TARION
BUILDING CONFIDENCE

Building Confidence

FINANCIALS | 2018

Financials

FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Commentary

2018 FINANCIAL COMMENTARY

2018 experienced slowing global growth, increased trade tensions and geopolitical risks. The volatile capital markets led to a weak overall financial performance for Tarion – primarily due to the lower investment returns. Tarion focused on prudent spending and sought operating cost savings while continuing to deliver its consumer protection mandate and 2018 business plan.

Tarion's Guarantee Fund grew $8.8 million in the year to $592.3 million through investment of surplus cash from operations and reinvestment of investment returns, partially offset by capital losses primarily in the equity portfolio. The Guarantee Fund returned -0.4% in 2018 and incurred a loss of $2.6 million. High volatility in the stock markets was a result of increased uncertainty and markets revising assumptions about the future concerning interest rate hikes, fading U.S. stimulus and rising trade protectionism.

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

The 2018 net claims experience of $10.5 million was $3.9 million higher than 2017 due to higher claims activities during the first half of 2018 and the failure of a freehold project resulting in higher deposit claims. In the year, Tarion paid out $17.4 million (2017: $13.6 million) to new home owners for settlement of warranted claims. The increase in claims payment was mainly driven by higher warranty claims, deposit refunds, and higher expert fees to assess complex construction deficiencies.

Total operating expenses (excluding net claims incurred) increased by $2.8 million to $44.8 million. The company undertook several key strategic initiatives and technology projects such as the financial management system upgrade and customer relation management system replacement during the year. A key part of the 2018 business plan was to modernize our technology platform to improve customer experience while increasing flexibility in our workforce. At the same time, the company reduced its discretionary expenditures in the latter half of the year to help offset the losses incurred in the claims and investments.

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

Management's Responsibility

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Tarion Warranty Corporation ("Corporation") are the responsibility of management and have been approved by the Board of Directors. Management is also responsible for the information in Tarion's 2018 Annual Report which contains these financial statements and auditors' report thereon.

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 Committee of the Board of Directors.

The Audit 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 Committee reviews the financial statements prepared by management and then recommends them to the Board of Directors for approval. The Audit 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.

Howard Bogach
President & Chief Executive Officer
April 25, 2019

Edmond Lee
Vice President & Chief Financial Officer
April 25, 2019

Auditor's Report PAGE 1 OF 3

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Tarion Warranty Corporation

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Emphasis of Matter

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

Other Information

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

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

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

Auditor's Report PAGE 2 OF 3

We obtained the information included in Tarion's 2018 Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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.

Auditor's Report PAGE 3 OF 3

- 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.
- 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.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

April 25, 2019
Toronto, Canada

Actuary's Report

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, 2018 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2018 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 25, 2019

Statement of Financial Position

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

ASSETS	Notes	2018	2017
Cash and cash equivalents	4	4,215	4,770
Trade and other receivables from vendors and builders	5	8,452	9,705
Prepaid expenses and other assets		575	405
Investments	6	592,262	583,424
Unearned excess loss premium	7	2,939	1,915
Equipment and leaseholds	8	1,346	1,408
Intangible assets	9	6,497	3,842
Total Assets		**616,286**	**605,469**
EQUITY AND LIABILITIES			
Liabilities			
Accounts payable and accrued liabilities	10	7,693	8,776
Lease obligations and inducements	11	939	1,026
Warranty liabilities	12	274,137	258,006
Funds held as security	13	60,710	56,379
Employee future benefits liabilities	14	6,395	6,113
Total Liabilities		**349,874**	**330,300**
Equity		266,412	275,169
Total Equity and Liabilities		**616,286**	**605,469**
Commitments and contingencies	11		

See accompanying notes to financial statements.

Approved by the Board of Directors

Paul Golini Jr.
Director and Chair of the Board

Hari Panday
Director and Chair of Audit Committee

Statement of Comprehensive Results of Operations

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

	Notes	2018	2017
Revenue			
Gross home enrolment fees earned	12	47,126	45,098
Earned excess loss premium	7	(376)	(1,037)
Net home enrolment fees earned		46,750	44,061
Builders' registration and renewal fees	2	3,254	3,207
Investment results			
Investment income	15	(2,579)	24,396
Investment management fees		(1,646)	(1,575)
Other revenue		803	738
Total Revenue		**46,582**	**70,827**
Expenses			
Net claims incurred	12	10,481	6,561
Salaries and benefits		27,899	26,488
General and administrative		13,673	12,962
Depreciation and amortization	8, 9	2,445	2,136
Interest expense	16	808	483
Total Expenses		55,306	48,630
(Defecit) Excess of Revenue Over Expenses		**(8,724)**	**22,197**
Other Comprehensive Results of Operations			
Amounts not subsequently classified to Statement of Results of Operations			
Actuarial gains/(losses) for employee future benefits	14	63	509
Total Comprehensive Results of Operations for the Year		**(8,661)**	**22,706**

See accompanying notes to financial statements.

Statement of Changes in Equity

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

	Notes	2018	2017
Beginning of the year		275,169	252,463
Adjustment on initial application of IFRS 9	5B	(96)	-
Adjusted beginning balance		275,073	252,463
(Defecit)/Excess of revenue over expenses for the year		(8,724)	22,197
Other comprehensive result of operations			
Amounts not subsequently classified to Statement of Results of Operations			
Actuarial gains/(losses) for employee future benefits		63	509
Total Equity, End of Year		**266,412**	**275,169**

See accompanying notes to financial statements.

Statement of Cash Flows

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

	2018	2017
Net inflows (outflows) of cash related to the following activities		
Operating		
Home enrolment fees received	64,551	63,783
Builders' registration fees received	3,254	3,207
Recoveries from builders for claims and conciliation fees	7,453	9,085
Securities receipts from builders, net of releases	3,923	1,092
Payments to employees for salaries and benefits	(27,526)	(25,341)
Payments to suppliers for general and administrative expenses	(15,045)	(12,711)
Claims payments	(17,394)	(13,621)
Reinsurance premiums paid	(1,400)	(1,925)
Interest expenses	(399)	(351)
Other miscellaneous fees received/(refunded)	556	(91)
Cash provided by operating activities	17,973	23,127
Investing		
Dividend received	11,342	9,138
Interest received	8,760	7,985
Proceeds from sale and maturity of investments	746,106	738,929
Purchase of investments	(778,172)	(772,514)
Investment management fees	(1,643)	(1,554)
Purchase of intangible assets	(4,361)	(2,838)
Purchase of equipment and leaseholds	(292)	(192)
Cash used in investing activities	(18,260)	(21,046)
Financing		
Payment of finance lease liabilities	(268)	(404)
Cash used in financing activities	(268)	(404)
Net increase (decrease) in cash and cash equivalents during the year	(555)	1,677
Cash and cash equivalents, beginning of year	4,770	3,093
Cash and cash equivalents, end of year	4,215	4,770

See accompanying notes to financial statements.

Notes to the Financial Statements

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

1. CORPORATION OPERATIONS

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

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

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

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

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

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

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

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

The Financial Statements for the year ended December 31, 2018, were approved by the Corporation's Board of Directors and authorized for issue on April 25, 2019.

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Changes to significant accounting policies

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

IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

IFRS 9 (2014) – Financial Instruments

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

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

B. Cash and cash equivalents

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

C. Prepaid expenses and other assets

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

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

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Financial instruments

Financial assets are classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value through profit or loss.

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

  Cash and cash equivalents, the fixed income portfolio and the equity portfolio are classified as FVTPL. Financial assets at FVTPL are measured initially at fair value with any gains / (losses) arising on subsequent measurement recognized in the Statement of Comprehensive Results of Operations, in investment income.

  Transaction costs are recognized in the Statement of Comprehensive Results of Operations as incurred. Interest income on the fixed income portfolio is included in investment income as earned using the effective interest method. Dividend income on the equity portfolio is recognized as of the declaration date in investment income. The gains /(losses) from currency translation are recognized in the Statement of Comprehensive Results of Operations in investment income.

- *Financial assets at amortized cost*

  Trade and other receivables from vendors and builders are measured at amortized cost less accumulated impairment. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held, the existence of guarantees, other forward-looking information and the time value of money.

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

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

  Where there is objective evidence that there is impairment in these amounts, the impairment charge is recognized in the Statement of Comprehensive Results of Operations in impairment loss on trade and other receivables as part of the net claims incurred, at an amount that reduces the carrying value of the financial assets to their recoverable amounts. See note 5C Movement in Trade Receivables for impairment charge.

- *Other financial liabilities*

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

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Equipment and leaseholds

Equipment and leaseholds are recorded at cost less accumulated depreciation and impairment. The assets' residual values, useful lives and the method of depreciation are reviewed at the end of each reporting period, and adjusted as necessary on a prospective basis. The depreciation expense on equipment and leaseholds is disclosed separately in Note 8 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Depreciation is provided at the following rates:

Computer equipment	Straight-line over three years
Furniture and office equipment	Declining balance at 20% a year
Leasehold improvements	Straight-line over the term of the lease
Computer and office equipment	Straight-line over the expected term of the lease under finance lease

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

The 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.

The gains / (losses) are recognized upon disposal of an item of equipment and leaseholds or when no future economic benefits are expected from its use.

F. 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 9 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

G. Leases

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

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

Lease payments are apportioned between finance expenses and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the Statement of Comprehensive Results of Operations.

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

H. Warranty liabilities

Warranty liabilities include estimates of costs for claims reported and in process, provisions for claims incurred but not yet reported at the Statement of Financial Position date where it is anticipated that costs will be incurred by the Corporation, and deferred home enrolment fees to be taken into revenue as earned based on the expected claims experience over the warranty period.

The warranty period spans seven years and significant periods of time can elapse between the incurrence of claims liabilities and their settlement. Accordingly, the estimation of the liabilities involves significant measurement uncertainty, which is further described in Note 3. Annual reviews are performed by management and reviewed by the appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

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

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

Claims recoveries include amounts recovered in the current year from builders on claims incurred during the current or previous years, and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the Statement of Financial Position in trade and other receivables from vendors and builders as described in Note 5.

I. Excess loss reinsurance premium

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

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

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

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Provisions

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

K. Employee future benefits liabilities

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

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

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

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

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

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Corporation's contributions to the defined contribution pension plan are expensed in the Statement of Comprehensive Results of Operations in the year to which they relate and are included as part of salaries and benefits expenses.

L. Revenue recognition

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

Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due. The Corporation's obligation is to review the application and determine whether the builder satisfies all the conditions to grant the license. Fees are only refunded when builders request for a withdrawal of their application prior to grant of license.

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

M. Interest expense

Interest expense is recognized in the Statement of Comprehensive Results of Operations as it accrues and is calculated by using the effective interest method. Accrued interest is included within the carrying value of the interest-bearing liability.

N. Impairment of non-financial assets

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

O. Currency translation

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

Notes to the Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

P. Future accounting changes

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 – Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 – Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17 – Leases, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its Financial Statements for the annual period beginning on January 1, 2019, which will result in leases currently classified as operating leases to be recorded on the Statement of Financial Position.

The Corporation will apply a modified retrospective approach at the date of transition and elect to record the right of use asset and corresponding lease liability as at January 1, 2019. The cumulative effect of initially applying IFRS 16 will be recognized as an adjustment to opening equity with no restatement of comparative periods. The impact of adoption of IFRS 16 is not expected to have a material impact on the Corporation's financial statements.

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, 2021. IFRS 17 will replace IFRS 4 Insurance Contracts. The IASB has tentatively deferred the effective date to January 1, 2022.

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.

The Corporation intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

Notes to the Financial Statements

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

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

A. Key management judgments

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

Internally generated software enhancements

Internally generated software enhancements costs are capitalized if, and only if, all of the following criteria are met:

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

Legislative Changes

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

B. Key management estimates and assumptions

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

Valuation of warranty claims liabilities

Warranty claims liabilities involve a high level of estimation uncertainty as described in Note 2. The amount of claims liabilities equals the present value of cash flows on account of claims and related expenses incurred before the reporting date. The ultimate cost of outstanding claims is estimated by using actuarial valuation techniques, taking into account the Corporation's claims handling practices, actuarial assessments, the judgment of management, difference between actual and expected settlement amounts, historical precedents and trends, prevailing legal, economic, social and regulatory environments and expectations of future developments.

Details of the key assumptions used in the estimates are contained in Note 12. The warranty liabilities amounts presented for these claims are stated at the amounts expected to be paid directly by the Corporation to settle its obligations which reflect the amounts paid in the normal course of operations.

Valuation of trade and other receivables from vendors and builders

As described in Note 2, trade and other receivables are measured at amortized cost less accumulated impairment, which approximates fair value. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought and judgments awarded. Details of the key assumptions used in the estimates are contained in Note 5.

Notes to the Financial Statements

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

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

Revenue recognition of home enrolment fees earned

Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 12.

Valuation of employee future benefits liabilities

The costs of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 14.

4. CASH AND CASH EQUIVALENTS

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

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

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

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

- Trade receivables from vendors and builders represent amounts receivable arising from warranty claims that the Corporation has paid out on behalf of vendors and builders during the remediation process. Trade receivables from vendors and builders are measured at amortized cost less accumulated impairment. Amounts receivable from registered builders are classified as financial assets. All the amounts are due immediately.
- Amounts recoverable from vendors and builders represent the estimated amounts recoverable from vendors and builders in respect to the outstanding warranty claims recognized under the warranty liabilities. Amounts are invoiced to the vendors and builders only when the Corporation has paid out monies for the claim.
- Other receivables from vendors and builders represent other receivables such as enrolment and registration fees.

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

Notes to the Financial Statements

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

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

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

As at December 31, 2018, there was one vendor and builder (2017: 2 vendors and builders) whom represent more than 5% of the balance of trade receivables net of allowances. However, due to trade receivables being almost fully reserved, the overall net exposure of the Corporation to these vendors and builders as at December 31, 2018 was only $189 (2017: $662).

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

A. Unregistered vendors and builders

Warranty coverage is also available for homes which were built by unregistered builders. However, under the Act, unregistered builders are deemed to be building illegally, subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unregistered vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2018 are amounts recoverable from unregistered vendors and builders of $268 (2017: $210).

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

In determining the lifetime expected credit losses of trade and other receivables from vendors and builders, the Corporation individually assesses accounts that are greater than $50 based on the credit history of the vendor and builder, their current and expected financial condition, security held, legal action sought and judgment awarded. Other forward-looking information such as ongoing builder interactions is also considered during the assessment to determine the builder's financial outlook. For accounts less than $50, a historical recovery rate is applied. The rate used depends on the account status as to whether it is in collection litigation or active collection. The recoverability rates are based on trailing averages. The Corporation has determined that incorporating forward-looking information to the recovery rate will have an immaterial impact on the net trade receivables balance.

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

Notes to the Financial Statements

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

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

As at December 31, 2018, the trade and other receivables from vendors and builders includes $1,410 (2017: $1,570) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts as they fall due. In addition, the credit quality of these builders' receivables is enhanced by the existence of indemnities and/or guarantees. The trade receivables may take significant time to settle and collect due to complex claims cases and/or when litigation is involved. A discount rate of 4.95% (Prime + 1%) has been applied on the trade receivables balance greater than 360 days, which is consistent with the fair value measurement of funds held as securities.

	2018	2017
1 to 90 Days	1,234	919
91 to 360 Days	1,012	702
Over 360 Days	398	868
Total trade and other receivables from vendors and builders	**2,644**	**2,489**

C. Movement in trade receivables

	2018	2017
Gross Trade Receivables		
Beginning of year	31,795	30,646
New Bills Issued	13,811	11,961
Write-offs Processed	(6,861)	(1,727)
Recoveries	(7,453)	(9,085)
End of year	31,292	31,795
Allowance for Impairment		
Beginning of year	(29,306)	(25,902)
Amount adjusted through opening equity (IFRS 9)	(96)	–
Adjusted Beginning of year	(29,402)	(25,902)
Expected Credit Loss Allowance	(6,107)	(5,131)
Write-offs Processed	6,861	1,727
End of year	(28,648)	(29,306)
Total trade receivables, end of year	**2,644**	**2,489**

The Corporation employs various methods to collect its receivables which could extend over multiple years. Trade receivables are written off when the likelihood of further collection is considered remote, or when a settlement agreement is reached. Until such time, an allowance for impairment is carried; included in the 2018 change in allowance is a reversal of $5,700 (2017: $2,500).

Notes to the Financial Statements

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

6. FINANCIAL INSTRUMENTS

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

i. Ability to fulfil current and future estimated warranty obligations: Investments held support the Corporation's ability to fulfil current and future estimated warranty obligations. Due to the long warranty coverage period of up to seven years and to other factors explained in Note 12, warranty obligations are subject to a high level of measurement uncertainty and variability;

ii. Funds held as security from the builders: The Corporation receives security in the form of cash, letters of credit and other guarantees from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners, as noted in Note 13. Security received in cash is invested as part of the Corporation's investment portfolio, and is recorded at amortized cost on the Statement of Financial Position as a liability; and

iii. Financial stability of the Corporation: Financial stability of the Corporation is achieved by applying the capital management framework, as noted in Note 17, which has been modeled after the framework used by the property and casualty insurance industry in Canada. Carried capital of the Corporation has been determined by management to be sufficient to cover possible losses from future catastrophic events, and is supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year and reflects the Corporation's inability to raise capital in traditional ways.

A. Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and cash equivalents and investments are measured at fair value.

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

The fair value of trade and other receivables from vendors and builders approximates carrying value; there is no external active market for this type of asset and the inputs required to value these are primarily based on the Corporation's assumptions about the credit quality of the vendors and builders, and the availability of collateral for the receivable. See Note 5 on the valuation methodology used.

The carrying value for accounts payable and accrued liabilities approximates fair value due to their short-term nature. Under IFRS 13 – Fair Value Measurement, the fair value of financial liabilities measured using amortized cost has to be disclosed and categorized according to a fair value hierarchy. The fair value of the funds held as security is calculated based on discounted cash flow. The key inputs include cash flow received from builders as security, the estimated duration periods of such funds by building types and a discount rate of 4.95% (2017: 4.20%).

Notes to the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

Fair value measurements are classified using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the types of inputs used to measure the fair values of financial assets and financial liabilities:

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

The following table discloses the categories of financial instruments measured at fair value and classified by fair value hierarchy as at December 31, 2018:

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

Notes to the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

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

There were no transfers among Levels 1, 2 and 3 in the year ended December 31, 2018 (2017: Nil).

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 on the next page.

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 on the next page.

Notes to the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

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

(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 the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

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

(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 the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

Equity price risk

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

	2018		2017	
Financials	53,885	27%	61,185	29%
Industrials	28,310	14%	31,544	15%
Materials	21,019	10%	17,933	9%
Energy	19,855	10%	23,500	11%
Consumer Discretionary	18,685	9%	22,196	11%
Consumer Staples	16,116	8%	13,488	6%
Information Technology	14,372	7%	15,699	7%
Telecommunication	12,803	6%	7,671	4%
Health Care	7,809	4%	7,013	3%
Utilities	2,371	1%	3,165	2%
Real Estate	1,964	1%	1,983	1%
Cash	5,546	3%	4,879	2%
Total equity portfolio	**203,095**	**100%**	**210,256**	**100%**

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The equity portfolio contains investment in pooled funds along with investment in individual securities. The Corporation is exposed to currency risk on its global pooled fund and U.S. denominated investments. As at December 31, 2018, the Corporation had approximately 20.0% (2017: 21.2%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 6.6% (2017: 7.9%) of the total portfolio. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment portfolio.

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

Notes to the Financial Statements

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

6. 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 2018 are:

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

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

Notes to the Financial Statements

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

6. FINANCIAL INSTRUMENTS (Continued)

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

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 at the time an investment is purchased. At December 31, 2018, 99.7% of the debt securities have a rating of A or better (2017: 99.2%).
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 12, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

Notes to the Financial Statements

For the year ended December 31, 2018
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6. 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 12). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily converted into cash.

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

7. EXCESS LOSS REINSURANCE PREMIUM

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

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

8. EQUIPMENT AND LEASEHOLDS

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

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

Notes to the Financial Statements

For the year ended December 31, 2018
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9. INTANGIBLE ASSETS

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

	Software and Applications	Internal Software Enhancements	Total
At cost			
Balance at December 31, 2017	13,803	4,789	18,592
Additions	3,955	406	4,361
Disposals			-
Balance at December 31, 2018	17,758	5,195	22,953
Accumulated depreciation			
Balance at December 31, 2017	10,671	4,079	14,750
Amortization expense	1,400	306	1,706
Disposal			-
Balance at December 31, 2018	12,071	4,385	16,456
Carrying amount			
Balance at December 31, 2018	**5,687**	**810**	**6,497**
Balance at December 31, 2017	**3,132**	**710**	**3,842**

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

Notes to the Financial Statements

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11. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Act. To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in warranty liabilities on the Statement of Financial Position.

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

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. Accordingly, no amounts have been accrued related to these agreements as at December 31, 2018 and 2017.

A. Operating lease commitments

The Corporation has entered into commercial leases on premises and other miscellaneous equipment which are recognized and reported as part of general and administrative costs in the Statement of Comprehensive Results of Operations. For 2018, the Corporation recognized lease payments of $867 (2017: $859) in the Statement of Comprehensive Results of Operations. These leases have an average life of three years with renewal option included in the miscellaneous equipment contracts. There are no restrictions placed upon the Corporation by entering into these leases.

The future minimum annual lease payments under operating leases are as follows:

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

Notes to the Financial Statements

For the year ended December 31, 2018
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11. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

B. Finance lease obligations

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported as lease obligations and inducements on the Statement of Financial Position. The total value of these obligations as at December 31, 2018 is $475 (2017: $357). Interest expense of $11 was incurred during 2018 (2017: $39) 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.

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

	2018	2017
	Minimum lease payments	Minimum lease payments
Within one year	198	183
Between one and five years	301	292
More than five years	0	0
	499	475
Less amounts representing finance charges	24	
Minimum lease payments	**475**	**475**

C. Lease inducements

The Corporation received various forms of lease inducements for its current corporate offices including reduced rent and leasehold improvements. These lease inducements are amortized over the term of the lease agreements and offset against rent expenses which are included in general and administrative expense on the Statement of Comprehensive Results of Operations. The amortized benefits in December 31, 2018 were $206 (2017: $206).

As of December 31, 2018, the total unamortized lease inducements reported on the Statement of Financial Position is $463 (2017: $669).

D. Funding to the new Regulatory Authority

In December 2017, as part of Bill 166 that was passed, 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. In February 2019, the Minister has instructed the Corporation to establish a funding agreement with the new regulatory entity, the Home Construction Regulatory Authority in order to build a new administrative authority to act as the independent regulator of new home builders and vendors. At the current time, the Corporation cannot reasonably measure the outflow of resources. See Note 1 for further details.

Notes to the Financial Statements

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

12. WARRANTY LIABILITIES

A. Components of Warranty Liabilities

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

	2018	2017
Deferred home enrolment fees, beginning of year	231,447	212,762
Fees received	64,551	63,783
Fees earned	(47,126)	(45,098)
Deferred home enrolment fees, end of year	248,872	231,447
Warranty claim liabilities, beginning of year	26,559	26,330
Claim losses incurred:		
Relating to current occurence year	17,015	16,102
Relating to prior occurence years	(697)	(1,797)
Change in provision for adverse deviation impact	(83)	(176)
Change in discounting and inflation impact	(136)	(279)
	16,099	13,850
Claim losses paid:		
Relating to current occurrence year	(5,953)	(3,881)
Relating to prior occurence years	(11,440)	(9,740)
	(17,393)	(13,621)
Warranty claims liabilities, end of year	25,265	26,559
Total warranty liabilities, end of year	**274,137**	**258,006**

Claim losses incurred relating to prior occurrence years developed favorably in 2018 primarily on account of favorable experience in warranty and major structural claims on high-rise condominiums enrolled in previous years.

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

	2018	2017
Change in provisions	16,099	13,850
Recoveries net of impairment		
Relating to current occurence year	(3,320)	(4,442)
Relating to prior occurence years	(2,298)	(2,847)
Total recoveries	(5,618)	(7,289)
Net claims incurred for the year	**10,481**	**6,561**

Amounts recoverable from vendors and builders are included in trade and other receivables on the Statement of Financial Position and are described in Note 5.

Notes to the Financial Statements

For the year ended December 31, 2018
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12. WARRANTY LIABILITIES (Continued)

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 in to revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the expected pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. The actual emergence of claims may differ from the initial expected pattern. When an update of the pattern is required for prior years' enrolments, it will result in the estimate change for the unamortized deferred enrolment fees not yet recognized into revenue. The impact of changes in the earnings pattern is set out in the sensitivity analysis in Note 12E.

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 home owners. 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, 2018. (2017: A++)

Notes to the Financial Statements

For the year ended December 31, 2018
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12. WARRANTY LIABILITIES (Continued)

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

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

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

- Future claims adjustment cost – This assumption reflects the costs generally related to claims administration, including claims staff salaries and a related share of facilities overhead and rent, none of which are allocated to individual claim files. An actuarially estimated cost percentage of the future claim cost is applied to the outstanding claims at the end of the reporting period. This assumption is reviewed annually by the Corporation's actuary.
- Incurred but not reported claims – Actual claim settlements may differ from estimated claim settlements and claims may exist of which the Corporation is unaware. These claims are estimated based on historical patterns of fluctuations in claim estimates and settlements. In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. The impact of changes in incurred but not reported claims is set out in the sensitivity analysis in Note 12E.
- Adverse deviation – The liability has inherent measurement uncertainty that arises because:
  - (i) actual investment returns may differ from the discount rate used in actuarial calculations; and
  - (ii) actual claims settlements may occur for amounts or at times that differ from estimates (claim risk), which can occur due to actual experience differing from the experience assumed.

Notes to the Financial Statements

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12. WARRANTY LIABILITIES (Continued)

The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgment; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities can be influenced by many factors including market and general economic conditions. Their behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis in Note 12E.

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:

	2018			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	6,299	6,099	532	12,930
Incurred but not reported	2,681	723	45	3,449
Provision for adverse deviation	1,152	1,381	103	2,636
Unallocated loss adjustment expense	3,267	2,607	207	6,081
Discount and inflation impact	(195)	348	16	169
	6,905	5,059	371	12,335
Total warranty claim liabilities	**13,204**	**11,158**	**903**	**25,265**

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

Notes to the Financial Statements

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12. WARRANTY LIABILITIES (Continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio are traded in a highly liquid market and can be readily converted to cash.

Market risk

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

- **Interest rate risk**

  Interest rate risk is the risk that the value of future cash-flows of a financial instrument will fluctuate because of changes in market interest rates. Warranty claims liabilities are discounted to reflect the time value of money over the periods between the reporting date and settlement date based on accepted actuarial practice. The discount rate used is based on market yield of the fixed income portfolio supporting the warranty claims liabilities. The impact of changes in interest rate is set out in the sensitivity analysis in Note 12E.

- **Inflation rate**

  The cost to resolve claims are subject to inflationary pressure. The Corporation used the Construction Price Index as the basis of inflationary index, adjusted by expected economic and housing industry implications based on management's past experiences and expertise. The impact of changes in inflation rate is set out in the sensitivity analysis in Note 12E.

D. Excess of loss reinsurance

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

E. Sensitivity analysis and maturity profile on warranty claims liabilities

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

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

Notes to the Financial Statements

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12. WARRANTY LIABILITIES (Continued)

Sensitivity analysis on warranty claims liabilities

The analysis below 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.

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

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

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12. WARRANTY LIABILITIES (Continued)

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 2018 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	
2018		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	(10,699)	10,699	10,699	(10,699)	10,699	(10,699)
2017							
Earning Pattern	2.5%	(9,821)	9,515	9,821	(9,515)	9,821	(9,515)

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12. 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 2018:

	All prior years claims with outstanding liability	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims										
All prior years	54,587									
At end of occurance year		14,599	7,581	8,420	11,256	15,391	18,001	16,102	17,015	
One year later		15,095	6,534	6,538	9,505	13,448	17,501	15,547		
Two years later		15,160	6,387	6,411	10,044	13,837	17,369			
Three years later		13,677	6,026	6,487	10,328	14,055				
Four years later		11,455	6,485	6,747	10,348					
Five years later		10,587	6,209	6,762						
Six years later		9,941	6,459							
Seven years later		9,409								
Current estimate of ultimate claims reported	54,587	9,409	6,459	6,762	10,348	14,055	17,369	15,547	17,015	**151,551**
Claims paid										
All prior years	54,167									
At end of occurance year		3,628	2,267	3,047	3,474	4,776	5,270	3,881	5,953	
One year later		2,635	1,877	2,333	3,689	5,290	5,703	8,195		
Two years later		681	905	585	1,832	1,948	2,239			
Three years later		1,149	485	275	855	443				
Four years later		508	288	13	132					
Five years later		25	228	41						
Six years later		12	158							
Seven year later		104								
Cumulative claims paid	54,167	8,742	6,208	6,294	9,982	12,457	13,212	12,076	5,953	**129,091**
Current reported provision before discounting	420	667	251	468	366	1,598	4,157	3,471	11,062	**22,460**
Provision and inflation impact	34	86	71	17	35	229	598	428	1,138	**2,636**
Discounting and inflation impact	-	12	7	(1)	5	47	138	24	(63)	**169**
Present value recognized on the Statement of Financial Position										**25,265**

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13. FUNDS HELD AS SECURITY

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

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2018, the funds held as security of $60,710 (2017: $56,379), presented at amortized cost on the Statement of Financial Position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2018 of $1,890 (2017: $1,481).

The fair value of the funds held as security is $56,079 as at December 31, 2018 (2017: $52,652). Letters of credit and other guarantees are available to be drawn upon to settle known claims. Such drawn amounts would reduce the amounts recoverable from builders in the Statement of Financial Position.

During the year, the Corporation incurred interest of $797 (2017: $444) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth months.

14. EMPLOYEE FUTURE BENEFIT PLANS

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

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

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

A. Defined contribution plan

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

There also exists a Supplementary Executive Retirement Plan ("SERP") for senior management. The purpose of the SERP is to offset the limitation on contributions otherwise payable under the registered pension plan resulting from the application of the maximum contribution limits specified under the *Income Tax Act* (Canada). The SERP provides only for benefits in excess of those payable under the Registered Plan. The SERP operates on an unfunded basis. See note 14F for the notional contribution and liabilities relating to the SERP.

B. Closed Pension Plan and other post-employment benefits

The defined benefit component of the Closed Pension Plan is fully vested and closed to new employees effective January 1, 1999. Plan participants who elected not to convert to the defined contribution provision retained their DB pensions earned to date and participated in the defined contribution component of the Closed Pension Plan for service between January 1, 1999 and April 30, 2018. Effective May 1, 2018 all members participates in the New DC Plan for service subsequent

Notes to the Financial Statements

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14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

to April 30, 2018. The defined benefit component of the Closed Pension Plan was wound up as at April 30, 2018 and was approved by the regulator on March 8, 2019.

The defined contribution component of the Closed Pension Plan is fully vested and closed to new employees effective April 30, 2018. Plan participants and new hires participate in the New DC Plan as at May 1, 2018. An application to transfer the assets of the defined contribution component of the Closed Pension Plan into the new DC Plan was approved by the regulator on January 17, 2019. The assets transfer of $21,745,934 on March 8, 2019.

The Corporation has a December 31 measurement date for financial reporting purposes. The results of the 2018 year-end results were based on the extrapolation of the accrued pension benefit obligation valuation as at January 1, 2017 and an OPEB valuation as at December 31, 2017. The next valuation for the OPEB will be performed as at December 31, 2020.

C. Pension plan regulatory framework

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

The Employer continues to make special payments to the Closed Pension Plan. As the wind-up approval has been received the Employer plans to make a lump-sum payment to fully fund the deficit, if any, prior to distributing the assets.

The New DC Plan is registered with the Financial Services of Ontario (# 1322577) and with the Canada Revenue Agency. The expected Employer contributions in respect of current accruals to the DC Plan in 2019 are $1,136 (employee contributions are expected to be $574).

D. Defined Benefit Plan Wind Up

Further to the wind up of the defined benefit component of the pension plan discussed in Note 2K. A wind-up valuation of the defined benefit component of the Closed Pension Plan was performed as at April 30, 2018, the effective wind up date, and indicates a funding deficit of $825K. A settlement accounting will be reflected for the defined benefit component of the Closed Pension Plan once all assets are distributed. A number of factors can affect the funding position during this period including investment returns earned between the wind up date and settlement date, and settlement cost and wind up expenses may differ to the current estimate. The Corporation is expecting to fund the deficit in a lump sum payment.

E. Plan governance

The Human Resources & Compensation Committee and the Investment Committee are responsible for the management and administration of the Closed Pension Plan and 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. The assets of the defined benefit component of the Closed Pension Plan is invested in 100% bond funds. 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 defined contribution component of the Closed Pension Plan and the New DC Plan. All external providers report to the plan administrator.

Notes to the Financial Statements

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14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

F. Significant risks to which the plan exposes the Corporation

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

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

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

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

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

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

Notes to the Financial Statements

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

14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

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

	2018			2017		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Beginning of year	(4,699)	(5,972)	(10,671)	(4,450)	(5,875)	(10,325)
Current service cost	-	(311)	(311)	-	(338)	(338)
Past service cost	-	-	-	-	-	-
Interest costs	(157)	(163)	(320)	(164)	(296)	(460)
Benefit payments	176	104	280	159	69	228
Actuarial gains/(losses) arising from plan experience	(114)	-	(114)	(50)	371	321
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-	-	278	278
Actuarial gains/(losses) arising from changes in financial assumptions	60	363	423	(194)	(181)	(375)
Curtailments/Settlements	-	-	-	-	-	-
Accrued obligation, end of year	**(4,734)**	**(5,979)**	**(10,713)**	**(4,699)**	**(5,972)**	**(10,671)**

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

	2018			2017		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Beginning of year	4,558	-	4,558	4,279	-	4,279
Contributions by employer	213	104	317	65	69	134
Expected income on plan assets	156	-	156	159	-	159
Actuarial gains/(losses)	(246)	-	(246)	285	-	285
Benefits paid	(176)	(104)	(280)	(159)	(69)	(228)
Administration costs*	(187)	-	(187)	(71)	-	(71)
Curtailments/Settlements	-	-	-	-	-	-
DB Plan assets, end of year	**4,318**	**-**	**4,318**	**4,558**	**-**	**4,558**

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

Notes to the Financial Statements

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

14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

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

	Fair Value of DB Plan Assets	
	2018	**2017**
International and US equity securities	-	35%
Canadian equity securities	-	33%
Bonds	100%	30%
Cash	-	2%
	100%	**100%**

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

A discount rate of 3.50% per annum and 3.90% per annum was used for the disclosures at December 31, 2018 for the Pension Plan and OPEB respectively. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2018.

Notes to the Financial Statements

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

14. 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:

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2018
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14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

G. 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:

	2018		2017	
	DB Plan	OPEB	DB Plan	OPEB
Accrued Benefit Obligation:				
Discount rate	3.50%	3.90%	3.40%	3.60%
Salary Increase	2.10%	N/A	2.15%	N/A
General Inflation	2.10%	2.10%	2.15%	2.15%
Mortality	New Canadian Pensioner Mortality	New Canadian Pensioner Mortality	New Canadian Pensioner Mortality	New Canadian Pensioner Mortality
Form of Benefit Elected:	Lump-sum payment for all active and deferred vested members	N/A	N/A	N/A
	Priv Table (CPM2014Priv), with improvement Scale B	Priv Table (CPM2014Priv), with improvement Scale B	Priv Table (CPM2014Priv), with improvement Scale B	Priv Table (CPM2014Priv), with improvement Scale B
Benefit Cost for the Period:				
Discount rate	3.40%	3.60%	3.75%	4.00%
Salary Increase	2.15%	N/A	2.25%	N/A
General Inflation	2.15%	2.15%	2.25%	2.25%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	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	N/A	6.00%	N/A	6.00%
Cost trend rate declines to	N/A	4.50%	N/A	4.50%
Year that the rate reaches the rate it is assumed to stay at	N/A	2025	N/A	2025

Notes to the Financial Statements

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14. EMPLOYEE FUTURE BENEFIT PLANS (Continued)

H. 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 at December 31, 2018:

		1% Change in Health and Dental Care Trend Rates		1% Change in Discount Rate	
	Value Assumptions	Increase	Decrease	Increase	Decrease
Accrued benefit obligation as at December 31, 2018 at 3.90% per annum	5,000	2,325	(1,970)	(1,125)	1,170

I. Sensitivity analysis for DB Plan

The discount rates have a significant effect on the amounts reported for the DB Plan. A one-percentage change in the discount rate would have the following impact on the accrued benefit obligation for 2018 period the table below.

		1% Change in Discount Rate	
	Value Assumptions	Increase	Decrease
Accrued benefit obligation as at December 31, 2018 at 3.50% per annum	4,734	(267)	288

15. INVESTMENT INCOME/(LOSS)

	2018	2017
Realized and change in unrealized gains/(losses) of equity portfolio	(21,317)	13,425
Dividends from equity portfolio	11,331	9,128
Realized and change in unrealized gains/(losses) of fixed income portfolio	(2,057)	(6,129)
Interest income from fixed income portfolio	9,464	7,972
Total investment income/(loss)	**(2,579)**	**24,396**

Notes to the Financial Statements

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16. INTEREST EXPENSE

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

17. CAPITAL MANAGEMENT

The Corporation's capital consists of its equity. Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the property and casualty insurance industry in Canada and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high-risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 12. As part of the Corporation's capital management framework, reinsurance arrangement was put in place since 2016; the excess loss limits from the reinsurance arrangement were established after a review of large historic claim losses of other jurisdictions.

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

18. RELATED PARTY TRANSACTIONS

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

As at December 31, 2018, there are no collection and litigation account receivables and cash securities recognized due from related parties (2017: Nil). Letters of credit and other guarantees lodged by related parties are recognized in the Financial Statements only to the extent they are expected to be drawn upon to settle known claims. Transactions between related parties are made at normal market prices.

The Corporation pays an oversight fee to the Government of Ontario for each calendar year. The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year of the Government of Ontario (April 1 to March 31) at five dollars per enrolment. The Corporation is required to pay an amount not less than $200 and not more than $300 per annum. In 2018, the Corporation incurred a fee of $266 (2017: $300).

Notes to the Financial Statements

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18. 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:

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

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