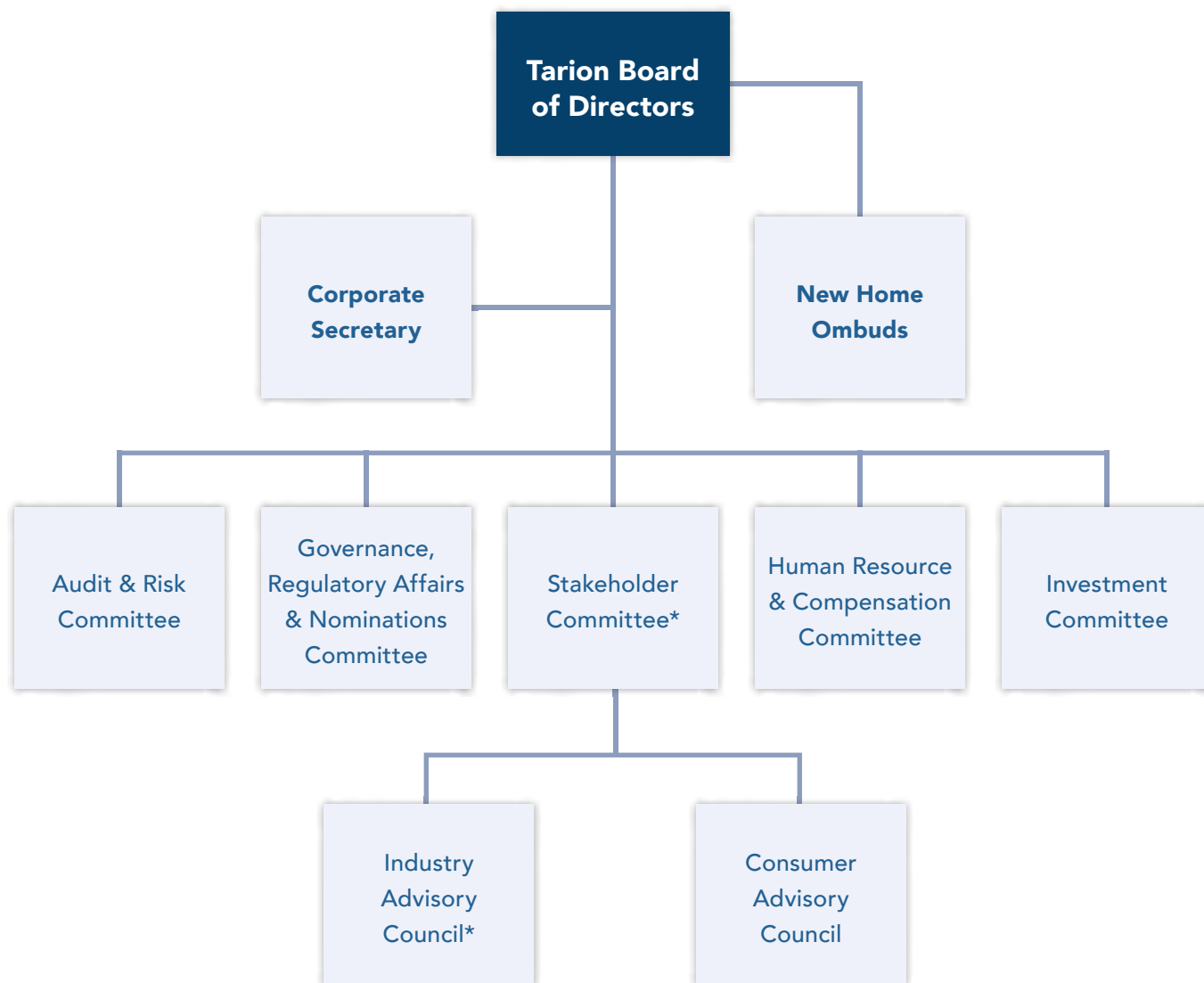
Marni Dicker
RJ Falconi
Bob Finnigan*
Dan Gabriel*
Greg Graham
Andy Kenins
Sheldon Libfeld
John Macintyre
Sameer Malik
Glen Padassery
Hari Panday
Lynn Peterson*
Wendy Rinella*
Marc Sammons
Peter Shurman
Toby Stolee

Tarion is governed by a Board of Directors with members who represent a wide variety of relevant skills including consumer awareness, dispute resolution, financial literacy, industry expertise, communications, strategic planning and corporate governance.

The Board is responsible for the overall stewardship of the organization, including promoting sound governance practices, the hiring and managing of the CEO, conducting regulatory oversight and taking a leading role in setting the strategic direction of the organization. The Board has delegated the responsibility for day-to-day management and does not make operational decisions.

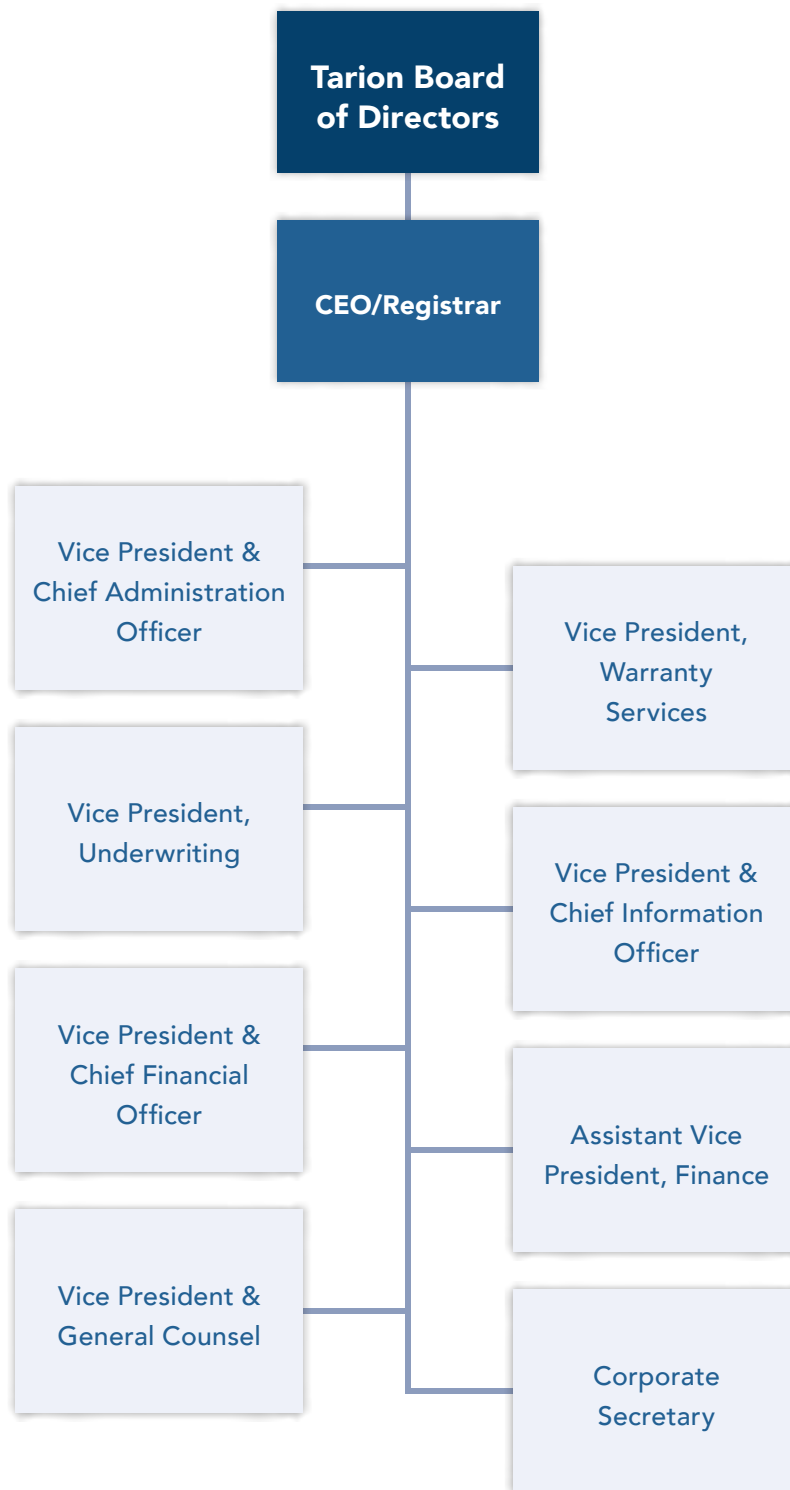
*Term expired March 23, 2020

Tarion's New Governance Framework



* The Stakeholder Committee replaced the former Consumer Committee effective January 1, 2021. The Industry Advisory Council was formed in 2020.

Tarion Corporate Leadership Team



Governance Policies

The Board of Directors of Tarion 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 independence of the Board and management, an outside director is elected and serves as Chair of the Board. The Board is comprised entirely of outside independent directors.

Code of Governance Practices

The Board has adopted a Code of Conduct for Directors and a Confidentiality and Conflict of Interest Policy that each member of the Board is required to sign annually. This Code is intended to help the directors fulfill their responsibilities to the company with appropriate discipline and dedication and communicate the Board's expectations throughout the company.

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 have regularly scheduled in-camera meetings without the presence of management.

Financial Controls

The Audit & Risk Committee of the Board is composed of 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. 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 & Risk Committee. The internal auditor focuses its cyclical reviews on key organizational processes such as underwriting, cybersecurity and privacy. During 2020, there was a special review executed to evaluate Tarion's operational resiliency in light of the pandemic.

Risk Management

The Board, together with the Audit & Risk Committee, monitors, reviews and approves corporate policies that govern management of capital and the enterprise-wide integrated risk management framework, as well as compliance with company policies and regulatory requirements.

A risk management sub-committee, composed of Tarion's senior managers, also identifies emerging issues and regularly reports to the Audit & Risk Committee. On a monthly basis, management assesses Tarion's operational experience against established risk appetite limits and reports material breaches to the Board via the Audit & Risk Committee, highlighting any need for mitigating actions. In addition, a comprehensive dashboard of Key Risk Metrics is reviewed quarterly with the Board.

The Board continues to review Tarion's existing Risk Appetite Framework and revised the company's risk inventory and metrics while implementing a comprehensive Own Risk and Solvency Assessment (ORSA) as per guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurers.

Strategic Planning

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

Annual Performance Objectives

The Board approves the annual corporate business plan and key performance indicators. The Board evaluates the President & CEO against performance objectives established by the Board. This evaluation is conducted in an in-camera session and is supported by a mid-year review. The President & CEO reports annually to the Board through the Human Resources & Compensation Committee on senior management performance and succession planning.

Director Orientation (On-boarding) and Continuing Education

The Governance, Regulatory Affairs & Nominations Committee is responsible for providing an orientation and continuing education program for the directors. Newly appointed directors attend orientation sessions that are intended to familiarize new directors with our business and operations, including management structure, strategic plans, finances, opportunities and risks.

New directors can meet with management and other members of the Board. New directors are also provided with a package of detailed information to assist them with learning about the organization.

As part of ongoing education, management personnel or outside experts make presentations from time to time to educate the Board on specialized topics; new issues and developments in consumer protection; and legal, regulatory and industry initiatives.

All directors are members of the Institute of Corporate Directors, which offers director education programs and provides access to current research and publications to enhance knowledge concerning governance and director responsibilities.

Governance Matters for 2020

The following Board policies were developed and approved in 2020:

- Policy on Electronic Meetings
- Policy on Sponsorship
- Policy on Operational Conflicts

In addition to the above policies, the Board amended its By-Law #1. The by-law amendment removed the Ontario Home Builders' Association from the nominations process, in keeping with the Auditor General's recommendation #1. In light of the current pandemic and overall financial uncertainty, the Board also approved a new Borrowing By-Law #2.

Responsibilities of the Committees of the Board

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

The Board has established the following standing committees: (1) Audit & Risk Committee; (2) Consumer Committee; (3) Governance, Regulatory Affairs & Nominations Committee; (4) Human Resources & Compensation Committee; and (5) Investment Committee. The Board established a Condominium Task Force in 2009 and a Consumer Advisory Council in 2011.

In 2021, the Consumer Committee and the Condominium Task Force will be dissolved, and a new Stakeholder Committee will be put in place. This committee will have the Consumer Advisory Council and a new Industry Advisory Council reporting into it.

All committee meetings have regularly scheduled in-camera meetings without the presence of management.

Independent Ombudsperson

The mandate of the New Home Ombuds Office is to investigate and resolve complaints from homeowners about Tarion's conduct, to act as a source of information to help homeowners in getting assistance from Tarion, and to identify issues and make recommendations for improvements. As recommended by the Auditor General to formalize the independence of the Ombuds from management, the Ombuds reports directly to the Board of Directors through the Consumer Committee. The Board is also responsible for reviewing the Ombuds business plan and budget and providing input into the Ombuds performance evaluation. The Board has also established key performance indicators for the Ombuds Office.

Audit & Risk Committee

Andy Kenins, CPA, CA, ICD.D, Chair

Hari Panday, FCPA, FCGA, ICD.D, Vice Chair

Sameer Malik, BA, ITIL, TOGAF Certified

Marc Sammons

Peter Shurman

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

This Committee also provides advice on the external audit services and performs additional services, such as working jointly with the Human Resources & Compensation Committee to review Tarion's annual budget and to set corporate key performance indicators for the following year.

The Committee meets five times a year and at such other times as the Committee may determine.

The Committee meets without the presence of management with the actuary and the internal and external auditors.

Consumer Committee

RJ Falconi, B.Sc., JD., ICD.D, Chair

Marc Sammons, Vice Chair

Sheldon Libfeld

Sameer Malik, BA, ITIL, TOGAF Certified

Glen Padassery

Peter Shurman

The Consumer Committee was dissolved on December 31, 2020. The Committee was composed of six members of the Board. The Committee provided guidance, informed opinion and progressive ideas and made recommendations to the Board about the promotion of consumer interests and consumer protection initiatives related to Tarion's mandate and its commitment to new home buyers.

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

The Committee met four times in 2020.

The Committee met with the Ombuds at every meeting without the presence of management.

In 2021, the duties of the Committee will form part of the new Stakeholder Committee's mandate.

Consumer Advisory Council

Vincenza Galatone, Chair

The Consumer Advisory Council serves as an advisory body and reports to the Consumer Committee. The Council provides ongoing advice from a home buyer's perspective on proposed Tarion policy changes. The Council met two times in 2020. The Chair of the Advisory Council attends each meeting of the Consumer Committee.

The members of the Council include consumers who have been through our warranty process, a home inspector, a retired building official, real estate lawyers and other non-builder experts who have direct dealings with new home buyers.

In 2021, the Consumer Advisory Council reports into the newly formed Stakeholder Committee.

Governance, Regulatory Affairs & Nominations Committee

Hari Panday, FCPA, FCGA, ICD.D, Chair

Toby Stolee, Vice Chair

RJ Falconi, B.Sc., JD., ICD.D

Greg Graham, Pro.Dir

Glen Padassery

The Governance, Regulatory Affairs & Nominations Committee, composed of five Board members, provides recommendations to the Board about governance, regulatory and Board composition matters affecting the company. The Committee has responsibility for developing and monitoring the effectiveness of Tarion's corporate governance framework. This includes monitoring compliance with policies, analyzing reports from management or independent advisors, assessing any foreseeable governance risks and making recommendations to the Board of Directors on changes to governance policies, governance structure and Board committees. The Committee works with an external expert when it needs independent expertise on new legislative requirements, best practices, specific expectations of Designated Administrative Authorities and the Board's performance self-assessment and peer evaluation.

The Committee also assists the Board in (a) assessing the by-laws of Tarion, (b) fulfilling its oversight responsibilities pertaining to Tarion's regulation-making powers as provided under the *Ontario New Home Warranties Plan Act*, (c) due diligence for the planning, research, stakeholder consultation and implementation of each proposed regulatory change, (d) evaluating the adequacy, alignment and effectiveness of current or proposed legislation or regulations to satisfy compliance with the mandate of the corporation, and finally (e) providing assistance in monitoring the implementation of its regulatory obligations and responsibilities as set out in Tarion's mandate.

Among its key responsibilities, the Governance, Regulatory Affairs & Nominations Committee oversees matters related to Board composition, director

selection in compliance with the by-laws and ministerial orders, director onboarding, continuing education, periodic peer evaluation, and adherence with the Code of Conduct and Confidentiality and Conflict of Interest policies. It submits its recommendations to the Board for approval and/or, in certain situations, for subsequent submission to the members of the corporation.

Nominations Committee

The nominations role has been unified into the overall mandate of the Governance, Regulatory Affairs & Nominations Committee. For nominations in 2020, the Committee was composed of five members: the Chair of the Board, two appointees of the Minister of Government & Consumer Services and two appointees from the industry.

With the amendment to By-Law #1 in October 2020, and in light of Tarion's refreshed purpose, the industry association's ability to appoint members to the Nominations Committee has been removed. In 2021, the Governance, Regulatory Affairs & Nominations Committee will be composed of two directors from the industry category, two directors from the At-Large category and one director from the Minister's appointees.

In conducting its nominations process, the Committee reaches out to a variety of resources, including a competitively selected search firm, the Institute of Corporate Directors, Women in Capital Markets, homeowners and professionals involved in the residential real estate sector. Tarion also posts the opportunities on its website. The Committee also maintains an evergreen list of potential Board candidates for future vacancies.

It invites detailed submissions and evaluates suitability of every prospective candidate in light of Tarion's future skill gaps as identified by the Board. Finally, a short-list is developed and candidates are interviewed by the Committee members, in person or virtually; in addition, it engages an independent search firm to assist in its deliberations. During assessment of the proposed director nominees, the Committee considers their skills, experience, sectoral or other specialized knowledge required, character, commitment to continuing Board education, time availability and diversity. Finally, the Committee recommends selected names to the Board.

Human Resources & Compensation Committee

Greg Graham, Pro.Dir, Chair

Marni Dicker, ICD.D, LLB, BCL, Vice Chair

Andy Kenins, CPA, CA, ICD.D

John Macintyre, C.Dir, H.R.C.C.C

Toby Stolee

The Human Resources & Compensation Committee, composed of five members of the Board, is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities regarding human resources and compensation. The Committee oversees the implementation of human resources decisions of the Board and ensures the adequacy and effectiveness of the existing systems to ensure compliance with all human resources legislation, policies and procedures.

Additionally, the Committee leads the process of setting the key performance indicators, performance evaluation and compensation, benefits and incentives for the President & CEO. It is responsible for making recommendations to the Board on the annual objectives for the President & CEO and for evaluating performance against those objectives. The Committee works with external expert compensation advisers who provide information about current market compensation payable to senior executives of comparable organizations.

It also undertakes an annual succession review of the senior management team in consultation with the President & CEO.

The Committee is also responsible for recommending director compensation. A comprehensive review is undertaken every two years. The next review is scheduled to be undertaken in the spring of 2021.

Investment Committee

Andy Kenins, CPA, CA, ICD.D, Chair

Greg Graham, Pro.Dir, Vice Chair

Marni Dicker, ICD.D, LLB, BCL

Sheldon Libfeld

John Macintyre, C.Dir, H.R.C.C.C

The Investment Committee, composed of five members of the Board, reports to the Board on corporate investment plans, policies and issues pertaining to corporate funds and pension plan(s) that affect Tarion.

The goals of Tarion's investment strategies and policies are to maximize return at the selected risk level to the corporation within the Board-approved constraints, and to ensure funds are invested appropriately, recognizing the liquidity, credit, market and interest rate risks, as well as the timing and magnitude of corporate, operational and reserve requirements. The Investment Committee considers and recommends investment strategies, plans and policies related to the invested assets of the company and quinquennially conducts an asset mix study with the assistance of an independent investment advisor. The Committee oversees the selection and appointment of its investment managers, and it reviews and recommends the investment policies of the company each year for the Board's approval. It also reviews reports from fund managers on investment activities and measures investment results against the investment objectives of the company.

In addition, the Committee reviews management's oversight over investment fund choices provided for the company's defined contribution pension plan.

Condominium Task Force

Sheldon Libfeld, Chair

Marni Dicker, ICD.D, LLB, BCL

Marc Sammons

Rob Cooper, Alterra Group of Companies

Frank Giannone, FRAM Building Group

Paul Golini Jr., ICD.D, Empire Communities

Harry Herskowitz, Tridel

Scott Reid, Reids' Heritage Homes

Sally Thompson, Synergy Partners

The Condominium Task Force is composed of representatives from the Board of Directors and from the industry experienced in the condominium area. The Task Force was established as a forum to facilitate research, provide informed opinions and discussion and make progressive recommendations about the condominium industry to Tarion management and the Board. The Task Force met once in 2020 and was dissolved on December 31. Any condominium industry matters will now be dealt with through the new Stakeholder Committee.

■ Directors' Attendance

The number of Board, Board Standing Committee and Task Force meetings held by the company during 2020 was as follows:

Board of Directors – 20 meetings

Audit & Risk Committee – 5 meetings

Consumer Committee – 3 meetings

Governance & Regulatory Affairs Committee – 5 meetings

Human Resources & Compensation Committee – 5 meetings

Investment Committee – 5 meetings

Investment Sub Committee – 8 meetings

Nominations Committee – 3 meetings

Condominium Task Force – 1 meeting

Total – 55 meetings

The table below shows directors whose terms ended and/or commenced concurrent with the Annual Meeting of Members in March 2020.

Director	Board of Directors		Committee		Total	
	Held	Attended	Held	Attended	Held	Attended
Dicker, Marni**	19	19	9	9	28	28
Falconi, RJ	22	20	8	8	30	28
Finnigan, Bob*	3	3	4	4	7	7
Gabriele, Dan*	3	3	1	1	4	4
Graham, Greg	22	20	22	20	44	40
Kenins, Andy	22	22	22	22	44	44
Libfeld, Sheldon	22	18	7	5	29	23
Macintyre, John**	19	19	14	14	33	33
Malik, Sameer**	15	15	6	6	21	21
Padassery, Glen	22	15	2	2	24	17
Panday, Hari	22	22	12	12	34	34
Peterson, Lynn*	3	3	4	4	7	7
Rinella, Wendy*	3	3	6	6	9	9
Sammons, Marc**	19	19	8	7	27	26
Shurman, Peter**	19	18	7	7	26	25
Stolee, Toby**	19	19	8	8	27	27

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

* Term ended March 2020 ** Term started March 2020

Financials

For the year ended December 31, 2020

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■ Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) provides relevant insights into the assessment of the financial condition and results of Tarion. This MD&A should be read in conjunction with Tarion's audited financial statements for the year ended December 31, 2020 which are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Financial Highlights

In 2020, despite a volatile first quarter in the global capital markets triggered by the COVID-19 pandemic, Tarion's Guarantee Fund grew by \$40.8M to \$684.8M primarily from unrealized investment gains as confidence returned in the financial markets in the latter part of the year with the unprecedented effort by central banks and governments to stabilize and support the recovery of the world economies. The Guarantee Fund annual return was 5.2% in 2020, resulting in investment gains (excluding investment fees) of \$35.7M for the year.

The year ended with total enrolment levels at 68,559 compared to 64,964 in 2019, 5.5% higher, mainly driven by higher volumes of freehold and high-rise units. Enrolment levels showed great resiliency during 2020 despite the pandemic. Earned enrolment fees were higher due to high-rise deferred revenue from prior years being recognised in revenue.

In 2020, Tarion paid out \$23.0M to resolve warranty claims from new home buyers. The 2020 net claims incurred of \$21.9M was \$8.9M higher than 2019. The increase in claims payments was mainly driven by first- and second-year claims on freehold, and condominium common elements.

Total operating expenses (excluding net claims incurred) increased by \$2.7M to \$50.5M. Tarion incurred higher operating expenses during the year to address increasing workloads due to COVID-19 related work and to support the implementation of new initiatives and the recommendations from the Auditor General report.

As part of the Government's commitment to strengthening consumer protection by establishing a regulator for builders and vendors of new homes, Tarion accrued \$4.5M in 2020 and \$14.6M in 2019 to support the creation of the Home Construction Regulatory Authority ("HCRA") and the transformation of Tarion. Subsequent to year end, Tarion's regulatory mandate to register builders and vendors of new homes was transferred to the HCRA effective February 1, 2021 when the HCRA was designated by the Government of Ontario as the new regulator.

Tarion ended the year with the Guarantee Fund growing to \$684.8M of which \$334.0M supports warranty liabilities and \$290.2M is secured as required for future warranty and service improvements and protection against possible catastrophic warranty losses or other extreme loss events.

Equity

Tarion's total equity balance increased by \$11.2M to \$290.2M driven by the current year's positive bottom line of \$12.6M, offset by an actuarial loss on post-employment benefits plan of \$1.4M.

Capital Expenditures

Tarion continues to invest in its information system and infrastructure. The capital addition of \$5.4M in 2020 is for Intangible Assets relating to a new warranty management system and a cloud-based platform to enhance Homeowner and Builder digital services. Other additions to Property, Plant and Equipment which increased by \$3.7M related mostly to the capitalization of the corporate office lease which have been extended for another 6 years.

Impact of COVID-19

There continues to remain economic uncertainty as the duration and impact of the COVID-19 pandemic is unknown. It is difficult to reliably measure the potential impact of this uncertainty on our future financial results. Management continues to monitor the situation.

■ Management's Responsibility for Financial Reporting

The accompanying financial statements of Taron Warranty Corporation ("Corporation") are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, or when estimates and judgment are required, management has selected those amounts that present the Corporation's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by management.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of warranty liabilities are appropriate to the circumstances and that the liabilities will be adequate to meet the Corporation's future obligations under the Ontario New Home Warranties Plan Act.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. These responsibilities are carried out primarily through an Audit & Risk Committee of the Board of Directors.

The Audit & Risk Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit & Risk Committee reviews the financial statements prepared by management and then recommends them to the Board of Directors for approval. The Audit & Risk Committee also recommends to the Board of Directors, the appointment of external auditors and approval of their fees.

The responsibility of the external auditors is to carry out an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of the Corporation's financial statements in accordance with IFRS. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and his report on the warranty liabilities. The Auditors' report outlines the scope of their audit and their opinion.

Peter Balasubramanian

President & Chief Executive Officer
April 22, 2021

Edmond Lee

Vice President & Chief Financial Officer
April 22, 2021

■ Independent Auditors' Report

To the Board of Directors of Taron Warranty Corporation

Opinion

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

- the statement of financial position as at December 31, 2020
- 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 the Corporation as at December 31, 2020, 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.

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 a document likely to be entitled "2020 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.

The information, other than financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

■ Independent Auditors' Report

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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 has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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;

■ Independent Auditors' Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants,
Licensed Public Accountants

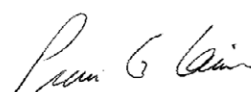
Toronto, Canada
April 22, 2021

■ Appointed Actuary's Report

To the Directors of Tarion Warranty Corporation

I have valued the warranty liabilities of Tarion Warranty Corporation for its Statement of Financial Position as at December 31, 2020 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2020 in accordance with accepted actuarial practice in Canada, including the selection of appropriate assumptions and methods.

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



Pierre Laurin
Fellow, Canadian Institute of Actuaries
April 22, 2021

Statement of Financial Position

For the year ended December 31, 2020 (\$CAD thousands)

	Notes	2020	2019 Adjusted Note 2
ASSETS			
Cash and cash equivalents	5	8,746	12,766
Trade and other receivables from vendors and builders	2, 6	10,932	10,355
Investments	7	684,771	643,989
Prepaid expenses and other assets		808	685
Unearned reinsurance premium	8	4,377	3,698
Property, plant and equipment	9	4,037	1,526
Intangible assets	10	8,561	6,119
Total Assets		722,232	679,138
EQUITY AND LIABILITIES			
LIABILITIES			
Accounts payable and accrued liabilities	11	11,671	22,611
Lease obligations and inducements	13	3,517	1,289
Warranty liabilities	2, 14	333,985	304,053
Funds held as security	15	73,692	64,762
Employee future benefits liabilities	16	9,216	7,460
Total Liabilities		432,081	400,175
Equity		290,151	278,963
Total Equity and Liabilities		722,232	679,138
Commitments and contingencies	12		

See accompanying notes to financial statements.

Approved by the Board of Directors

Hari Panday

Director and Chair of the Board

Andy Kenins

Director and Chair of Audit & Risk Committee

Statement of Comprehensive Results of Operations

For the year ended December 31, 2020 (\$CAD thousands)

	Notes	2020	2019 Adjusted Note 2
Revenue			
Gross home enrolment fees earned	14	52,103	50,765
Earned reinsurance premium	8	(501)	(442)
Net home enrolment fees earned		51,602	50,323
Builders' registration and renewal fees		3,129	3,346
Investment results			
Investment income/(expense)	17	35,687	46,799
Investment management fees		(1,414)	(1,522)
Other revenue		439	745
Total Revenue		89,443	99,691
Expenses			
Net claims incurred	2, 14	21,850	12,952
Salaries and benefits		31,092	30,115
General and administrative		14,726	12,757
Depreciation and amortization	9, 10, 13	4,139	3,747
Interest expense	18	563	1,224
Total Expenses		72,370	60,795
Excesss/(deficit) of Revenue Over Expenses Before Transformation Costs		17,073	38,896
Transformation costs	12B	4,478	14,641
Excesss/(Deficit) of Revenue Over Expenses		12,595	24,255
Other Comprehensive Results of Operations			
<i>Amounts not subsequently classified to Statement of Results of Operations</i>			
Actuarial gains/(losses) for employee future benefits	16	(1,407)	(1,063)
Total Comprehensive Results of Operations for the Year		11,188	23,192

See accompanying notes to financial statements.

Statement of Changes in Equity

For the year ended December 31, 2020 (\$CAD thousands)

	Notes	2020	2019 Adjusted Note 2
Beginning of the year		278,963	266,220
Adjustment on warranty liabilities	2	-	(10,449)
Adjusted beginning balance		278,963	255,771
Excess/(Deficit) of revenue over expenses for the year		12,595	24,255
Other comprehensive result of operations			
<i>Amounts not subsequently classified to Statement of Results of Operations</i>			
Actuarial gains/(losses) for employee future benefits		(1,407)	(1,063)
Total Equity, End of Year		290,151	278,963

See accompanying notes to financial statements.

Statement of Cash Flows

For the year ended December 31, 2020 (\$CAD thousands)

	Notes	2020	2019 Adjusted Note 2
Net Inflows (Outflows) of Cash Related to the Following Activities			
Operating			
Home enrolment fees received		76,253	67,731
Builders' registration fees received		3,129	3,346
Recoveries from builders for claims and conciliation fees		6,972	6,858
Securities receipts from builders, net of releases		9,013	3,532
Payments to employees for salaries and benefits		(31,999)	(28,102)
Payments to suppliers for general and administrative expenses		(12,950)	(13,159)
Claims payments		(23,076)	(18,561)
Reinsurance premium paid		(1,180)	(1,200)
Interest expenses		(646)	(703)
Other miscellaneous fees received		813	199
Transformation costs	12B	(16,769)	(1,479)
Cash provided by operating activities		9,560	18,462
Investing			
Dividend received		11,638	16,325
Interest received		10,127	10,475
Proceeds from sale and maturity of investments		863,816	836,543
Purchase of investments		(892,205)	(868,362)
Investment management fees		(1,438)	(1,496)
Purchase of intangible assets		(5,376)	(2,227)
Purchase of equipment and leaseholds		(503)	(190)
Proceeds from settlement of derivatives		1,339	-
Cash used in investing activities		(12,602)	(8,932)
Financing			
Payment on lease obligation		(978)	(979)
Cash used in financing activities		(978)	(979)
Net Increase (Decrease) in Cash and Cash Equivalents during the Year		(4,020)	8,551
Cash and Cash Equivalents, Beginning of Year		12,766	4,215
Cash and Cash Equivalents, End of Year		8,746	12,766

See accompanying notes to financial statements.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$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.

As part of a provincial legislation that was passed in December 2017, effective February 1, 2021 the Corporation transferred its regulatory mandate to register and license home builders and vendors in Ontario to a separate regulator, the Home Construction Regulatory Authority ("HCRA") while retaining its mandate to administer new home warranty in Ontario. As part of the transformation support, the Corporation has entered into a funding agreement with the HCRA to provide financial support in the establishment of the HCRA. See Note 12B for details.

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, 2020, were approved by the Corporation's Board of Directors and authorized for issue on April 22, 2021.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

2. Recast of Previously Reported Financial Statements

Subsequent to the issuance of the previously reported financial statements for the year ended December 31, 2019, it was determined that the warranty related recoverable amount from vendors and builders that is reported as an asset on the Statement of Financial Position is also imputed in the actuarial valuation of the warranty liabilities. Although the Corporation recognized the recoverable amounts from identifiable vendors/builders at the time the warranty loss is recorded, the warranty liabilities calculated using actuarial estimates incorporated an expected recovery based on aggregated recovery historical experience. This resulted in recognizing the recoverable amounts both by recording the asset, and by reducing the warranty liabilities.

To address this matter, Management adjusted the warranty liabilities to exclude recoveries and continues to recognize the recoverable amounts from vendors and builders as an asset. This asset is adjusted by an actuarial valuation adjustment that incorporates the historical claims recovery experience.

The following shows the impacts of the adjustments described above.

LINE ITEM ON THE ADJUSTED STATEMENT OF FINANCIAL POSITION

	Notes	Jan 1 2019	Adjustment	Jan 1 2019 Adjusted	Dec 31 2019	Adjustment	Dec 31 2019 Adjusted
Trade and other receivables from vendors and builders	6	8,452	262	8,714	11,893	(1,538)	10,355
Warranty liabilities	14	274,137	10,711	284,848	295,594	8,459	304,053
Equity		266,220	(10,449)	255,771	288,960	(9,997)	278,963

LINE ITEM ON THE ADJUSTED STATEMENT OF COMPREHENSIVE RESULTS OF OPERATIONS

	Notes	2019	Adjustment	2019 Adjusted
Net claims incurred	14	13,404	(452)	12,952

There is no impact to the *Statement of Cash Flows*.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. 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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise 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.

B. 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.

C. 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, the equity portfolio, and derivative assets are classified as FVTPL. Financial assets at FVTPL are measured initially on trade date 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.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. Summary of Significant Accounting Policies (Continued)

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 6C Movement in Trade Receivables for impairment charge.

■ Derivatives

The Corporation holds currency forward contracts to manage its U.S. dollar exchange exposure arising from its financial assets. These derivative financial instruments are classified as FVTPL assets or liabilities and are initially recorded at fair value. The fair value of derivative financial instruments is based on quoted market prices, unless they are non-publicly traded in which case fair value is estimated on the basis of models and includes an element of credit risk.

The Corporation has presented derivative financial instruments on a net basis where the Corporation has the right and intent to offset. When the net fair value is positive, a net asset is reported and when the net fair value is negative, a net liability is reported. Where the Corporation does not have the right and intent to offset, derivative financial instruments with a positive fair value are recorded as an asset while derivative financial instruments with a negative fair value are recorded as a liability.

Realized gains and losses and changes in the fair value of these contracts are recorded as realized gains (losses) and changes in the fair value of these contracts are recorded as realized and change in unrealized gains / losses on derivative assets which is a component of investment income/(expense) on the statement of comprehensive results of operations.

■ Other financial liabilities

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

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment. The assets' residual values, useful lives and the method of depreciation are reviewed at the end of each reporting period and adjusted as necessary on a prospective basis. The depreciation expense on property, plant and equipment is disclosed separately in Note 9 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Depreciation is provided at the following rates:

Recognized in accordance to IAS 16 – Property, plant and equipment:

Computer equipment	Straight-line over three years
Furniture and office equipment	Declining balance at 20% a year
Leasehold improvements	Straight-line over the shorter of its estimated useful life and the lease term

Recognized in accordance to IFRS16 – Leases:

Right of use assets	Straight-line over the shorter of its estimated useful life and the lease term
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■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. Summary of Significant Accounting Policies (Continued)

Right of use assets

The Corporation recognizes right of use assets at the commencement date of the lease. Right of use assets are measured at cost, less any accumulated depreciation and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease inducements receivable. Unless the Corporation is reasonably certain to obtain ownership of the

leased asset at the end of the lease term, the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. If the right of use asset is impaired, the Corporation reduces the carrying amount of the asset to its recoverable amount and recognizes that impairment loss in the Statement of Comprehensive Results of Operations.

Short-term leases and leases of low-value assets

The Corporation applies the short-term lease recognition exemption to its short-term leases (i.e. those lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases. Lease payments on short-term leases and leases of low-value assets are recognized as a General and Administrative expense as incurred.

The gains / (losses) arising on the disposal or retirement of an item of equipment and leaseholds is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the Statement of Comprehensive Results of Operations in other revenue.

E. INTANGIBLE ASSETS

Intangible assets consist of acquired software and applications and internal software enhancements related to the customization of these software systems and applications. These intangible assets have finite lives and are amortized over their useful economic life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets are disclosed separately in Note 10 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Software and applications	Straight-line over three years
Internal software enhancements	Straight-line over three years

F. LEASES

Lease liabilities

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the measurement date if the interest rate implicit in the lease is not readily determinable. The lease liabilities are increased to reflect the accreted interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities will be remeasured if there is a modification, a change in the lease term, a change in the in-substance of fixed lease payments or a change in the assessment to acquire the underlying asset.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. Summary of Significant Accounting Policies (Continued)

G. 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 4. 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 6.

H. 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 Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. Summary Of Significant Accounting Policies (Continued)

I. 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.

J. EMPLOYEE FUTURE BENEFITS LIABILITIES

The Corporation offers a (i) defined contribution pension plan and (ii) a post-employment medical and dental benefits plan for its employees.

The costs of 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 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.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. 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.

K. 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.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

3. Summary of Significant Accounting Policies (Continued)

L. 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.

M. 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.

N. 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.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end rate. The translation impact is recorded in the Statement of Comprehensive Results of Operations in the period in which they arise. Currency exchange gains / (losses) on financial assets at fair value through profit or loss are reported as part of investment income in the Statement of Comprehensive Results of Operations.

Revenue and expense items in a foreign currency are translated into Canadian dollars at the exchange rate on the transaction date.

O. FUTURE ACCOUNTING CHANGES

IFRS 17 – Insurance Contracts

On May 18, 2017 the IASB issued IFRS 17 – Insurance Contracts ("IFRS 17").

The new standard is effective for annual periods beginning on or after January 1, 2023. IFRS 17 will replace IFRS 4 Insurance Contracts. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. There will be new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 is to be applied retrospectively. Where full retrospective application is impracticable, the modified retrospective or fair value methods may be used.

In June 2020, the IASB published Amendments to IFRS 17, which addressed a number of stakeholders concerns and challenges raised during public consultation. The objective of the amendments was to reduce implementation costs, make the results easier to explain and ease of transition.

The Corporation is currently assessing the impact of IFRS 17 on its financial statement and will continue to monitor IASB's future development related to IFRS 17.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

4. 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.

COVID-19 Pandemic Impact

In March 2020, the World Health Organization (WHO) declared a global pandemic as a result of the outbreak of COVID-19 coronavirus. The government issued emergency orders resulted in a temporary suspension of in-person conciliations and inspections of homes in the spring of 2020 while the Guarantee Fund experienced great volatility due to the capital markets decline and foreign currency exchange rates in the first quarter.

However, the Ontario new housing market remained resilient resulting in enrolment levels remaining strong in 2020 and no significant increase in claims related to COVID-19. The financial markets have since rebounded due to significant support from governments and release of vaccines.

Until the pandemic crisis has passed, the duration and impact of the COVID-19 pandemic is unknown at this time and can introduce additional uncertainty around estimates, assumptions and judgements used in preparing these Financial Statements. The Corporation expects that the financial markets remain volatile and continues to monitor the impact on its financial position.

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 3. 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 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 claims 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 14. 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.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

4. Key Accounting Judgments, Estimates and Assumptions (Continued)

Valuation of trade and other receivables from vendors and builders

As described in Note 3, 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 6.

Revenue recognition of home enrolment fees earned

Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 14.

Valuation of employee future benefits liabilities

The costs of 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 benefits such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 16G.

5. Cash and Cash Equivalents

At December 31, 2020, cash and cash equivalents was solely cash at the bank and on hand of \$8,746 (2019: \$12,766) with no short-term deposits or bank overdrafts payable on demand.

The Corporation also has a \$2,000 (2019 \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2020 is nil (2019: Nil).

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

6. Trade and Other Receivables from Vendors and Builders

Trade and other receivables from vendors and builders consist of four components:

- 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.
- Recoverable on IBNR represents the actuarial valuation adjustment that incorporates the historical claims recovery experience on the Trade and Other receivables from vendors and builders related to the warranty liabilities under the gross basis presentation as described in Note 2.

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, 2020, there was four vendors and builders (2019: five vendors and builders) representing 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, 2020 was limited to \$2,762 (2019: \$2,350).

As described in Note 15, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2020 there is \$6,305 (2019: \$5,234) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

	Note	2020	2019
Gross trade receivables		36,702	27,485
Less: Allowance for impairment		(32,463)	(23,508)
Trade receivables		4,239	3,977
Amounts recoverable from vendors and builders		7,618	7,396
Other receivables from vendors and builders		673	520
Recoverable on IBNR	2	(1,598)	(1,538)
Total trade and other receivables from vendors and builders		10,932	10,355

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

6. Trade and Other Receivables from Vendors and Builders (Continued)

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, 2020 are amounts recoverable from unregistered vendors and builders of \$131 (2019: \$112).

B. EXPECTED CREDIT LOSSES AND IMPACT ON DISCOUNTING

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.

As at December 31, 2020, the trade and other receivables from vendors and builders includes \$3,578 (2019: \$2,753) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts. 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.

	2020	2019
1 to 90 Days	661	1,224
91 to 360 Days	2,966	1,954
Over 360 Days	612	799
Total trade receivables	4,239	3,977

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

6. Trade and Other Receivables from Vendors and Builders (Continued)

C. MOVEMENT IN TRADE RECEIVABLES

	2020	2019
Gross Trade Receivables		
Beginning of year	27,485	31,292
New Bills Issued	18,745	16,011
Write-offs Processed	(2,556)	(12,960)
Recoveries	(6,972)	(6,858)
End of year	36,702	27,485
Allowance for Impairment		
Beginning of year	(23,508)	(28,648)
Expected Credit Loss Allowance	(11,511)	(7,820)
Write-offs Processed	2,556	12,960
End of year	(32,463)	(23,508)
Total trade receivables, end of year	4,239	3,977

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 2020 change in allowance is a reversal of \$2,704 (2019: \$12,618) which relates to amounts previously written off.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

7. 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. 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 14, 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 14. 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 12, 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 financial condition 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, the equity portfolio and derivative assets as FVTPL financial assets. These 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, equities and foreign currency forward contracts denominated in foreign currencies, if any, are translated into Canadian dollars at the exchange rate in effect as at the reporting date.

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

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 3.45% (2019: 4.95%).

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

7. 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:

	2020			2020
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	-	133,297	-	133,297
Financial institution bonds	-	123,185	-	123,185
Other corporate bonds	-	142,717	-	142,717
Treasury bills and short-term notes	-	33,098	-	33,098
Mortgage Trust Fund	-	12,395	-	12,395
Fixed income portfolio	-	444,692	-	444,692
Equity portfolio	57,144	182,262	-	239,406
Derivatives	673	-	-	673
Total investments	57,817	626,954	-	684,771
Cash and cash equivalents	8,746	-	-	8,746
Total financial assets	66,563	626,954	-	693,517
Financial liabilities measured at amortized cost				
Funds held as security	-	-	69,775	69,775
Total financial liabilities	-	-	69,775	69,775

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

	2019			2019
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	-	157,817	-	157,817
Financial institution bonds	-	120,927	-	120,927
Other corporate bonds	-	109,665	-	109,665
Treasury bills and short-term notes	-	19,133	-	19,133
Mortgage Trust Fund	-	11,655	-	11,655
Fixed income portfolio	-	419,197	-	419,197
Equity portfolio	50,120	174,672		224,792
Total investments	50,120	593,869	-	643,989
Cash and cash equivalents	12,766			12,766
Total financial assets	62,886	593,869	-	656,755
Financial liabilities measured at amortized cost				
Funds held as security	-	-	59,864	59,864
Total financial liabilities	-	-	59,864	59,864

There were no transfers among Levels 1, 2 and 3 in the year ended December 31, 2020 (2019: Nil).

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

B. MARKET RISK

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

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

Interest rate risk

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

Terms of Maturity (1)	2020				
	Due within one year	Due one through five years	Due five through ten years	Due after ten years	Total
Government					
Federal	36,773	35,135	2,611	-	74,519
Yield to Maturity (YTM)	0.2%	0.6%	1.8%	0.0%	0.4%
Provincial	-	45,878	12,452	-	58,330
YTM	0.0%	0.6%	0.9%	0.0%	0.6%
Municipal	-	-	-	-	-
YTM	0.0%	0.0%	0.0%	0.0%	0.0%
Treasury Bills	33,091	-	-	-	33,091
YTM	0.1%	0.0%	0.0%	0.0%	0.1%
Total Government	69,864	81,013	15,063	-	165,940
YTM	0.2%	0.6%	1.0%	0.0%	0.4%
Financial Institutions	1,803	111,884	8,465	-	122,152
YTM	0.8%	0.8%	2.1%	0.0%	0.9%
Other Corporate	12,911	115,344	13,558	-	141,813
YTM	0.5%	0.8%	1.1%	0.0%	0.8%
Mortgage Trust Fund	2,916	5,932	3,535	13	12,396
YTM	1.0%	2.5%	2.8%	2.4%	3.4%
Total Fixed Income	87,494	314,173	40,621	13	442,301
Accrued Interest	2,391	-	-	-	2,391
Total Fixed Income with Accrued Interest	89,885	314,173	40,621	13	444,692
YTM	0.3%	0.7%	1.4%	2.4%	0.7%

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

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

Terms of Maturity (1)	2019				
	Due within one year	Due one through five years	Due five through ten years	Due after ten years	Total
Government					
Federal	13,358	111,292	-	-	124,650
Yield to Maturity (YTM)	1.8%	1.8%	0.0%	0.0%	1.8%
Provincial	-	10,659	18,775	-	29,434
YTM	0.0%	1.9%	2.1%	0.0%	2.0%
Municipal	-	1,875	1,449	-	3,324
YTM	0.0%	2.2%	2.2%	0.0%	2.2%
Treasury Bills	19,109	-	-	-	19,109
YTM	1.7%	0.0%	0.0%	0.0%	1.7%
Total Government	32,467	123,826	20,224	-	176,517
YTM	1.7%	1.9%	2.1%	0.0%	1.9%
Financial Institutions	162	119,912	-	-	120,074
YTM	2.0%	2.2%	0.0%	0.0%	2.2%
Other Corporate	15,034	88,844	4,990	-	108,868
YTM	2.1%	2.2%	2.5%	0.0%	2.2%
Mortgage Trust Fund	2,272	5,384	3,279	720	11,655
YTM	2.1%	3.5%	3.5%	3.5%	3.4%
Total Fixed Income	49,935	337,966	28,493	720	417,114
Accrued Interest	2,083	-	-	-	2,083
Total Fixed Income with Accrued Interest	52,018	337,966	28,493	720	419,197
YTM	1.8%	2.1%	2.3%	3.5%	2.1%

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

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 through its pooled fund investments. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

	2020		2019	
Financials	58,499	24%	55,402	25%
Industrials	44,399	19%	37,867	17%
Materials	30,899	13%	26,345	12%
Consumer Discretionary	28,589	12%	24,316	11%
Telecommunication	18,627	8%	14,221	6%
Consumer Staples	17,174	7%	15,465	7%
Energy	15,725	7%	23,661	11%
Information Technology	12,431	5%	14,647	7%
Health Care	7,062	3%	6,939	3%
Cash	2,667	1%	3,192	1%
Utilities	2,145	1%	1,710	0%
Real Estate	1,189	0%	1,027	0%
Total equity portfolio	239,406	100%	224,792	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, 2020, the Corporation had approximately 19.9% (2019: 20.7%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 9.1% (2019: 8.6%) 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, certain predetermined thresholds set to activate the hedging facility were reached and the Corporation entered into 3-month forward contracts to mitigate U.S. dollar foreign currency risk. The values associated with the derivative assets are presented below. The Notional amount serves as a basis for payments calculated under the forward contracts and are not exchanged.

	2020 Term to maturity				2019 Term to maturity			
	Under 1 year	1 to 5 Years	Over 5 Years	Total	Under 1 year	1 to 5 Years	Over 5 Years	Total
Foreign exchange contracts								
Forward contracts:								
Net fair value	673	-	-	673	-	-	-	-
Notional amount	29,400	-	-	29,400	-	-	-	-

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

Sensitivity analysis on market risk

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

The stress scenarios for 2020 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 plus 1%) 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.

	2020						
	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	444,692	2,977	(2,971)				
Equity portfolio							
Canadian Dollar	103,229			(10,323)	10,323		
United States Dollar	62,505					(3,125)	3,125
Euro	17,295					(865)	865
Great Britain Pound	14,980					(749)	749
Other currencies	41,397					(2,070)	2,070
Foreign	136,177			(13,618)	13,618	(6,809)	6,809
Derivative Assets	673					1,436	(1,436)
Financial Liabilities							
Funds held as security	69,775	174	(174)				

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

	2019						
	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	419,197	2,803	(2,777)				
Equity portfolio							
Canadian Dollar	91,351			(9,126)	9,126		
United States Dollar	55,645					(2,782)	2,782
Great Britain Pound	18,548					(927)	927
Euro	17,881					(895)	895
Other currencies	41,367					(2,068)	2,068
Foreign	133,441			(13,344)	13,344	(6,672)	6,672
Financial Liabilities							
Funds held as security	59,864	150	(150)				

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

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 and derivatives at the time an investment is purchased. At December 31, 2020, 99% of the debt securities have a rating of A or better (2019: 99.8%) while 100% of the derivatives have a rating of A or better.
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 13, 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.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

7. Financial Instruments (Continued)

D. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved. The cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 13). 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.

The Corporation also has a \$2,000 (2019: \$2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2020 is nil (2019: Nil).

8. Excess Loss Reinsurance Premium

The Corporation entered into a reinsurance contract on an "excess-of-loss" basis for premiums of \$1,180 (2019: \$1,200). The reinsurance contract limits the Corporation's exposure by providing a maximum of \$45,000 in coverage on claims from specified enrolment years in excess of the retained amount of \$75,000. The reinsurance contract does not relieve the Corporation of its primary warranty obligation to homeowners.

In 2020, the reinsurance premium earned was \$501 (2019: \$442). The unearned reinsurance premium at the end of the year was \$4,377 (2019: \$3,698) which is recorded on the Statement of Financial Position. The reinsurance asset for recoveries under the contract as at December 31, 2020 was nil (2019: Nil).

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

9. Property, Plant And Equipment

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

	Right-of-Use Assets	Computer Equipment	Furniture and Office Equipment	Leasehold Improvements	Computer/Office Equipment Under Finance Lease	Total
At cost						
Balance at January 1, 2019	2,327	1,574	1,563	2,445	-	7,909
Additions	-	190	-	-	-	190
Disposals	(5)	(174)	-	(1,242)	-	(1,421)
Balance at December 31, 2019	2,322	1,590	1,563	1,203	-	6,678
Balance at January 1, 2020	2,322	1,590	1,563	1,203	-	6,678
Additions	3,214	500	3	-	-	3,717
Disposals	-	(381)	-	-	-	(381)
Balance at December 31, 2020	5,536	1,709	1,566	1,203	-	10,014
Accumulated depreciation						
Balance at January 1, 2019	418	1,257	1,451	2,020	-	5,146
Depreciation expense	836	219	22	65	-	1,142
Disposals	-	(172)	-	(964)	-	(1,136)
Balance at December 31, 2019	1,254	1,304	1,473	1,121	-	5,152
Balance at January 1, 2020	1,254	1,304	1,473	1,121	-	5,152
Depreciation expense	809	313	18	66	-	1,206
Disposals	-	(381)	-	-	-	(381)
Balance at December 31, 2020	2,063	1,236	1,491	1,187	-	5,977
Carrying amount						
Balance at January 1, 2019	-	317	112	425	492	1,346
Balance at December 31, 2019	1,068	286	90	82	-	1,526
Balance at December 31, 2020	3,472	473	74	16	-	4,037

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

10. Intangible Assets

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

	Software and applications	Internal software enhancements	Total
At cost			
Balance at January 1, 2019	17,758	5,195	22,953
Additions	1,972	255	2,227
Balance at December 31, 2019	19,730	5,450	25,180
Balance at January 1, 2020	19,730	5,450	25,180
Additions	4,991	385	5,376
Balance at December 31, 2020	24,721	5,835	30,556
Accumulated amortization			
Balance at January 1, 2019	12,071	4,385	16,456
Amortization expense	2,253	352	2,605
Balance at December 31, 2019	14,324	4,737	19,061
Balance at January 1, 2020	14,324	4,737	19,061
Amortization expense	2,558	376	2,934
Balance at December 31, 2020	16,882	5,113	21,995
Carrying amount			
Balance at January 1, 2019	5,687	810	6,497
Balance at December 31, 2019	5,406	713	6,119
Balance at December 31, 2020	7,839	722	8,561

Research and other costs were recognized as an expense under general and administrative in the Statement of Comprehensive Results of Operations during the year amount to \$2,028(2019: \$1,111).

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

11. Accounts Payable And Accrued Liabilities

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

	2020	2019
Salaries and benefits	3,307	4,467
Trade and supplier accruals	2,760	1,979
Amounts due to vendors and builders	2,085	1,275
Unsettled investment trade payable	42	-
Contract liabilities	465	553
Other liabilities	1,262	1,175
Payable to HCRA (Transformation costs)	1,750	13,162
Total accounts payable and accrued liabilities	11,671	22,611

12. Commitments and Contingencies

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.

A. INDEMNIFICATION

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, 2020 and 2019.

B. TRANSFORMATION COSTS

In December 2017, the Ontario New Home Warranties Plan Act was amended to authorize 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. A funding agreement was executed between the Corporation and Home Construction Regulatory Authority ("HCRA") on May 31, 2019 and amended on December 2020. The funding commitment by the Corporation to the HCRA consists of three funding phases: the Initial start-up phase, the Build out phase, and Post-doors open phase.

- In 2020, during the pre-launch phases of the HCRA, the Corporation advanced \$13,162 (2019: \$1,377) to the HCRA as part of its commitment to support the creation of the new regulator.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

12. Commitments and Contingencies (Continued)

■ During post-doors open phase, the Corporation has committed to provide funding over a 3-year period with funding level and repayable amounts subject to annual enrolment level reaching or exceeding 56,000. In December 2020, the Corporation advanced \$1,250 under the post-doors phase funding and accrued an additional \$1,750 funding payable based on Management best estimate of the enrolment levels for the remainder funding period. In addition, the Corporation also committed to provide quarterly contingency funding over the next 3 years (2021 to 2023) should the quarterly enrolment level falls below 14,000; the amounts are repayable in 2024 if the 3-year average annual enrolments equals to or exceeds 56,000 and the HCRA's operating reserve is at or exceeds \$4,500. The estimate funding payable will be reassessed annually and adjusted accordingly.

■ In addition, the Corporation incurred total cost of \$2,357 (2019: \$102) which includes system development and consulting fees in connection with the Transformation process.

The funding support by the Corporation is conditional upon that the aggregate sum of the Funds requested by HCRA and advanced by the Corporation in any given year will not materially negatively impact the capital requirements of the Guarantee Fund and be of such an amount as to compromise the Corporation Board's fiduciary obligation to prudently manage the Guarantee Fund in accordance with the ONHWP Act and the risk framework adopted by the Corporation Board.

13. Leases

A. RIGHT-OF-USE ASSETS

The cost of the right of use assets arising from office space, computer and office equipment is reported as property, plant and equipment on the Statement of Financial Position and includes deductions for lease inducements receivable.

I. Right-of-use assets

	Office building	Computer and office equipment	Total
Balance at December 31, 2019	773	295	1,068
Depreciation charge for the year	(640)	(170)	(810)
Additions to right-of-use assets	3,214	-	3,214
Derecognition of right-of-use assets	-	-	-
Balance at December 31, 2020	3,347	125	3,472

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

13. Leases (Continued)

II. Amounts recognized in Statement of Comprehensive Results of Operations

	Total
During the year December 31, 2020	
Interest on lease liabilities	39
Expenses relating to short-term leases	149
Expenses relating to low-value lease assets, excluding short-term leases of low-value assets	17
During the year December 31, 2019	
Interest on lease liabilities	81
Expenses relating to short-term leases	153
Expenses relating to low-value lease assets, excluding short-term leases of low-value assets	17

III. Amounts recognized in Statement of Cash Flows

	Total
During the year December 31, 2020	
Financing Activities - cash outflow for finance lease liabilities	(978)
Operating Activities	
Cash outflow for finance lease liabilities - interest expense	(39)
Cash outflow for short-term and low-value leases	(166)
Total cash outflow for leases	(1,183)
During the year December 31, 2019	
Financing Activities - cash outflow for finance lease liabilities	(979)
Operating Activities	
Cash outflow for finance lease liabilities - interest expense	(81)
Cash outflow for short-term and low-value leases	(170)
Total cash outflow for leases	(1,230)

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

13. Leases (Continued)

B. LEASE LIABILITIES

The balance of the right of use asset obligations arising from office space, computer and office equipment are reported as lease liabilities and inducements on the Statement of Financial Position, and include deductions for lease inducements receivable.

The total value of the right of use asset obligations as at December 31, 2020 is \$3,472 (2019: \$1,068). Interest expense of \$39 was incurred during 2020 (2019: \$81) on the leases and is reported in the Statement of Comprehensive Results of Operations.

These leases have renewal options for either single or multi-years. They may contain purchase options and escalation clauses. Renewals are at the option of the Corporation. During the year, the Corporation entered into amended lease terms to occupy additional space for 2 years starting March 2020, extend the existing office space for 15 months to June 2022, and to renew at a reduced space for 5 years starting July 2022.

Future minimum lease payments and the present value of the net minimum right of use asset obligations are as follows:

	2020	
	Minimum lease payments	Present value minimum lease payments
Within one year	1,023	995
Between one and five years	2,078	1,926
More than five years	704	596
	3,805	3,517
Less amounts representing finance charges	288	-
Present value of minimum lease payments	3,517	3,517

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities

A. COMPONENTS OF WARRANTY LIABILITIES

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

	Notes	2020	2019 Adjusted
Deferred home enrolment fees, beginning of year		265,838	248,872
Fees received		76,253	67,731
Fees earned		(52,103)	(50,765)
Deferred home enrolment fees, end of year		289,988	265,838
Warranty claims liabilities, beginning of the year		38,215	25,265
Adjustment to opening balance	2	-	8,459
Claim losses incurred:			
Relating to current occurrence year		25,655	19,774
Relating to prior occurrence years		2,036	1,348
Change in provision for adverse deviation impact		392	1,571
Change in discounting and inflation impact		775	359
		28,858	23,052
Claim losses paid:			
Relating to current occurrence year		(6,692)	(6,906)
Relating to prior occurrence years		(16,384)	(11,655)
		(23,076)	(18,561)
Adjusted warranty claims liabilities, end of year		43,997	38,215
Adjusted total warranty liabilities, end of year		333,985	304,053

Claim losses incurred relating to prior occurrence years developed unfavorably in 2020 primarily on account of unfavorable experience in warranty on high-rise condominiums and freehold homes enrolled in previous years.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities (Continued)

Claims losses incurred during the year are recorded net of recoveries in the Statement of Comprehensive Results of Operations as noted below:

	Notes	2020	2019 Adjusted
Gross claims incurred for the year		28,858	23,052
Recoveries net of impairment			
Relating to current occurrence year		(3,187)	(5,113)
Relating to prior occurrence years		(3,821)	(4,535)
Total recoveries		(7,008)	(9,648)
Adjustment to Net claims incurred	2	-	(452)
Adjusted Net claims incurred for the year		21,850	12,952

Amounts recoverable from vendors and builders are included in trade and other receivables on the Statement of Financial Position and are described in Note 6.*

B. WARRANTY COVERAGE AND POLICY

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

C. SIGNIFICANT RISKS AND ASSUMPTIONS RELATE TO WARRANTY CLAIMS LIABILITIES AND DEFERRED ENROLMENT FEES

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

Earnings pattern

As home enrolment fees are collected, they are deferred and taken into revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the expected pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. The actual emergence of claims may differ from the initial expected pattern. The earnings pattern is reviewed annually. When an update of the pattern is required for prior years' enrolments, it will result in the estimate change for the unamortized deferred enrolment fees not yet recognized into revenue. The impact of changes in the earnings pattern is set out in the sensitivity analysis in Note 14F.

The earnings patterns in 2019 for high-rise and low-rise were updated to extend the earning period from 10 years to 12 years based on the changes in claims experience of severity and frequency; freehold home types earning period remains at 10 years.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities (Continued)

Insurance risk

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a property and casualty insurance company. The insurance risk is the risk of loss if the Corporation pays compensation from the guarantee fund because builders have failed to perform their warranty obligations to the new homeowners. For major structural defect warranty coverage after June 30, 2012, the insurance risk for the Corporation for the three to seven years of the warranty is the loss arising from the failure of builders to perform their warranty obligations; post-2012, builders are fully responsible for major structural defect warranties but have the option to elect a co-share payment where the costs are shared by the builder and the Corporation according to a set formula. Generally, the Corporation is primarily concerned with the number and nature of the warrantable events and the uncertainty of the amount of the potential resulting claims and loss.

Insurance risks are managed through the Corporation's builder regulation and licensing strategy. Annual licensing assessments are performed on new and existing registered builders to verify that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance with the terms and conditions of the Act. The Corporation has entered into an excess loss reinsurance contract with a third-party insurance company to reinsure its insurance risk for warrantable claims for specified enrolment periods in accordance with the Corporation's risk management framework starting in 2016. The reinsurer has a rating of A++ as at December 31, 2020. (2019: A++)

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.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities (Continued)

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, and administrative costs. The Corporation is exposed to the following claims provisioning risks in the process of administering the Act:

- *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 14E.
- *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.
- *Discounting and Inflation* – As claims will be settled in the future, the cost to settle the claims will be subject to inflationary pressure. Accepted actuarial practice requires that warranty claims be discounted to reflect the time value of money over the periods between the reporting date and the settlement date.

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 14E.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities (Continued)

Concentration of insurance risk

The Corporation's exposure to concentration of insurance risk is mitigated by the establishment of a diversified portfolio of competent builders through the Corporation's strong regulating and licensing strategy.

Builders' registration and renewals are assessed annually. The table below shows the warranty claim liabilities by claim types as at December 31:

	2020			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	6,327	9,803	480	16,610
Incurred but not reported	8,627	5,204	273	14,104
Provision for adverse deviation	1,561	2,093	102	3,756
Unallocated loss adjustment expense	4,497	3,880	249	8,626
Discount and inflation impact	(105)	963	43	901
	14,580	12,140	667	27,387
Total warranty claim liabilities (gross basis)	20,907	21,943	1,147	43,997

	2019 Adjusted			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	6,125	9,480	480	16,085
Incurred but not reported	8,230	2,952	67	11,249
Provision for adverse deviation	1,376	1,886	103	3,365
Unallocated loss adjustment expense	4,164	3,023	203	7,390
Discount and inflation impact	(413)	516	23	126
	13,357	8,377	396	22,130
Total warranty claim liabilities (gross basis)	19,482	17,857	876	38,215

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

14. 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 14E.

■ 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 14E.

D. EXCESS OF LOSS REINSURANCE

During 2020, no claims expenses exceeded the retention of \$75,000 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 \$75,000 (2019: \$75,000), up to \$45,000 (2019: \$45,000) for each enrolment year; the corporation currently has policies in force for enrolment years 2016 to 2020.

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:

	2020	2019
Discount rate	0.85%	2.60%
Inflation rate	4.28%	5.00%
Future claims adjustment costs	20.0%	19.0%

Sensitivity analysis on warranty claims liabilities

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

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

14. Warranty Liabilities (Continued)

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2020		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate	1.0%	(782)	807	782	(807)	782	(807)
Inflation rate	1.0%	408	(401)	(408)	401	(408)	401
Future claims adjustment costs	1.0%	316	(316)	(316)	316	(316)	316
2019							
Discount rate	1.0%	(736)	777	736	(777)	736	(777)
Inflation rate	1.0%	474	(450)	(474)	450	(474)	450
Future claims adjustment costs	1.0%	274	(272)	(274)	272	(274)	272

Maturity profile of warranty claims liabilities

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 one through five years	Total
2020	27,437	16,560	43,997
2019	24,427	13,788	38,215

F. SENSITIVITY ANALYSIS ON DEFERRED HOME ENROLMENT FEES

Shifts in claims patterns affect the earning pattern and how enrolment fees are recognized. The analysis below is performed for reasonably possible movements in the earning pattern with all other assumptions held constant, showing the impact to warranty liabilities, comprehensive results of operations, and equity. Below is the sensitivity analysis of a +/- 2.5% change in the 2020 earning factors for all enrolment years, presented net of reinsurance:

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2020		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	(13,653)	12,062	13,653	(12,062)	13,653	(12,062)
2019							
Earning Pattern	2.5%	(11,769)	11,133	11,769	(11,133)	11,769	(11,133)

Notes to Financial Statements

14. Warranty Liabilities (Continued)

G. CLAIMS HISTORY

Claims are classified, managed, analyzed and reserved for based on specific known cases and potential cases and the liability is adjusted for adverse deviation. The following table illustrates the past experience related to the claims before reinsurance that the Corporation has settled; there was nil reinsurance impact in 2020:

[illegible]

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

15. 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, 2020, the funds held as security of \$73,692 (2019: \$64,762), 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, 2020 of \$2,329 (2019: \$2,411).

The fair value of the funds held as security is \$69,775 as at December 31, 2020 (2019: \$59,864). 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 \$524 (2019: \$1,143) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth months.

16. Employee Future Benefit Plans

The Defined Contribution Pension Plan for Employees of Tarion Warranty Corporation ("New DC Plan") was set up effective May 1, 2018 upon the wind up of the Closed Pension Plan in 2018.

The Closed Pension Plan was comprised of a defined benefit component and a defined contribution component. The Closed Pension Plan was wound up as at April 30, 2018 with the wind-up report approved by Financial Services Regulatory of Authority on March 8, 2019 and all benefits settled and assets distributed in June 2019.

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") that operates on an unfunded basis 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. See Note 16F for the notional contribution and liabilities relating to the SERP.

B. OTHER POST-EMPLOYMENT BENEFITS

The Corporation has a December 31 measurement date for financial reporting purposes. The results of the OPEB is based on valuation of the OPEB performed as at December 31, 2020.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

C. PENSION PLAN REGULATORY FRAMEWORK

The New DC Plan is registered with the Financial Services Regulatory Authority of Ontario (# 1322577) and with the Canada Revenue Agency. The expected Employer contributions in respect of current accruals to the New DC Plan in 2021 are \$1,320 (employee contributions are expected to be \$770).

D. PLAN GOVERNANCE

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

E. SIGNIFICANT RISKS TO WHICH THE PLAN EXPOSES THE CORPORATION

The OPEB plan is exposed to the traditional risks (interest rate risk, and 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:

	2020	2019		
	OPEB & SERP	DB Plan	OPEB & SERP	Total
Fair value of DB assets	-	-	-	-
Present value of the defined benefit obligation	(9,216)	-	(7,460)	(7,460)
Net Defined benefit surplus (obligation)	(9,216)	-	(7,460)	(7,460)
Impact of asset ceiling	-	-	-	-
Accrued liability	(9,216)	-	(7,460)	(7,460)
Employer contributions	223	406	113	519
Employee contributions	-	-	-	-
Benefit Payments and transfers to other plans	223	4,989	113	5,102

The present value of the SERP obligation as at December 31, 2020 was \$1,095 (2019: \$1,158), which is included in the OPEB & SERP amount in the table above. The benefit payments from the SERP paid during the year ended December 31, 2020 were \$141 (2019: \$37). For the year ended December 31, 2020, the employer contributions to the DC Plan were \$1,194 (2019: \$1,144), and the employee contributions to the DC Plan were \$702 (2019: \$634). The net notional employer contributions for the SERP were \$77 (2019: \$79).

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

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

	2020	2019
Accrued Benefit Obligation, OPEB	8,121	(6,302)
Accrued Benefit Obligation, SERP	1,095	(1,158)
Net Employee Benefits Obligation Reported	9,216	(7,460)
Financial/Experience adjustments on employee future benefits liabilities	(1,407)	(1,313)
Experience on defined benefit obligation settlement	-	179
Financial/Experience adjustments on pension assets	-	250

As of December 31, 2020, the current liabilities were \$81 (2019: \$76) with respect to the OPEB plan and \$141 (2019: \$74) with respect to the SERP plan.

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

	2020	2019		
	OPEB & SERP	DB Plan	OPEB & SERP	Total
Beginning of year	(7,460)	(4,734)	(5,979)	(10,713)
Current Service Cost	(361)	-	(295)	(295)
Past Service Cost	-	-	-	-
Interest Costs	(210)	(81)	(339)	(420)
Benefit Payments	223	162	113	275
Actuarial Gain/(Loss) arising from plan experience	(120)	-	-	-
Actuarial Gain/(Loss) arising from changes in demographic assumptions	(597)	-	-	-
Actuarial Gain/(Loss) arising from changes in financial assumptions	(691)	(353)	(960)	(1,313)
Actuarial Gain/(Loss) arising from settlement	-	179	n/a	179
Curtailments/Settlements	-	4,827	-	4,827
Accrued Obligation, end of year	(9,216)	-	(7,460)	(7,460)

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

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

	2020	2019		
	OPEB & SERP	DB Plan	OPEB & SERP	Total
Beginning of year	-	4,318	-	4,318
Contributions by Employer	223	406	113	519
Expected Income on Plan Assets	-	75	-	75
Actuarial Gains/(Losses)	-	250	-	250
Benefits Payments (including Settlement)	(223)	(162)	(113)	(275)
Administration Costs*	-	(60)	-	(60)
Curtailments/Settlements	-	(4,827)	-	(4,827)
DB Plan Assets, end of year	-	-	-	-

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

A discount rate of 2.80% per annum was used for the disclosures at December 31, 2020 for the OPEB. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plan cash flows using Corporate AA spot rates at December 31, 2020.

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

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

	2020	2019		
	OPEB & SERP	DB Plan	OPEB & SERP	Total
Current Service Costs	361	-	295	295
Administration Costs (non-investment related)	n/a	60	n/a	60
Past service cost (including curtailment)	-	-	-	-
Loss (gain) on settlement	-	(179)	-	(179)
Service Cost	361	(119)	295	176
Interest Cost on the defined benefit obligation				
Expected income on plan assets	210	81	339	420
Interest on the effect of the asset ceiling	-	(75)	-	(75)
Net interest on the net defined benefit liability (asset)	210	6	339	345
Expense (income) recognized in profit or loss	571	(113)	634	521
Remeasurements of the net defined benefit liability (asset)				
Actuarial loss (gain) on the defined benefit liability (asset)	1,407	353	960	1,313
Return on plan assets less expected income on plan assets	-	(250)	-	(250)
Change in the effect of the asset ceiling (excluding interest)	-	-	-	-
Total amount recognized in Other Comprehensive Income	1,407	103	960	1,063

The net expense for the SERP in 2020 was \$78 (2019: \$215) included in the OPEB & SERP amounts above. The net expense for the DC Plan in 2020 was \$1,194 (2019: \$1,144).

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

Notes to Financial Statements

For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

F. SIGNIFICANT ASSUMPTIONS

The discount rate was determined with reference to market interest rates of AA corporate bond yields. As per IAS 19R – Employee Benefits, the expected income on DB Plan assets net of investment expenses is determined based on the discount rate used for determining the accrued benefit obligation. The principal actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

	2020	2019	
	OPEB	DB Plan	OPEB
Accrued Benefit Obligation as of December 31:			
Discount rate	2.80%	N/A	3.20%
Salary Increase	N/A	N/A	N/A
General Inflation	2.00%	N/A	2.10%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	N/A	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Form of Benefit Elected:	N/A	N/A	N/A
Benefit Cost for the Period:			
Discount rate	3.20%	3.50%	3.90%
Salary Increase	N/A	2.10%	N/A
General Inflation	2.10%	2.10%	2.15%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Assumed Health Care Cost Trend Rates:			
Initial health care cost trend rate	5.57%	N/A	6.00%
Cost trend rate declines to	3.57%	N/A	4.50%
Year that the rate reaches the rate it is assumed to stay at	2040	N/A	2025

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

16. Employee Future Benefit Plans (Continued)

G. SENSITIVITY ANALYSIS FOR OPEB

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

	Value Assumptions	1% Change in Health and Dental Care Trend Rates		1% Change in Discount Rate	
		Increase	Decrease	Increase	Decrease
Accrued benefit obligation as at December 31, 2020 at 2.80% per annum	8,121	2,161	(1,598)	(1,592)	2,167
Accrued benefit obligation as at December 31, 2019 at 3.20% per annum	6,302	1,870	(1,377)	(1,307)	1,797

17. Investment Income/(Loss)

	2020	2019
Realized and change in unrealized gains / (losses) of equity portfolio	(2,233)	17,198
Dividends from equity portfolio	11,653	16,298
Realized and change in unrealized gains / (losses) of fixed income portfolio	13,764	2,817
Interest income from fixed income portfolio	10,491	10,486
Realized and change in unrealized gains / (losses) of derivative assets	2,012	-
Total investment income/(Loss)	35,687	46,799

18. Interest Expense

	Notes	2020	2019
Interest on funds held as security	15	524	1,143
Interest on lease obligations	13	39	81
Total interest expense		563	1,224

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

19. 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 14. 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, 2020 and 2019 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.

20. 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, 2020, there are no collection and litigation account receivables and cash securities recognized due from related parties (2019: 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 payable is set by the Government of Ontario based on its cost recoverability. In 2020, the Corporation incurred a fee of \$499 (2019: \$378).

The Corporation advanced \$14,412 (2019 - \$1,371) of funding to the HCRA to support the establishment of a new regulator to regulate and license builders and vendors. See note 12B for further details.

■ Notes to Financial Statements For the year ended December 31, 2020 (\$CAD thousands)

20. Related Party Transactions (Continued)

Key management personnel compensation

The key leadership personnel of the Corporation are members of the Board of Directors and the corporate management leadership team. Compensation for these leadership personnel includes the following expenses:

	2020	2019
Short-term employee benefits	1,960	2,790
Board of Directors fees	463	460
Post-employment benefits	254	1,600
Termination benefits	-	575
Compensation for key leadership personnel	2,677	5,425

21. Subsequent Event

As noted in Note 1, effective February 1, 2021 the Corporation transferred its regulatory mandate to register and license home builders and vendors in Ontario to the Home Construction Regulatory Authority ("HCRA") while retaining its mandate to administer new home warranty in Ontario. As a result, the Corporation will no longer receive licensing and registration fees which represent an average of 5% of total revenue over the last 5-year (2016 – 2020) period.

Management has assessed the impact of this Transformation and determined that there is no material uncertainty that casts doubts on the Corporation's ability to continue as a going concern.

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