Ontario

Deposit Insurance Corporation of Ontario

Société ontarienne d'assurance-dépôts

Annual Report

January 1 - June 7, 2019

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1. CORPORATE OVERVIEW

About the Deposit Insurance Corporation of Ontario

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) was a self-funded agency of the Province of Ontario established under the provisions of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA). DICO fulfilled its objectives by:

1. Providing insurance against the loss of part or all of deposits;
2. Promoting standards of sound business and financial practices;
3. Ensuring compliance with legislative and regulatory provisions related to the solvency of credit unions; and
4. Promoting stability of the Ontario credit union sector with due regard to its need to compete while taking reasonable risks.

In order to fulfill its mandate, DICO also worked closely with the Financial Services Commission of Ontario (FSCO) and the Ontario Ministry of Finance (MOF).

Amalgamation with the Financial Services Regulatory Authority of Ontario

On June 8, 2019, the Financial Services Regulatory Authority of Ontario (FSRA) assumed DICO's regulatory functions under the FSRA Act 2016 and Bill 100 Protecting What Matters Most Act (Budget Measures), 2019, which received Royal Assent from the Lieutenant Governor and came into force by the Ontario government. The newly established FSRA was created as a new Ontario Crown agency that replaces both DICO and FSCO. FSRA has assumed substantially all regulatory responsibilities for the two predecessor agencies/corporations.

Incorporated effective June 29, 2017, FSRA assumed responsibility for the regulation of non-securities financial services in Ontario as of June 8, 2019. FSRA now regulates many sectors that are important to Ontario consumers and pension plan beneficiaries, including:

- Property and casualty insurance;
- Life and health insurance;
- Credit unions and caisses populaires;
- Loan and trust companies;
- Mortgage brokers;
- Health service providers (related to auto insurance);
- Pension plan administrators; and
- Financial planners and advisors (proposed).

Corporate Governance

DICO was governed by a Board of Directors consisting of up to nine persons appointed by the Lieutenant Governor in Council. The Board was made up of the Chair and other independent Directors. The Corporation referred candidates who possessed the appropriate skills and experience for consideration in order for the Minister to recommend appointment to the Lieutenant Governor in Council.

DICO followed generally accepted practices in corporate governance, including:

- Formal Director orientation process;
- Continuous individual Director and Board development;
- Board succession planning;
- Annual Board and peer assessment and feedback;
- Regularly scheduled Board meetings and in-camera sessions; and
- An annual strategic planning session.

The Board also established annual objectives for itself and measured its performance against those stated objectives. These included strategies for governance, risk management, communication with stakeholders, executive management, and management reporting and control.

Board of Directors

Board Members	Date of Appointment	Date of Term Expiry	Remuneration Jan 1 Jun 7, 2019
Don Dalicandro (Chair since May 1, 2018)	March 23, 2011	June 7, 2019	$37,500
Gail Di Cintio	May 4, 2011	June 7, 2019	$12,750
John Ferreira	March 11, 2015	March 11, 2019	$5,275
James Houston	July 1, 2015	June 7, 2019	$8,750
Carmen Rossiter	March 11, 2015	June 7, 2019	$12,750
Monique Tremblay	April 18, 2011	April 19, 2019	$5,815
Helen Young	March 11,2015	June 7, 2019	$12,950
		Total	$95,790

Board Committees

Audit and Finance Committee
This committee assisted the Board by considering and making recommendations on audit and finance matters and other related issues, including the review of financial statements and audited financial statements. It oversaw the external and internal audit processes, reviewed DICO's Annual Report and made recommendations to the Board for the approval of DICO's business plan and budget. The committee reviewed DICO's investment policy and strategy, as well as various risk management

strategies related to the committee's area of responsibility. The Audit and Finance Committee was also responsible for DICO's information systems' strategic plan.

Governance and Human Resources Committee

The Governance and Human Resources Committee assisted the Board by considering and making recommendations on governance and human resources matters. This committee reviewed the structure of Board committees, the composition and skills profiles of the Board members and the human resources policies that impacted the corporate governance of DICO. The Committee also reviewed DICO's succession planning related to senior personnel, compensation policies and pension plan, and oversaw DICO's stakeholder relationship and communication strategies.

Risk Oversight Committee

The Risk Oversight Committee assisted the Board by considering and making recommendations on, and by carrying out functions and duties in relation to deposit insurance and regulatory matters. This committee monitored risk policies and reviewed and authorized the exercise of powers of DICO. It also monitored the deposit insurance reserve fund and model assumptions. Finally, this committee oversaw the conduct of legal actions.

2. ACTIVITIES AND ACHIEVEMENTS

2019 Highlights

During the fiscal period from January 1, 2019 through June 7, 2019, the Deposit Insurance Corporation of Ontario (DICO):

- Worked on the existing strategic objectives under the oversight of the DICO Board while engaging in extensive preparation for the transition to FSRA in June 2019.
- Completed 14 examinations of credit unions/caisses populaires and made enhancements to the examination program while reviewing the program's methodology to ensure ongoing effectiveness.
- Completed the sector consultation of the information technology governance documents in April 2019.
- Continued to work on a draft recovery and resolution framework for the sector.
- Continued to monitor one credit union that was placed under administration in 2018.
- Continued with public consultations as part of the five-year statutory review of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA) with a focus on better serving its members.

Overview of Programs and Activities

The focus of DICO was to protect depositors and contribute to the soundness, stability, and success of the sector by being an effective solvency regulator and deposit insurer. DICO performed its mandate through the CUCPA, regulations, and DICO by-Laws. DICO issued guidance notes and advisories, which included sound business practices and requirements that credit unions were expected to adhere to.

DICO promoted and contributed to the stability of the credit union sector by ensuring credit unions managed risks prudently through its prudential regulation oversight functions. DICO monitored credit unions by requiring them to submit statistical reports monthly, conducting regular on-site examinations, approving specific business activities undertaken by credit unions, and the issuing of orders for non-compliance with the CUCPA and regulations, when required.

Policy and Research

The Policy and Research function within DICO defined minimum expectations and developed guidance and standards for the sector on specific risk management activities such as Corporate Governance and Liquidity Risk Management. These typically aligned with internationally recognized standards and reflected globally accepted best practices advocated by Basel and other recognized regulatory bodies and committees.

In addition, the Policy and Research department supported and provided advice to the government through the MOF on amendments to and development of legislation and regulations.

The Policy and Research group drafted a Residential Mortgage Lending Guidance Note and an IT Governance Framework Guidance Note in 2018. The sector consultation of the IT governance documents was completed in April 2019.

Prudential Regulation

The primary focus of DICO's prudential regulation activities was to determine and assess the impact of current and potential future events on the risk profiles of credit unions. DICO ensured each credit union maintained adequate capital reserves to protect its members in the event of a loss or failure.

DICO took a co-operative and respectful approach to working with credit unions. DICO respected each credit union's right to govern its own affairs; however, DICO had the authority to take immediate action on issues that might put depositor funds at risks. DICO's powers included conducting regular on-site examinations, monitoring credit unions through monthly reporting, and the issuance of orders for non-compliance with the CUCPA and regulations.

In situations where a credit union was not in compliance with the CUCPA and regulations, DICO took appropriate regulatory action, which included orders, penalties, administration, supervision and liquidation. DICO had a number of other powers that it might use as the circumstances required. These included the power to:

- Impose conditions of deposit insurance;
- Impose an administrative penalty for failure to perform specified requirements;
- Apply to the court to set aside a restricted party transaction; and
- Require a meeting of the directors of an Ontario credit union.

These activities were performed through four departments: Relationship Management; Monitoring and Analysis; Examinations; and Regulation & Risk Management. Each of their functions was described further below.

Relationship Management

The Relationship Management team was the predominant outward facing element of DICO's structure as they met with the management and Board of credit unions regularly to review all aspects of:

- Credit unions' implementation of their corrective action plans;
- Credit Union risk management, including the dynamic impacts of asset growth on liquidity and funding, capital, credit risk and asset liability management;
- Operational and financial performance; and
- Business strategies, business plans and strategic direction.

The Relationship Management team was mainly responsible for reviewing the appropriateness of credit union action plans, created after an examination, and tracking corrective actions by the relevant credit union. The corrective action process was implemented by the team to ensure credit union accountability for each corrective action based on the findings of the examination.

Relationship managers, with support from Monitoring and Analysis, identified credit union risks, assessed issues and provided guidance as needed. Credit unions with assets over $500 million met quarterly with their relationship managers. On occasion, relationship managers would request to sit in on a credit union Board meeting and/or receive Board and Committee packages so that they could ensure Board awareness of strategic issues, ensure alignment between management and Board, and provide the regulator's perspective directly. Relationship managers were key to maintaining closeness with the sector and a sound understanding of its operations and overall strategic direction.

During the 2019 fiscal period, the Relationship Management team met approximately 100 times with credit unions, including attending the Annual General Meetings.

Monitoring and Analysis

The Monitoring and Analysis team was primarily responsible for collecting and analyzing financial and non-financial data from credit unions to support assessing risks and related trends, and to promote compliance in the sector. Risks assessed include credit, market, operational, liquidity/funding, and capital, as well as structural and strategic risks. The process of risk assessment contemplated both quantitative and qualitative risks. It also considered the quality of risk management and governance at the credit union.

The risk assessment framework monitored capital and earnings trends to support and manage the deposit insurance premium process. This was a collaborative process conducted in conjunction with annual financial reporting and the results of the examination process. The risk assessment might be adjusted at any stage of the monitoring process due to significant events, new findings, observations, changes in business activities and/or economic conditions.

The Monitoring and Analysis department supported both the Examination Program and Relationship Management teams by analyzing recurring and other financial and non-financial information. This involvement included:

- Monthly and ongoing review of early warning indicators of changes in key metrics;
- Financial analysis and additional data collection to support environment and market changes (e.g., new accounting rules, regulatory changes, new products, etc.); and
- Capital and Liquidity Stress Testing.

In the fiscal period ended June 7, 2019, 87% of credit unions had an insurance risk rating of low to moderate. Results for the fiscal period showed that DICO's assessment of insurance risk had decreased slightly, with 13% of sector assets rated as moderate-high to high, compared to 15% in 2018. The high category remained at 3% due to one credit union that held 1.9% of sector assets moving from the moderate-high to high tier.

Sector Assets by Insurance Risk Category						
Risk Category	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Low	17%	18%	20%	19%	20%	19%
Low-Moderate	13%	13%	7%	13%	39%	17%
Moderate	57%	54%	57%	58%	37%	53%
Moderate-High	10%	12%	15%	5%	4%	10%
High	3%	3%	1%	5%	0%	0%

Examinations

The examination process measured the level of compliance with the CUCPA and Regulations, DICO's By-Law No. 5, S*tandards of Sound Business and Financial Practices*, and other guidance publications, which outlined DICO's expectations for good corporate governance and risk management. The frequency of examinations ranged from every 20 to 36 months and was determined by the risk profile and size of the credit union.

Based on the risk assessment of each credit union, an examination was scheduled, which included both off-site and on-site reviews by a team of examiners. Following an examination, a corrective action plan was created. The corrective action plan identified areas of improvement, which the Relationship Management team tracked to completion on an individual basis with each credit union.

Specific enhancements to the Examination Program had been implemented as a result of the Examination Program methodology review. These efforts would continue to result in an increased focus on the quality of the credit union's practices in addition to compliance. These enhancements included:

- Development of a risk-based scoping process and pre-exam risk questionnaire to be completed by the Board and Management;
- Enhanced internal audit assessment; and
- Enhanced analysis of specific business and risk issues.

During the period from January 1 to June 7, 2019, 14 examinations were completed.

Regulatory Affairs

The CUCPA required credit unions to apply to DICO for approval of business activities, including:

- Purchasing or selling assets in excess of 15% of the assets of a credit union;
- Borrowing from another credit union;
- Investing in another credit union;
- Acquiring or establishing a subsidiary; and
- Creating a group capital agreement.

In addition, credit unions applied to DICO for a temporary exemption or variation under the CUCPA regarding prescribed limits, including:

- Capital and liquidity requirements;
- Guarantees and exemptions to aggregate limits for guarantees; and
- Lending and investment limits.

During the period from January 1 to June 7, 2019, eight applications were reviewed by DICO, consisting of one new application and seven outstanding applications that provided updated information. Of these applications, two related to asset purchases and sales transactions, five hoped to acquire or establish subsidiaries, and one requested a variation. Two applications were approved, one was withdrawn, and five remained pending at the end of the 2019 fiscal period.

Summary of Regulatory Activities					
Category	**2019**	**2018**	**2017**	**2016**	**2015**
Applications	1	13	7	16	9
Variations & Exemptions	0	1	0	1	0
Orders	0	2	3	3	0
Administrative Penalties	0	0	0	0	0
Amending Agreements	0	2	0	0	0
Total	1	18	7	20	9

3. FINANCIAL REPORT

Management Discussion & Analysis

Dynamic and Challenging Environment

Assets within the credit union sector grew at an annualized rate of 12.1% during the first five months of 2019, compared to 11.0 % for the 12 months of 2018. During the review period, the sector experienced further consolidation, resulting in stronger credit unions able to benefit from enhanced synergies and larger economies of scale. Ontario's 77 credit unions at the end of May 2019, down from 78 at the end of December 2018, ranged in size from $7.1 million to $17.7 billion with an average asset size of $865.2 million, compared to $812.0 million at the end of 2018. The number of credit unions holding $1 billion or more in assets remained unchanged from 2018 at 15.

Sustained low interest rates since 2009 and ever-increasing competition led to another challenging period for profitability for many credit unions. DICO increased monitoring of some credit unions, due to concerns regarding thin margins in this low interest rate environment.

As of May 31, 2019, the sector was well capitalized with an average aggregate leverage ratio of 6.62%, down from 6.84% at the end of December 2018. The minimum regulatory capital requirement is 4%. All credit unions met the prescribed statutory minimum risk-weighted capital requirements, with an average aggregate risk-weighted capital ratio for the sector of 13.40% at the end of May 2019, compared to 13.29% at the end of 2018. The minimum regulatory risk-weighted capital requirement is 8%.

Ontario Credit Union Sector Profile (in $ billions)			
	June 7, 2019*	**2018**	**% Change**
Number of Credit Unions	77	78	(1%)
Total Assets	$66.6	$63.4	5.1%
Total Deposits	$53.9	$51.0	5.7%
Insured Deposits	$40.6	$38.5	5.4%
Insured Deposits (% of Total Deposits)	75%	75%	0.4%
Regulatory Capital (Leverage Ratio)	6.62%	6.84%	(3.3%)
Loan Costs	0.05%	0.06%	(23.7%)
Return on Assets	0.28%	0.37%	(24.3%)

*2019 information is for the fiscal period from January 1 to June 7, 2019.

Profitability

The return on average assets ratio was 28 basis points (bps) based on the results of the first five months of 2019 and was 37 bps for the 12 months in 2018. Annualized total interest income was up six bps to 3.37%, while annualized investment income fell by three bps to 0.16% based on the results of the five-month review period that ended on May 31, 2019. Total interest and dividend expenses increased by

15 bps from 1.58% in 2018 to 1.73%, resulting in a reduction in net interest and investment income of 12 bps from 1.92% in 2018 to 1.80% for the current period.

Loan Costs and Delinquencies

The sector's aggregate credit risk as measured by delinquency and loan costs was holding at relatively stable levels. Total delinquency greater than 30 days was 0.58%, a decrease from 2018 (0.65%) and much lower than post-recession figures (1.54% in 2009). Commercial loan delinquency also decreased to 0.8% from 1.02% in 2018. Overall loan costs were 0.05% at the end of May, compared to 0.06% in 2018.

Protection of Insured Deposits

To ensure the protection of insured deposits, there were five sources of liquidity in the event a credit union fails:

1. The credit union's liquidity resources;
2. A credit union's line of credit with its banker, if available;
3. The Deposit Insurance Reserve Fund (DIRF);
4. DICO's line of credit with the Ontario Financing Authority (OFA); and
5. The option to increase deposit insurance premium rates and/or require the payment of a special levy pursuant to s. 262 (1)(d) of the CUCPA, if approved by the Minister of Finance.

Insured Deposits

On January 1, 2018, the deposit insurance limit was increased to $250,000 for eligible non-registered deposits and remains unlimited for registered accounts. Between January and May 2019, total deposits for the sector increased at an annualized rate of 13.7%, compared to 11.6% in 2018. As of May 31, 2019, total deposits were $53.9 billion, while the insured deposits of $40.6 billion represent 75% of total deposits, the same as in 2018.

DICO's Differential Premium Determination System

DICO collected premiums from Ontario credit unions to pay for its operating costs, build the Deposit Insurance Reserve Fund (DIRF), and to maintain an appropriate level of liquidity to cover the potential cost of any failed credit unions in a timely manner. Deposit insurance premium rates were calculated on a continuous scale from $1.00 to $1.75 per $1,000 of insured deposits, with a $3.00 rate for credit unions that did not meet minimum capital and governance requirements.

Average Premium Rate by Year				
June 7, 2019	**2018**	**2017**	**2016**	**2015**
1.07	1.05	1.07	1.04	1.06

Deposit Insurance Reserve Fund

Pursuant to Section 276 (1) of the CUCPA, DICO was required to maintain a Deposit Insurance Reserve Fund (DIRF) that may be used to pay its operating and related insurance costs, including financial assistance to credit unions. To ensure the DIRF was sufficient to cover its insurance risks, DICO evaluated the adequacy of the fund and its liquidity requirements on a regular basis.

DICO used several models to assess the appropriate size, range and growth of the fund based on historical experience and expense projections. A number of principles, assumptions and other factors were identified and used throughout these models to determine loss incidence, severity and risk rating drifts to assist in the determination of growth projections for the fund. This data was updated regularly to account for changes in the economic conditions and interest rates, the risk profile and growth of the sector, and DICO's premium revenues, loss experience, recoveries and expense projections.

The DIRF was $296.6 million as of June 7, 2019 and represented 73 bps of insured deposits, compared to $280.2 million and 73 bps of insured deposits as at December 31, 2018.

While the increase in deposit insurance coverage to $250,000 had a temporary downward impact on the DIRF (as a percentage of insured deposits), it also increased deposit insurance premium revenue due to the larger insured deposit base. With increasing coverage and premiums, DICO anticipated the DIRF would reach the 100-bps target by approximately the year 2025.

Financial Performance Analysis

This section provides management's analysis of DICO's financial performance for the fiscal period from January 1 to June 7, 2019. **Due to the amalgamation of DICO with FSRA on June 8, 2019, comparative information to 2018 is not available for the financial statements, except for the Statement of Financial Position. Information for 2018 is on a full year basis.** The following analysis identifies material items that have affected the reported results. The performance analysis should be read in conjunction with the June 7, 2019 audited financial statements and related notes.

Summary of Key Financial Performance

For the fiscal period/year ended	**June 7, 2019**	December 31, 2018	Variance to 2018 Favourable	
($ thousands unless indicated)	**$**	$	$	%
Deposit Insurance Reserve Fund (DIRF)	**296,617**	280,245	16,372	5.8%
Estimated Sector Insured Deposits at end of period ($billions)	**40.6**	38.4	2.2	5.7%
DIRF as % of Sector Insured Deposits	**0.73%**	0.73%	-	-
Investments	**328,999**	287,574	41,425	14.4%
Premium Income	**17,850**	36,925	N/A	N/A
Other Income	**3,003**	4,730	N/A	N/A
Operating Expenses	**5,512**	9,774	N/A	N/A
Provision (Recovery) for Deposit Insurance Losses	**(1,031)**	476	N/A	N/A
Excess of Income over Expenses	**16,372**	31,405	N/A	N/A

Financial Highlights

- The DIRF as at June 7, 2019 was $296.6 million and represented 73 basis points of sector insured deposits. The favourable variance of $16.4 million to year-end 2018 is due to the excess of income over expenses for the fiscal period.

- Market value of the investment portfolio as at June 7, 2019 was $329.0 million, an increase of $41.4 million over the prior fiscal year-end. The increase in market value is primarily due to cash available from premium billings that have been moved into the investment account ($37.5 million) and reinvestment of interest income.

- Premium income was $17.9 million for the fiscal period from January 1 to June 7, 2019, versus $36.9 million for the fiscal year of 2018. For comparison purposes, the prorated 2018 premium income for the period from January 1 to June 7 (158 days) is calculated at $16.0 million. The pro rata increase of $1.9 million is due to higher insured deposits level and slightly increased average premium rate of $1.07 per $1,000 insured deposits ($1.05 for 2018).

- Other income of $3.0 million was comprised of investment income of $2.5 million and excess of loan recoveries from liquidated credit unions of $0.5 million.

- Operating expenses were $5.5 million for the fiscal period from January 1 to June 7, 2019 and $9.8 million for the prior fiscal year.

- A total recovery of deposit insurance losses of $1.0 million was realized during the fiscal period from January 1 to June 7, 2019, versus a total increase of provision for losses of $0.5 million in 2018. The recovery is attributable to a liquidated credit union and is composed of:
  1). A loss provision reduction of $0.5 million due to dismissal of a legal claim against the liquidated credit union; and
  2). Advance repayments in excess of advance recoverable of $0.5 million from the credit union.

Statement of Financial Position

Assets

The Corporation's total assets as of June 7, 2019 were $331.6 million, versus $293.3 million at the end of 2018. Most of DICO's assets are held in the investment portfolio, which represents 99.2% of total assets. The remaining 0.8% are held in cash and cash equivalents; premiums receivable; prepaid expenses and other receivables; deposit insurance advances recoverable; and property, plant and equipment.

Investments

DICO had an agreement with the Ontario Financing Authority (OFA) to manage its investment portfolio, which was the primary source of funds to meet potential deposit insurance claims from depositors of credit unions. The investment management policy executed a conservative investment strategy to ensure funds were readily available to pay out to insured depositors when needed and was based on the following three key objectives:

1. Preserving capital and limiting credit and market risks;
2. Providing necessary liquidity to pay claims and ongoing operating expenses; and
3. Striking a balance between obtaining a reasonable return within policy guidelines and risk tolerance.

All investments were made in compliance with the requirements of the *Income Tax Act* and Ontario Regulation 237/09 of the CUCPA. Investments might consist of Government-issued securities, bankers' acceptances with a minimum rating of A or higher, and commercial paper and short-term debt that had a minimum rating of R1 (middle).

Investments				
($ in thousands)	**June 7, 2019**	December 31, 2018	Change	
Current investments	215,352	174,718	40,634	23.3%
Non-current investments	113,647	112,856	791	0.7%
Total	328,999	287,574	41,425	14.4%

Current Investments

The market value of the portfolio's current investments was $215.4 million, consisting of highly liquid and secure Canadian federal and provincial government securities and bankers' acceptances of Canadian chartered banks with credit ratings of A (high) and R-1 (mid) or higher for terms of one year or less.

Non-current investments

The non-current securities valued at $113.6 million consist of government bonds laddered from 6 months to a maximum of 3.25 years and provincial floating rate notes for up to 2 years. Credit ratings for the government laddered bonds and floating rate notes ranged from R-1 (mid) to AAA.

Portfolio Composition by Credit Rating								
	June 7, 2019				December 31, 2018			
	Money Market Portfolio		Government Bond Laddered Portfolio		Money Market Portfolio		Government Bond Laddered Portfolio	
Credit Rating	% of Total	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total	Market Value
AAA	-	-	17%	11,003	-	-	17%	10,893
AA (high)	-	-	9%	5,720	-	-	9%	5,664
AA	-	-	1%	967	-	-	3%	1,953
AA (low)	6%	16,104	47%	30,497	7%	16,182	42%	27,087
A (high)	12%	32,360	23%	14,960	14%	31,806	26%	16,752
R-1 (high)	47%	124,308	-	-	43%	94,302	-	-
R-1 (mid)	35%	91,043	3%	2,037	36%	80,910	3%	2,025
Total	100%	263,815	100%	65,184	100%	223,200	100%	64,374

The fund's exposure to credit and market risk are minimal due to high quality government bond holdings. The bond portfolio's short duration reduces fluctuations from interest rate risk. Interest rate risk exists due to the nature of the investment portfolio. The weighted average number of days to maturity is 194, slightly down from 232 days in 2018.

Portfolio Performance

For the fiscal period ended: (Performance rates annualized)	**June 7, 2019**	December 31, 2018	Change
Portfolio Return[1] (Money Market)	1.81%	1.58%	0.23%
Benchmark (Money Market)	1.57%	1.38%	0.19%
Value Added (Money Market Portfolio)	**0.24%**	0.20%	0.04%
Portfolio Return[1] Government Bond Laddered	1.70%	1.49%	0.21%
Benchmark Return[2] (Government Bond Laddered)	1.35%	1.12%	0.23%
Value Added (Government Bond Laddered)	**0.35%**	0.37%	(0.02%)
Total Portfolio Return	**1.79%**	1.56%	0.23%
FTSE TMX Short Term All Government Index	3.86%	1.96%	1.90%

Notes

[1] Performance was calculated by OFA's Risk Control Division as at May 31, 2019 and is gross of fees (0.03% per annum for the Money Market Portfolio and 0.04% for the Government Bond Laddered Portfolio). Cash is excluded. The bank cash balance in the Money Market portfolio was $957.42 as of June 7, 2019.

[2] The Benchmark is a laddered government bond benchmark with equal weights assigned to 0.5, 1.0, 1.5, 2, 2.5- and 3-year Government of Canada Bonds.

Deposit Insurance Advances Recoverable

The Corporation was responsible under the CUCPA to pay deposit insurance claims from depositors up to statutory limits when a credit union was no longer able to meet its obligations to depositors. Circumstances might arise where a credit union did not have sufficient funds on hand to meet their current financial obligations or pay depositors. When this situation occurred, DICO might put the credit union under administration or liquidation and advance funds to cover the credit union's shortfall and pay depositors. This resulted in the Corporation being a creditor of the credit union and any advance was recorded as an asset on DICO's Statement of Financial Position.

Over time, these advances were offset by:

- Estimated loss provisions based on the difference between what had been advanced and what was realistically expected to be received from this process; and
- Recoveries from the sale of assets and payments received from members of liquidated credit unions and settlements from legal actions.

In January 2018, the Corporation adopted IFRS 9, Financial Instruments standard, which introduced an expected credit loss (ECL) impairment model for all financial assets not measured at fair value through profit or loss. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. In 2018, impaired loans purchased from liquidated credit unions in the amount of $1.48 million were assessed as lifetime ECL and were written off, resulting in a reduction to deposit insurance advances recoverable for the same amount for these credit unions.

There were no new purchases of credit impaired loans from credit unions under liquidation in 2019, and hence no further impairments subject to IFRS 9.

Provision for Deposit Insurance Losses

The provision for deposit insurance losses represents estimates for losses recorded during the year and in previous years that have not yet been advanced at the end of current fiscal period. The provision includes estimations of both specific and general insurance losses. The specific provision is for known or likely losses resulting from specific credit union failures, while the general provision reflects management's best projection of losses arising from the inherent risk in credit unions. The specific provision is estimated and recorded in the period in which the loss conditions exist. The general provision for losses is determined by considering factors such as current market and economic conditions, the likelihood of losses from credit unions with high risk rating, sector insurance risks, and key performance indicators.

As at June 7, 2019, the provision for deposit insurance losses was $3.0 million, which represents the general provision for losses and is unchanged from 2018.

Liabilities

Total liabilities were $33.4 million as at June 7, 2019 and $12.4 million for the prior year-end. The difference is primarily due to deferred premium revenue of $22.3 million, which is the portion of the annual premiums billed to credit unions that has not been recognized as income.

Total liabilities consisted of current liabilities of deferred premium income (66.6%), payables and accruals (6.1%); non-current liabilities of employee benefits (14.0%), provision for deposit insurance losses (9.0%), and payables and accruals (4.3%).

Employee benefits

All eligible employees were provided with a defined contribution pension plan and eligible retirees were provided with a future non-pension post-employment benefit plan. In addition, a supplemental pension plan was available for eligible employees to provide additional pension benefits. As at June 7, 2019, the total accrued non-current employee benefits obligation was $4.7 million, comprising the supplemental pension benefits of $1.6 million and future non-pension post-employment benefits of $3.1 million.

Statement of Operations

Premium income

Operations of the Corporation were funded by deposit insurance premiums assessed and collected from credit unions annually. The adequacy of premium rates was reviewed on an annual basis and a recommendation was made to the Minister of Finance for consideration. The Differential Premium Score Determination system (DPSD) calculates a credit union's premium score, which is used to determine the annual premium rate on a continuous scale ranging from $1.00 to $3.00 per $1,000 of insured deposits. Details of the premium rate determination are outlined in "DICO Differential Premium Score Determination", published in *The Ontario Gazette* on April 12, 2014, and Ontario Regulation 120/14 of May 1, 2014, amending O.Reg 237/09.

Premium Income				
($ in thousands) For period/year ended	**June 7, 2019**	December 31, 2018	Change	
Premium Income	17,850	36,925	19,075	51.7%
Average premium rate (per $1,000 of insured deposits)	1.07	1.05	(0.02)	(2.0%)

Premium income was $17.9 million for the fiscal period ended June 7, 2019 and was $36.9 million for 2018. Sector insured deposits were $40.6 billion at end of the 2019 fiscal period and were $38.4 billion at the prior year-end. The average premium rate billed in 2019 was $1.07 per one thousand insured deposits, compared to $1.05 in 2018. Premium income was trending at a higher rate compared to 2018 due to increased insured deposits and higher average premium rate.

Other income

Other income is composed mostly of investment income earned from the Corporation's investment portfolio. Total investment income for the fiscal period in 2019 was $2.5 million and $4.2 million in the prior year.

As at June 7, 2019, the money market portfolio's annualized return was 1.81% and 1.58% in 2018. The government bond laddered portfolio's annualized return was 1.70% and 1.49% in 2018. The combined money market and bond laddered portfolio's annualized yield for May 31, 2019 is 1.79% and was 1.56% in 2018.

In addition to investment income, included in other income is the excess of loan recoveries received from members of liquidated credit unions in the amount of $0.5 million for the fiscal period of 2019 ($0.5 million for 2018).

Operating expenses

Total operating expenses for the fiscal period January 1 to June 7, 2019 were $5.5 million and $9.8 million for the prior fiscal year.

($ in thousands) For the period/year ended	**June 7, 2019**	December 31, 2018
Salaries and benefits	3,793	7,187
Operating expenses	1,729	2,676
Recovery of operating expenses	(10)	(89)
Net total expenses	5,512	9,774

Salaries and benefits included permanent and contractual salaries; directors' per diems; employer's portion of statutory employment benefits (CPP, EI, EHT); group life premiums; medical and dental expenses; pension plan contributions; and costs for future non-pension post-employment benefits.

Operating expenses were $1.7 million for the fiscal period from January 1 to June 7, 2019 and were $2.7 million for the prior year. Operating expenses are comprised of legal fees (21.2%); occupancy (17.8%); professional services (14.8%); consulting (11.4%); IT maintenance and support (7.0%); travel costs (5.1%); staff training(5.0%); insurance (4.2%); depreciation (3.1%); on-site examinations by third parties (1.9%); and all other general administrative costs such as printing, translation, telephone, office supplies, couriers, dues and fees (8.5%).

Recovery of operating expenses in 2019 consisted mainly of the administrative costs of managing the affairs of credit unions under administration, supervision and liquidation. In 2019, one credit union remained in liquidation, one under supervision and one in administration.

Management’s Responsibility for Financial Information

The Deposit Insurance Corporation of Ontario’s management is responsible for the integrity and fair presentation of the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by management in conformity with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on management’s best estimates and judgements.

Management is also responsible for developing and maintaining processes of internal control that provide reasonable assurance that financial information is reliable, all financial transactions are properly authorized, assets are safeguarded, and the Corporation adheres to legislation and regulatory requirements. These controls include the communication of policies and the Corporation’s code of ethics and business conduct throughout the organization.

The financial statements have been reviewed by FSRA’s Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Office of the Auditor General of Ontario, whose report follows.

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) operated as a Board-Governed Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994 (CUCPA).*

DICO amalgamated with the Financial Services Regulatory Authority of Ontario (FSRA) on June 8, 2019 pursuant to Bill 100, which received Royal Assent on May 28, 2019.

Guy Hubert
Executive Vice President, Credit Union and Prudential
Financial Services Regulatory Authority of Ontario

Randy Nanek
Chief Financial Officer
Financial Services Regulatory Authority of Ontario

Toronto, Canada
October 2, 2019

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Financial Services Regulatory Authority of Ontario

Opinion

I have audited the financial statements of the Deposit Insurance Corporation of Ontario (DICO), which comprise the statement of financial position as at June 7, 2019, and the statements of operations and changes in the Deposit Insurance Reserve Fund, comprehensive income (loss), accumulated other comprehensive income, changes in equity and cash flows for the period from January 1, 2019 to June 7, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the DICO as at June 7, 2019, and its financial performance and its cash flows for the period from January 1, 2019 to June 7, 2019 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the DICO in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Future of the DICO

I draw attention to Note 1 of the financial statements, which indicates that on June 8, 2019 the DICO was amalgamated with the Financial Services Regulatory Authority of Ontario. The DICO and the Financial Services Regulatory Authority of Ontario will continue as one corporate entity under the name the Financial Services Regulatory Authority of Ontario. My opinion is not modified in respect of this matter.

Other Matter

The financial statements of the DICO for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 3, 2019.

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Other Information

Management is responsible for the other information. The other information comprises the January 1 – June 7, 2019 Annual Report, but does not include the financial statements and my auditor's report thereon.

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

In connection with my audit of the financial statements, my 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 my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I 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 these financial statements in accordance with IFRSs, 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 DICO'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 the DICO either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my 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 these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 DICO's internal control.
- 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 DICO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. Effective June 8, 2019, the DICO's regulatory authorities and responsibilities were transferred to the Financial Services Regulatory Authority of Ontario.
- 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.

I 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 I identify during my audit.

Toronto, Ontario
October 2, 2019

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Statement of Financial Position

(in thousands of dollars)	*Notes*		As at June 7 2019	As at December 31 2018
ASSETS				
Current assets				
Cash and cash equivalents		$	**1,388**	1,858
Investments	*5*		**215,352**	174,718
Premiums receivable			**79**	667
Prepaid expenses and other receivables			**976**	990
Total current assets			**217,795**	178,233
Non-current assets				
Investments	*5*		**113,647**	112,856
Deposit insurance advances recoverable	*6*		**-**	2,022
Property, plant and equipment	*7*		**146**	210
Total non-current assets			**113,793**	115,088
Total Assets		$	**331,588**	293,321
LIABILITIES				
Current liabilities				
Payables and accruals		$	**2,048**	2,068
Deferred premium income	*4*		**22,263**	1,026
Total current liabilities			**24,311**	3,094
Non-current liabilities				
Payables and accruals			**1,434**	1,054
Employee benefits	*8*		**4,676**	5,273
Provision for deposit insurance losses	*6*		**3,000**	3,000
Total non-current liabilities			**9,110**	9,327
Total Liabilities		$	**33,421**	12,421
EQUITY				
Accumulated other comprehensive income		$	**1,550**	655
Deposit Insurance Reserve Fund	*6,9*		**296,617**	280,245
Total Equity		$	**298,167**	280,900
Total Liabilities and Equity		$	**331,588**	293,321

See accompanying notes to financial statements

On Behalf of the Board of the Financial Services Regulatory Authority of Ontario :

B M Davis
Director

Director

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

(in thousands of dollars)	*Notes*		Fiscal period ended **June 7** **2019**	Fiscal year ended December 31 2018
Income				
Premiums	*4*	**$**	**17,850**	36,925
Other			**3,003**	4,730
			20,853	41,655
Expenses				
Salaries and benefits			**3,793**	7,187
Operating expenses			**1,729**	2,676
Recovery of operating expenses			**(10)**	(89)
			5,512	9,774
Excess of income over operating expenses			**15,341**	31,881
Provision (Recovery) for insurance losses	*6*		**(1,031)**	476
Excess of income over total expenses			**16,372**	31,405
Deposit Insurance Reserve Fund, beginning of period/year	*6,9*		**280,245**	248,840
Deposit Insurance Reserve Fund, end of period/year	*9*	**$**	**296,617**	280,245

See accompanying notes to financial statements

Statement of Comprehensive Income

(in thousands of dollars)		Fiscal period ended **June 7** **2019**		Fiscal year ended December 31 2018
Excess of income over total expenses	**$**	**16,372**	$	31,405
Other comprehensive income:				
Items that may be subsequently reclassified to excess of income over total expenses				
Net change in unrealized gains on investments during the period/year		**507**		597
Items that may not be subsequently reclassified to excess of income over total expenses				
Net change in actuarial gains on post-employment, non-pension benefits during the period/year		**388**		621
Total other comprehensive income		**895**		1,218
Comprehensive income	**$**	**17,267**	$	32,623

Statement of Accumulated Other Comprehensive Income

(in thousands of dollars)		Fiscal period ended **June 7** **2019**		Fiscal year ended December 31 2018
Accumulated other comprehensive income (loss), beginning of period/year	**$**	**655**	$	(563)
Sale of investments from opening balance of accumulated other comprehensive income (loss)		**(537)**		(405)
Unrealized gains on investments arising during the period/year		**1,044**		1,002
		507		597
Actuarial gains on post-employment, non-pension benefits arising during the period/year		**388**		621
Net change during the period/year		**895**		1,218
Accumulated other comprehensive income, end of period/year	**$**	**1,550**	$	655

See accompanying notes to financial statements

Statement of Changes in Equity

(in thousands of dollars)	Fiscal period ended **June 7** **2019**	Fiscal year ended December 31 2018
Deposit Insurance Reserve Fund		
Balance at beginning of period/year	**$280,245**	$248,840
Excess of income over total expenses during the period/year	**16,372**	31,405
Balance at end of period/year	**296,617**	280,245
Accumulated other Comprehensive Income on investments		
Balance at beginning of period/year	**846**	249
Items that may be subsequently reclassified to excess of income over total expenses		
Net change in unrealized gains on investments during the period/year	**507**	597
Balance at end of period/year	**1,353**	846
Accumulated other Comprehensive Income on post-employment, non-pension benefits		
Balance at beginning of period/year	**(191)**	(812)
Items that may not be subsequently reclassified to excess of income over total expenses		
Net change in actuarial gains on remeasurement of post-employment, non-pension benefits during the period/year	**388**	621
Balance at end of period/year	**197**	(191)
Total Accumulated other Comprehensive Income, end of period/year	**1,550**	(655)
Total Equity	**$298,167**	$280,900

Statement of Cash Flows

(in thousands of dollars)	*Notes*	Fiscal period ended **June 7 2019**	Fiscal year ended December 31 2018
Cash flows from / (used in) operating activities:			
Excess of income over total expenses		**$16,372**	$31,405
Adjustments for non-cash expense items:			
(Recovery) Provision for insurance losses		**(1,031)**	476
Depreciation and loss on disposal of property, plant and equipment	*7*	**90**	135
		15,431	32,016
Changes in non-cash working capital:			
Premiums receivable		**588**	(73)
Prepaid expenses and other receivables		**14**	(337)
Payables and accruals		**360**	48
Deferred premium income		**21,237**	37
Employee benefits		**(209)**	(445)
		21,990	(770)
Net deposit insurance recoveries	*6*	**3,053**	2,201
		40,474	33,447
Cash flows from / (used in) investing activities:			
Interest received		**2,452**	3,937
Purchase of investments held at period/year end		**(328,492)**	(286,977)
Proceeds on sale of investments		**285,122**	250,043
Purchase of property, plant and equipment	*7*	**(26)**	(119)
		(40,944)	(33,116)
Net increase (decrease) in cash and cash equivalents		**(470)**	331
Cash and cash equivalents, beginning of period/year		**1,858**	1,527
Cash and cash equivalents, end of period/year		**$1,388**	$1,858

Cash and cash equivalents comprise cash and short-term investments.
See accompanying notes to financial statements

Notes to Financial Statements, Fiscal Period Ended June 7, 2019

1. REPORTING ENTITY

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) is a "Board-Governed" Agency of the Province of Ontario, established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA).

The objects of the Corporation under the CUCPA are to:

- Provide insurance for depositors against the loss of part or all of deposits with credit unions;
- Promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- Pursue the object set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- Collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- Perform duties as stipulated under CUCPA or its regulations; and
- Carry out such other objects as the Minister may specify in writing or may be prescribed.

Amalgamation with FSRA

On December 6, 2018, the *Restoring Trust, Transparency and Accountability Act, 2018* (Bill 57) received Royal Assent and provided for the amalgamation of DICO with Financial Services Regulatory Authority of Ontario (FSRA). On May 28, 2019, Bill 100, the *Protecting What Matters Most Act* (Budget Measures), received Royal Assent and amended the CUCPA to change the agency of reference from DICO to FSRA and grant FSRA rule-making authority over certain matters.

Throughout the past fiscal period, DICO has worked closely with FSCO, the FSRA transition team and the Ministry of Finance to prepare for FSRA to assume the regulatory functions previously delivered by DICO and FSCO in a manner that ensured regulatory continuity and initiated transformation.

On June 8, 2019, the transition was successfully completed with the launch of FSRA, including the transfer of DICO's regulatory authorities and responsibilities, the amalgamation of FSRA and DICO, and the transfer of DICO's employees to FSRA.

DICO's assets and liabilities will be transferred at book value to FSRA.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Corporation present the reporting period from January 1, 2019 to June 7, 2019, DICO's last day of operation, prior to its amalgamation with FSRA.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and were approved by the FSRA Board of Directors on October 2, 2019.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the provision for insurance losses, and certain employee benefits (see Note 8), which are measured at their present value, and financial instruments, which are measured at fair value through other comprehensive income (FVOCI). The Corporation's business model reflects how investments are managed and as such assets are held-to-collect-and-sell (HTC&S) and the contractual terms of the financial instruments give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on outstanding principal. Historical cost is generally based on the fair value of the consideration given in exchange for assets and the amount of cash expected to be paid to satisfy a liability.

(c) Functional and presentation currency

The financial statements are presented in the Corporation's functional currency, which is the Canadian dollar. All financial information is presented in Canadian dollars.

(d) Use of estimates, assumptions and judgements

In preparing the financial statements, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, net income, expenses and disclosures. Accordingly, actual results may differ from the estimates and assumptions. Management reviews estimates and underlying assumptions on an ongoing basis and revises them prospectively.

The most significant areas of assumptions and judgements are discussed and disclosed in the provision for deposit insurance losses and the provision for deposit insurance advances recoverable (Note 6), and measurements of accrued benefit obligations in relation to future non-pension post-employment benefits (Note 8).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of the financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been consistently applied to all periods presented in the financial statements, unless otherwise indicated.

(a) Premium income methodology

Premiums are based on the Differential Premium Score Determination System, as defined by regulation, and applied to insured deposits held by credit unions. Premium income is calculated based on the Annual Information Return submitted by each credit union, which is due 75 days after its fiscal year-end. Premiums are invoiced annually, and income is recognized when earned by amortizing the premium over the credit union's fiscal year.

The Corporation adopted IFRS 15 on January 1, 2018, the date of initial application, with no restatement of comparative periods. IFRS 15 sets out principles for the nature, amount, timing, and uncertainty of revenue and cash flows arising from the corporation's contracts with customers. It features a principle-based five-step model for revenue recognition, with exceptions for financial instruments, insurance contracts and leases that fall under the scope of other IFRS standards.

The recognition of the Corporation's premium income and other revenues are not impacted by the adoption of IFRS 15.

(b) Provision for financial assistance or insurance losses

Estimating the provision for financial assistance or insurance losses involves the estimation of uncertainty and requires management to make significant estimates and assumptions that affect the reported amount of assets, liabilities, net income and related disclosures. The provision for loss is determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilizations, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows, such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgement based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

Specific provision

The specific provision is for known or likely losses resulting from specific credit union failures. This provision is estimated by management's assessment on the credit union's financial, risk, and liquidity information. The specific provision is recorded when conditions exist and will likely result in a payment from DICO to financially assist the credit union.

General provision

The general provision for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in credit unions. The provision is established by assessing the aggregate risk in credit unions based on current market and economic conditions, the likelihood of losses, and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. Management applies this methodology to evaluate all credit unions with the highest risk scores under the current prospective risk rating system.

The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the deposit insurance reserve fund model) and actual probabilities of failure when possible. The model also categorizes credit unions based on asset size and discounts to the estimated loss in the next 12-month period. The model's results are considered along with the level of the existing allowance, as well as management's judgement regarding economic and market conditions to arrive at a final determination of the general loss provision.

Other provisions

A provision is recognized when the Corporation has a legal or constructive obligation as a result of a past event and it has become probable that an outflow of resources is required to settle the obligation and a reliable estimate of the amount has been made at the reporting date.

(c) Employee benefits– pension and other post-employment

(i) Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. The Corporation's defined contribution pension plan covers all of the Corporation's regular, non-contractual employees. As well, there are supplemental arrangements, which provide pension benefits for income in excess of registered pension plan limits to eligible employees. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The pension arrangements, including investment management and plan benefits, are managed by external parties legally segregated from the Corporation. The Corporation assumes no actuarial or investment risk.

(ii) Defined non-pension post-employment benefits

The Corporation provides future non-pension post-employment benefits to provide extended health, dental and life benefits for both current employees for whom a full eligibility date was determined and qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the projected unit credit method. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in full in the Statement of Other Comprehensive Income (OCI), and all projected defined benefit costs are expensed in the Statement of Operations. Additional disclosures are provided in Note 8(ii).

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacation that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) The Corporation's financial instruments

(i) Classification of financial assets

The Corporation adopted IFRS 9 Financial Instruments (IFRS 9) on January 1, 2018, with no restatement of comparative periods. IFRS 9 replaces the categories of financial instruments under IAS 39, which are loans and receivables, held-to-maturity investments, and available-for-sale financial investments. IFRS 9 introduced a principle-based approach for the classification of financial assets. All financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost based on the nature of the cash flows of the assets and the entity's business model.

The Corporation's investments are non-equity financial instruments comprised of money market securities and government laddered bonds. The Corporation's investment strategy is achieved by collecting the contractual cash flows and selling the financial assets. The investments' contractual cash flows are solely payments of principal and interest (SPPI) and are measured at fair value through other comprehensive income (FVOCI). Investments are measured at fair value and any changes, other than impairment losses, are recognized in other comprehensive income and presented within equity. Interest income is recognized on an accrual basis.

Financial assets are derecognized when the contractual rights to the cash flow from the financial assets expire or when the substantial risks and rewards of ownership are transferred. When an investment is derecognized or sold, the cumulative gain or loss in other comprehensive income is transferred to the Statement of Operations.

Funds allocated or advanced to credit unions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position, net of specific allowances.

(ii) Impairment of financial assets

IFRS 9 introduces a forward-looking expected credit loss (ECL) impairment model with three stages, which differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses. The three stages of the ECL model are:

- Stage 1: On initial recognition, a loss allowance is recognized for 12 months of expected credit losses.
- Stage 2: Based on whether an instrument's credit risk as at the reporting date has significantly increased relative to the date it was initially recognized, a loss allowance is recognized for lifetime expected credit losses.
- Stage 3: This stage occurs when a financial asset is considered as credit impaired based on loss events; the loss allowance reflects lifetime expected credit losses and interest revenue is based on the carrying amount of the asset, net of loss allowance.

Financial assets can move in both directions through the three stages of the impairment model. If an asset is in Stage 2 and is no longer considered as a significantly increased credit risk compared to its initial recognition in a subsequent reporting period, it may move back to Stage 1. Similarly, an asset that is in Stage 3 may move back to Stage 2 if it is no longer considered to be credit impaired.

Loss events that are used to determine if an asset is credit impaired under IFRS 9 are: significant financial difficulty of the issuer or the borrower; breach of contract, such as a default or past due event; the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; and the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The Corporation measures impaired loans purchased from credit unions in liquidation according to the IFRS 9 ECL impairment model. A financial asset is assessed to be in Stage 3 when it is considered credit-impaired and a provision for loss is recognized that is equal to credit losses expected over the remaining lifetime of the asset.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less amortization and impairment losses. Cost includes expenditures that are attributable to the purchase of the asset and to bring the assets into working condition for their intended use, including the borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of the asset less its residual value, if any. Depreciation of furniture and equipment is calculated using the diminishing-balance method at the rate of 20% per annum. Computer hardware and related applications are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the lease term and useful life of the asset.

(f) Lease payments

Payments made under operating leases are recognized in the Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases* ("IAS 17"). IFRS 16 recognizes a right-of-use asset and a lease liability. A right-of-use asset is amortized on a straight-line basis and a lease liability is accounted for similarly to a mortgage loan with higher interest being charged in the earlier years. This is considered a front-loaded expense in the Statement of Operations, even when the lessee pays the same amount of rent each period. The lease liability is measured at the present value of the lease payments over the lease term, discounted at the rate implicit in the lease, or the incremental borrowing rate.

A contract to lease is identified as the right to control or obtain the economic benefits from the use of an asset over a term in exchange for consideration. IFRS 16 provides for a recognition exemption. The lessee may elect to recognize lease payments as an expense over the term of the lease for two types of leases: (i) leases with a term of 12 months or less that have no purchase options; and (ii) leases where the underlying asset has a low value, such as computers or office furniture. IFRS 16 may be applied retrospectively for annual periods beginning on or after January 1, 2019.

An assessment was completed on the implementation of IFRS 16 and the Corporation utilized the recognition exemption for the fiscal period ended June 7, 2019.

(g) Income taxes

The Corporation's main source of revenue is premiums received from credit unions and caisses populaires, which are not taxable pursuant to subsection 137.1(2) of the Income Tax Act. As a result, the Corporation has been generating non-capital losses for tax purposes since its inception. The deferred tax asset has not been recognized in respect of the non-capital losses as it is not probable that future taxable profit will be available for the Corporation to utilize the benefits.

4. PREMIUM INCOME (in $000's)

June 7, 2019	2018
17,850	36,925

Differential premiums are calculated based on the amount of each credit union's insured deposits at the end of its fiscal year and on various risk criteria that generate a risk rating based on a points system. The Corporation uses a differential premium score determination system (DPSD). The DPSD system determines a score based on a credit union's reported regulatory risk-weighted capital level (64% weighting) and its corporate governance score as determined by the results of the most recent on-site examination (36% weighting). The score is measured on a continuous scale based on the existing premium rate range ($1.00 to $3.00 per $1,000 of insured deposits). The effective rates (per $1,000 of insured deposits) are determined as follows:

DPSD Score	Premium Calculation
Greater than or equal to 90 points	$1.00
Greater than 0 points and less than 90 points	$1.75 -(DPS Score/90 x $0.75)
0 points	$3.00

As at June 7, 2019, the Corporation reported deferred premium income of $22.26 million (2018 - $1.03 million), which represents the balance of pro-rated premiums for the credit unions whose fiscal years straddle the Corporation's fiscal period/year end.

5. INVESTMENTS

The Corporation's investments are composed of short-term money market securities and government bonds portfolios with terms of up to 3.25 years. The investments are measured at FVOCI with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income (Loss) until the investment is sold or assessed as impaired.

As of June 7, 2019, the current, highly liquid investments have a weighted-average yield of 1.79% (2018: 1.88%). The non-current investments are primarily laddered government bonds and government floating rate notes with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments as at June 7, 2019 was 1.99% (2018: 1.94%). The Corporation has contracted with the Ontario Financing Authority to manage the investment portfolio. The composition of the Corporation's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under the *Income Tax Act*, the *Credit Unions and Caisses Populaires Act, 1994* and Regulation 237/09.

	As at June 7, 2019			As at December 31, 2018		
	Amount (in $000)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (in $000)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Bankers' acceptances / Bank deposit notes	106,708	1.85%	43	76,201	2.11%	20
Treasury bills - Canada and Provincial	108,644	1.73%	46	98,517	1.77%	32
Total current investments	**215,352**	**1.79%**	**45**	**174,718**	**1.88%**	**27**
Laddered provincial and federal government bonds	65,183	2.05%	603	64,374	2.05%	613
Provincial floating rate notes (up to two years)	48,464	1.81%	309	48,482	1.75%	467

Total non-current Investments	**113,647**	**1.99%**	**478**	**112,856**	**1.94%**	**550**
Total Investments	**328,999**			**287,574**		

Fair value hierarchy

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of June 7, 2019, and December 31, 2018, the Corporation's financial instruments were valued as follows:

Fair Value Hierarchy of Financial Assets for the fiscal period/year		
(in $ 000)	**June 7, 2019**	2018
Level 1	328,999	287,574
Level 2	-	-
Level 3	-	-
Total	**328,999**	**287,574**

The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No investments have moved between hierarchy levels during the year. The Corporation's total investment income for financial assets was $2.50 million for the period ended June 7, 2019 (2018: $4.25 million).

6. DEPOSIT INSURANCE

(a) Provision for deposit insurance losses

The provision for deposit insurance losses includes specific provisions for known or likely losses resulting from specific credit union failures and a general provision for losses not identified with specific credit unions. The portion of provision for losses recorded in the year and in previous years that have not yet required payment by the Corporation is shown under liabilities on the Statement of Financial Position as provision for deposit insurance losses. Any increase in the provision for deposit insurance losses results in a decrease to the deposit insurance reserve fund (DIRF).

The provision for insurance losses represents the Corporation's best estimate of losses on insured deposits and the future consideration required to assist a credit union in the event of financial difficulty, and is determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The June 7, 2019 general provision for losses (GPL) was at $3.0 million (2018 – $3.0 million). The GPL is projected using model-based methodologies that consider high insurance risk rating credit unions and sector insurance risks, complemented by key performance indicators. Based on these inputs, the GPL was maintained at the current level of $3.0 million, which was within the range determined from the GPL model. The GPL was unchanged in 2019 and 2018.

(b) Deposit insurance advances recoverable

In regard to specific loss provision for which payment has been made by the Corporation to the credit union, if funds advanced exceed the estimated loss provision at the end of the reporting period, the balance is reported as deposit insurance advances recoverable under assets on the Statement of Financial Position. The recoverable is reduced when the advance repayment or recovery is received.

In 2019, a total recovery of $3.05 million was received from a liquidated credit union, resulting in a total reduction of deposit insurance advances recoverable of $2.02 million and recoveries of deposit insurance losses for $1.03 million.

In 2018, the IFRS 9 impairment standard introduced the expected credit loss impairment model for all financial assets not measured at fair value through profit or loss. Impaired loans purchased from liquidated credit unions were assessed as Stage 3 as per IFRS 9's loss events list, when the conditions for credit loss recognition were met. Impaired loans were written off based on evidence for no collectability. In 2018, a provision of $1.48 million was recognized as a net increase to the provision for deposit insurance losses, with a corresponding reduction to the deposit insurance advances recoverable.

In 2019, there were no new purchases of credit impaired loans from credit unions under liquidation and no further impairments charges.

The following table shows changes in deposit insurance advances recoverable.

(in $ 000)		**As at June 7, 2019**				
Deposit insurance advances recoverable	As at December 2018	Net change in specific provision	Advances paid during the year	Recoveries	Total Net Change	As at June 7, 2019
Impaired loans acquired from liquidated credit unions (IFRS 9)	-	-	-	-	-	-
Other recoveries from liquidated credit unions (IAS 37)	2,022	1,031	-	(3,053)	(2,022)	-
Total	**2,022**	**1,031**	**-**	**(3,053)**	**(2,022)**	**-**

(in $ 000)		As at December 31, 2018				
Deposit insurance advances recoverable	As at December 2017	Net change in specific provision	Advances paid during the year	Recoveries	Total Net Change	As at December 31, 2018
Impaired loans acquired from liquidated credit unions (IFRS 9)	1,811	(1,476)	-	(335)	(1,811)	-
Other recoveries from liquidated credit unions (IAS 37)	2,888	1,000	-	(1,866)	(866)	2,022
Total	**4,699**	**(476)**	**-**	**(2,201)**	**(2,677)**	**2,022**

7. PROPERTY, PLANT AND EQUIPMENT

Furniture and fixtures, office equipment, computer equipment and software with finite useful lives are recognized at cost less accumulated depreciation or amortized over the useful life of the assets. Useful lives are reassessed at each reporting period and adjusted as appropriate. If the assets are recognized as impaired, depreciation is adjusted in the future periods to reflect the asset's revised carrying amount.

The useful life of fixed assets and their future benefits were reassessed by management as at June 7, 2019. Those deemed to not be of further use were disposed of, resulting in write-offs of $36 thousand.

(in $ 000)	Furniture and Fixtures	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Asset Cost						
Balance at January 1, 2018	530	69	2,155	893	528	4,175
Additions	15	1	86	17	-	119
Retirements and Disposals	-	-	(33)	-	-	(33)
Balance at December 31, 2018	545	70	2,208	910	528	4,261

Additions	-	-	26	-	-	26
Retirements and Disposals	(470)	(67)	(2,033)	(655)	(528)	(3,753)
Balance at June 7, 2019	**75**	**3**	**201**	**255**	-	**534**
Depreciation						
Balance at January 1, 2018	489	64	2,016	853	528	3,950
Depreciation for the year	11	1	102	20	-	134
Retirements and Disposals	-	-	(33)	-	-	(33)
Balance at December 31, 2018	500	65	2,085	873	528	4,051
Depreciation for the year	12	1	32	9	-	54
Retirements and Disposals	(441)	(63)	(2,030)	(655)	(528)	(3,717)
Balance at June 7, 2019	**71**	**2**	**88**	**227**	-	**388**
Book Value						
At December 31, 2018	45	5	123	37		210
As at June 7, 2019	**4**	**1**	**113**	**28**	**-**	**146**

8. EMPLOYEE BENEFITS

(i) Pension plan

The Corporation provides a defined contribution pension plan (DCPP) for all eligible employees. In addition, the organization accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on the portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution benefit for a former CEO of the Corporation. The total pension expense for the Corporation, charged to salaries and benefits of the Statement of Operations and Changes in the Deposit Insurance Reserve Fund for the fiscal period of June 7, 2019 is

$0.24 million (2018 - $0.52 million). Total accrued pension plan benefits as at June 7, 2019 are $1.57 million (2018 - $1.82 million).

(ii) Future non-pension post-employment benefits

The Corporation accounts for the current value of future non-pension post-employment benefits related to the extended health, dental and life benefits plan. The most recent valuation of the defined benefits plan was completed by an independent actuarial firm as at May 31, 2019 and reflects updates made to the participants data prior to DICO's amalgamation with FSRA. The valuation of the benefit obligation is estimated using the Projected Unit Credit method. The estimated benefit liability is actuarially determined at $3.11 million (2018 - $3.45 million). The net benefit cost for the period ended June 7, 2019, including current service, past service, and interest costs is a recovery of $0.66 million (2018 – net cost of $0.30 million for current service and interest). The recovery of $0.66 million is comprised of a curtailment gain of $0.77 million in respect of past service cost due to the amalgamation with FSRA, current service cost of $0.05 million, and interest cost of $0.06 million.

The curtailment gain of $0.77 million reflects an actuarial gain resulting from the elimination of post-retirement benefits under the DICO plan for all active employees who have not satisfied the plan's eligibility conditions as of the date immediately prior to the amalgamation. Offsetting this is an actuarial loss resulting from the immediate retirement of employees who had satisfied the eligibility criteria and elected to retire with the benefits prior to the amalgamation. An additional offset is an actuarial loss resulting from the assumed retirement of certain remaining eligible active employees who will retain access to the plan if they retire within two years of the amalgamation date.

The assumptions used in the actuarial valuation report as at May 31, 2019 for the future benefits obligations consider a discount rate of 3.10% (2018 – 4.00%); rate of salary increases of 2.60% per annum (2018 - 2.60%); and an immediate trend rate in health care costs of 4.42% (2018 – 4.42%) that grades down to 4.00% per annum by 2040. Mortality improvement scale MI-2017 has been adopted since 2017. The Corporation estimated its benefit obligations as at June 7, 2019.

Change in non-pension post-employment benefit obligation (in $ 000)	**June 7, 2019**	December 31, 2018
Benefit obligation at beginning of year	**3,451**	3,924
Total service cost (current & past)	(717)	168
Interest cost	56	135
Benefit payments from employer	(73)	(155)
Re-measurements of the effect of changes in assumptions included in OCI	388	(621)
Benefit obligation at end of year	**3,105**	**3,451**

Sensitivity analysis: **(in $ 000)**	**June 7, 2019**	December 31, 2018
1. Impact on present value of defined benefit obligation		
Discount rate - 25 basis points	3,210	3,605
Discount rate + 25 basis points	3,006	3,307
Health care cost trend rates -100 basis points	2,751	2,964
Health care cost trend rates +100 basis points	3,539	4,070
Mortality assumption – 1-year life expectancy	2,963	3,302
Mortality assumption + 1-year life expectancy	3,254	3,605
2. % impact on the defined benefit obligation		
Discount rate - 25 basis points	3.37%	4.45%
Discount rate + 25 basis points	(3.20%)	(4.17%)
Health care cost trend rates -100 basis points	(11.43%)	(14.13%)
Health care cost trend rates +100 basis points	13.95%	17.95%
Mortality assumption – 1-year life expectancy	(4.59%)	(4.31%)
Mortality assumption + 1-year life expectancy	4.79%	4.47%
3. Change in the defined benefit obligation		
Discount rate - 25 basis points	105	154
Discount rate + 25 basis points	(99)	(144)
Health care cost trend rates -100 basis points	(355)	(488)
Health care cost trend rates +100 basis points	433	619
Mortality assumption – 1-year life expectancy	(142)	(149)
Mortality assumption + 1-year life expectancy	148	154
4. Weighted average duration of defined benefit obligation (in years)		
Discount rate - 25 basis points	13.28	17.41

Discount rate + 25 basis points	13.01	17.04

The following is a summary of accrued employee benefit liabilities as at June 7, 2019 (non-current):

(in $ 000)	**As at June 7, 2019**	As at December 31, 2018
Employee pension benefits	1,571	1,822
Employee future non-pension post-employment benefits	3,105	3,451
Total	**4,676**	5,273

9. DEPOSIT INSURANCE RESERVE FUND (DIRF)

In accordance with Section 276 (1) of the *Credit Unions and Caisses Populaires Act, 1994*, the Corporation is required to maintain a Deposit Insurance Reserve Fund (DIRF) that may be used to pay its operating and related deposit insurance cost, including providing financial assistance to credit unions.

As of June 7, 2019, the deposit insurance reserve fund is $296.6 million and represents 0.73% of the sector's estimated insured deposits (2018- $280.2 million, and 0.73%). The Corporation's objective is to achieve a fund target of 1.0% of sector insured deposits.

10. OPERATING LEASES

The non-cancellable annual operating lease payment obligations for the Corporation are:

(in $ 000)	**As at June 7, 2019**	As at December 31, 2018
Less than 1 year	**23**	179
More than 1 year	**-**	-

The operating lease for premises requires the Corporation to pay property taxes and common area maintenance costs, which are recognized as an expense and are approximately $0.12 million for the fiscal period of 2019 ($0.29 million for 2018 fiscal year). The occupancy lease of the Corporation's office expires on August 5, 2019 and was fully paid as at June 7, 2019.

11. RELATED PARTIES

Directors and key management personnel compensation

During the fiscal period as of June 7, 2019, the Directors received an aggregate remuneration of $0.1 million (2018 - $0.2 million). Total directors' expense claims were $0.01 million (2018 - $0.02 million).

Compensation for the Chair is $500 for each per diem, plus an annual retainer of $12,000. The per diem rate for all other Board members is $400, plus an annual retainer of $3,500.

Under the *Public-Sector Salary Disclosure Act*, 1996, the Corporation publishes the name, title, salary and taxable benefits for all employees who earned $0.1 million or more annually. The information is available on the Ministry of Finance website at www.fin.gov.on.ca/en/publications/salarydisclosure.

Benefits for key management personnel include DICO's contributions to the pension plan made up to June 7, 2019.

Key management personnel benefits compensation included:

(in $ 000)	**Period ended June 7, 2019**	Year ended Dec 31, 2018
Short-term benefits	11	17
Post-employment benefits	24	65
Total	**35**	**82**

12. CREDIT FACILITY

The Minister of Finance approved an extension of a $400-million revolving credit facility agreement with the Ontario Financing Authority (OFA), to ensure the Corporation's capacity to address systemic difficulties in the credit union system that may require resources above those in the deposit insurance reserve fund (DIRF).

The renewed agreement took effect on January 1, 2019 and expires on December 31, 2023. Under the revolving credit facility arrangement, interest costs on any outstanding debt obligation will be charged at an annual rate equal to the 90-day Ontario treasury bill rate, as determined by the OFA at the time of the borrowing, plus an additional fee of 0.725% per annum, which includes a 0.025% per year cost recovery fee, up to the repayment date of the original advance. The terms of the credit facility require the Corporation to liquidate its investments in the DIRF before it can borrow above $20 million. Upon the Corporation's amalgamation with FSRA on June 8, 2019, this credit facility will become available to FSRA.

The Corporation did not draw on the credit facility for both the 2019 fiscal period and the 2018 fiscal year.

13. CONTINGENCIES

The Corporation may be exposed to various legal and regulatory requirements that continue to evolve during the normal course of business. The Corporation regularly reviews the status of all matters with significant judgement in resolving them, as well as the impact to operations in any particular period. In fiscal period ended June 7, 2019, there were no new legal claims pending against the Corporation.

Credit Union Matters

In the normal course of business, the Corporation is required to monitor credit unions/caisses populaires and perform duties as stipulated under CUCPA or its regulations. As part of these requirements, a credit union was placed under administration pursuant to section 294(1) of the CUCPA in 2018. The Corporation had reason to believe that the credit union, specifically certain former members of management, had been conducting its affairs in a way that had harmed the interests of members or depositors or that was going to result in an increase in the risk of claims by depositors against the Corporation. The Corporation took action to address those issues and continues to monitor the situation and work with the credit union's newly appointed management.

The Corporation has initiated litigation against the former management of the credit union. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot, at this point, determine the probable outcome of this matter and the timing of the ultimate resolution.

If at a point in the future, there is an obligation or commitment to fund the credit union from the DIRF, FSRA management will estimate the amount of the required provision based upon available information and the estimate is subject to significant judgement and a variety of assumptions and uncertainties.

14. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counter party. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. As a deposit insurer under the CUCPA, the Corporation may at times be obligated to make payments to insured depositors in the event of a credit union failure that results in deposit insurance advances recoverable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed credit unions. The Corporation is directly involved in the asset realization process of these credit unions in liquidation in order to mitigate credit risk and minimize any potential loss to the Corporation.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to credit union depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Corporation's reputation.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, at least 50% of the Corporation's investments are held in highly liquid short-term instruments. Moreover, the Corporation has a revolving credit facility of $400 million with OFA (Note 12) to provide additional liquidity beyond the resources in the DIRF.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. The primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

A change in interest rates at the reporting date would not affect net income with respect to fixed rate instruments. A change of 1.0 % in interest rates for the investments at June 7, 2019, calculated on cumulative 12 months, would have increased or decreased the DIRF by $2.8 million (2018 - $2.5 million).

(d) Capital management

One of the Corporation’s mandates is to enhance the financial soundness of the credit union sector. As of June 7, 2019, the deposit insurance reserve fund is $296.6 million.

15. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities, which include cash and cash equivalents, premiums receivable, payables, provisions and employee benefits, all approximate their carrying amounts.

16. COMPARATIVE INFORMATION

Comparative information is for a full fiscal year and current period information is for approximately 5 months, therefore the comparison, in some cases, may not be relevant.

4. SECTOR OVERVIEW

Economic Impact	
77 **Credit Unions** / Caisse Populaires	
65 Credit Unions	12 Caisse Populaires
615 locations	
7, 699 permanent employees at credit unions	
$ 66.62 Billion held in assets in CU/CP	
1,725,937 members of CU/CP	
12.1% of Ontarians belong to a CU/CP	

List of Credit Unions

Ontario Credit Unions, Caisse Populaires and Leagues
As at June 7, 2019

Credit Unions
Adjala Credit Union Limited
Airline Financial Credit Union Limited
Alterna Savings and Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Buduchnist Credit Union Limited
Comtech Fire Credit Union Limited
Copperfin Credit Union Limited
Creative Arts Savings & Credit Union Limited
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Education Credit Union Limited
Equity Credit Union Inc.
Estonian (Toronto) Credit Union Limited
Finnish Credit Union Limited
FirstOntario Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
Ganaraska Credit Union Ltd.
Golden Horseshoe Credit Union Limited
Health Care Credit Union Limited
Healthcare and Municipal Employees' Credit Union Limited
Heritage Savings & Credit Union Inc.
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kindred Credit Union Limited
Kingston Community Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
L.I.U.N.A. Local 183 Credit Union Limited
Latvian Credit Union Limited
Libro Credit Union Limited
Luminus Financial Services & Credit Union Limited
Mainstreet Credit Union Limited
Member Savings Credit Union Limited
Meridian Credit Union Limited
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Moya Financial Credit Union Limited
Northern Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Police Credit Union Limited
Pace Savings & Credit Union Limited
Parama Credit Union Limited
PenFinancial Credit Union Limited
Quinte First Credit Union Limited

Rapport Credit Union Limited
Resurrection Credit Union Limited
Smiths Falls Community Credit Union Limited
Southwest Regional Credit Union Ltd.
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited
Sudbury Credit Union Limited
Taiwanese - Canadian Toronto Credit Union Limited
Talka Credit Union Limited
Tandia Financial Credit Union Limited
The Energy Credit Union Limited
The Police Credit Union Limited
Thorold Community Credit Union Limited
Ukrainian Credit Union Limited
United Employees Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

Caisses Populaires

Caisse populaire Alliance limitée
Caisse populaire d'Alfred Limitée
Caisse populaire de Cornwall Inc.
Caisse populaire de Hawkesbury Limitée
Caisse populaire de la Vallée
Caisse populaire Nouvel-Horizon Inc.
Caisse Populaire Rideau-Vision d'Ottawa Inc.
Caisse populaire Sud-Ouest Ontario Inc.
Caisse populaire Trillium Inc.
Caisse populaire Vallée Est Ltée.
Caisse populaire Vermillon
Caisse populaire Voyageurs Inc.

Historical Highlights

Ontario Credit Union Sector Profile 2010-2019

10 year Financial and Statistical Summary of Ontario CU/CP Sector										
Category	**June 7, 2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Credit Unions										
Number of Credit Unions	77	78	93	99	110	117	127	143	152	167
Permanent employees at credit unions	7,699	7,521	6,373	7,059	6,897	6,813	6,606	6,652	6,473	6,297
Deposits ($ billions)										
Total deposits held by credit unions	$53.9	$51.0	$45.5	$41.4	$37.6	$35.1	$33.0	$31.3	$29.4	$27.9
Total insured deposits*	$40.6	$38.4	$30.5	$28.6	$26.4	$25.3	$24.3	$23.1	$22.3	$21.5
Insured deposits (% of total deposits)*	75.4%	75.3%	67.1%	69.1%	70.2%	72.1%	73.6%	73.8%	75.8%	77.1%
Growth rate of insured deposits (%)	5.7%	25.8%	6.7%	8.3%	4.3%	4.1%	5.2%	3.6%	3.7%	4.4%
Premiums										
DICO's premium revenue ($ thousands)	$17,850	$36,925	$30,208	$27,134	$26,623	$26,541	$25,626	$25,193	$24,342	$21,196
Average premium rate (per $000 of insured deposits)	1.07	1.05	1.07	1.04	1.06	1.10	1.12	1.15	1.14	1.03
Deposit Insurance Reserve Fund (DIRF)										
Balance ($ millions)	$296.6	$280.2	$248.8	$226.1	$205.6	$185.1	$164.7	$147.5	$113.2	$94.6
DIRF as a % of sector insured deposits*	0.73%	0.73%	0.82%	0.79%	0.78%	0.73%	0.68%	0.64%	0.51%	0.44%

*Up until and including 2017, the deposit insurance limit was $100,000 for eligible non-registered deposits and was unlimited for registered accounts. Effective January 1, 2018, the limit has been increased to $250,000 for eligible non-registered deposits and remains unlimited for registered accounts.