FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

DEPOSIT INSURANCE RESERVE FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2022

Financial Services Regulatory Authority of Ontario

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Ontario

Deposit Insurance Reserve Fund

Management's Responsibility for Financial Reporting

Pursuant to section 2 (1) of the *Financial Services Regulatory Authority of Ontario Act, 2016* and section 224 (1) of the *Credit Unions and Caisses Populaires Act, 2020*, the Financial Services Regulatory Authority of Ontario ("FSRA") is responsible for the administration of the Deposit Insurance Reserve Fund ("DIRF").

FSRA management ("Management") is responsible for the integrity and fair presentation of the accompanying financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit Organizations ("PSA-GNFPO"). The preparation of the financial statements involves the use of Management's judgement and best estimates, where appropriate.

Management is also responsible for developing and maintaining financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

As required by section 10.2 of the *Financial Services Regulatory Authority of Ontario Act, 2016*, FSRA's Board of Directors established a DIRF Advisory Committee to advise the Board on matters related to the DIRF. The Audit and Finance Committee of the Board of Directors assists the DIRF Advisory Committee with these responsibilities by reviewing the financial statements before they are approved by the Board of Directors.

The financial statements have been audited by the Office of the Auditor General of Ontario. The auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian PSA-GNFPO. The auditor's report follows.

Mark White
Chief Executive Officer

Stephen Power
Executive Vice President - Corporate Services

Toronto, Ontario
July 13, 2022

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 Reserve Fund (the Fund), which comprise the statement of financial position as at March 31, 2022 and the statements of operations and fund surplus, remeasurement gains and losses and cash flows for the year then ended, 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 Fund as at March 31, 2022, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Fund 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.

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

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund either intends to cease operations, or has no realistic alternative but to do so.

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

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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 Fund’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 Fund’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. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Bonnie Lysyk

Toronto, Ontario
July 13, 2022

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

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund
Statement of Financial Position
As at March 31, 2022

($000)	**Note(s)**	**March 31, 2022**	**March 31, 2021**
ASSETS			
Current			
Cash		2,226	256
Investments	3	363,885	357,223
Premium receivable	4	35,238	33,381
Investment income receivable		609	668
Other receivables	6	-	92
Total assets		**401,958**	**391,620**
LIABILITIES AND FUND SURPLUS			
Current			
Accounts payable and accrued liabilities		1,940	30
Deferred premium revenue	5	26,993	25,568
Other payables	6	143	-
Total liabilities		29,076	25,598
Fund surplus from operations		374,269	365,437
Accumulated remeasurement (losses)/gains		(1,387)	585
Fund surplus		372,882	366,022
Total liabilities and fund surplus		**401,958**	**391,620**

See accompanying notes to the financial statements

Contingencies (Note 10, 11)

On Behalf of the Board:

Joanne De Laurentiis
Board Chair

Brent Zorgdrager
Chair, Audit & Finance Committee

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2022

($000)	Note(s)	March 31, 2022	March 31, 2021
Revenue			
Premium revenue	2,4	36,250	34,337
Investment income	2,3,6	1,271	2,503
Other revenue	2,8	473	316
		37,994	**37,156**
Expenses			
Provision for deposit insurance loss	7	29,120	-
Other expenses	8	68	-
Less: Recoveries	6	(26)	-
		29,162	**-**
Excess of revenue over expenses		**8,832**	**37,156**
Fund surplus from operations, beginning of year		365,437	328,281
Fund surplus from operations, end of year		**374,269**	**365,437**

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund
Statement of Remeasurement Gains and Losses
For the year ended March 31, 2022

($000)	**March 31, 2022**	**March 31, 2021**
Accumulated remeasurement gains, beginning of year	**585**	**1,135**
Unrealized losses attributed to portfolio investments	(1,972)	(259)
Realized losses/(gains) reclassified to the statement of operations	-	(291)
Accumulated remeasurement (losses)/ gains, end of year	**(1,387)**	**585**

See accompanying notes to the financial statements

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund
Statement of Cash Flows
For the year ended March 31, 2022

($000)	**Note(s)**	**March 31, 2022**	**March 31, 2021**
Cash flows from / (used in) operating activities:			
Excess of revenue over expenses		8,832	37,156
Adjustments for non-cash expense items:			
Amortization of bond premiums		1,037	984
Realized losses/(gains) on disposal of investments		-	(291)
		9,869	37,849
Changes in non-cash working capital:			
Premium receivable		(1,857)	(25,419)
Investment income receivable		59	648
Other receivables	6	92	673
Account payables and accrued liabilities		1,910	(11)
Deferred premium income		1,425	25,065
Other payables	6	143	-
		1,772	956
		11,641	38,805
Cash flows from / (used in) investing activities:			
Purchases of investments		(1,440,497)	(758,177)
Proceeds from sale of investments		1,430,826	718,135
		(9,671)	(40,042)
Net increase / (decrease) in cash		**1,970**	**(1,237)**
Cash position, beginning of year		256	1,493
Cash position, end of year		**2,226**	**256**

See accompanying notes to the financial statements

1. REPORTING ENTITY

Statutory authorities

The Financial Services Regulatory Authority of Ontario ("FSRA") was established under the *Financial Services Regulatory Authority of Ontario Act, 2016* ("FSRA Act") without share capital. On December 6, 2018, the *Restoring Trust, Transparency and Accountability Act, 2018* (Bill 57) received Royal Assent and provided for the amalgamation of the Deposit Insurance Corporation of Ontario ("DICO") with FSRA.

On June 8, 2019, the amalgamation was completed. On this date, FSRA became responsible for providing deposit insurance and prudential and market conduct regulation of Ontario's credit unions and caisses populaires ("credit unions"). By virtue of its amalgamation with DICO, FSRA assumed the responsibility to administer the Deposit Insurance Reserve Fund ("DIRF"). The *Credit Union and Caisses Polulaires Act, 2020* came into force on March 1, 2022, which replaced *the Credit Union and Caisses Popularies Act, 1994*.

In accordance with section 224 (1) and 224 (3) of the *Credit Unions and Caisses Populaires Act, 2020* ("CUCPA"), FSRA administers the DIRF with the power to manage, invest and disburse the money in the DIRF in accordance with the CUCPA.

The DIRF is a separate reporting entity from FSRA's operations since the amalgamation on June 8, 2019. Pursuant to section 12.1 (2) of the *FSRA Act*, any funds received by the DIRF and assets of the DIRF are not part of the revenues, assets and investments of FSRA.

Purpose and operation

In accordance with the CUCPA and its predecessor Act (CUCPA 1994), the DIRF may be used to pay the following:

- Deposit insurance claims;
- Costs associated with the orderly winding up of credit unions in financial difficulty;
- Financial assistance to a credit union under administration in its continued operation, or to assist with the orderly winding up of credit unions in financial difficulty;
- An advance or grant for the purpose of paying lawful claims against a credit union in respect of any claims of its members for withdrawal of deposits;
- Assets acquired or liabilities assumed from credit unions under the above circumstances; and
- Fees in respect of credit agreements entered by FSRA to provide financial assistance to the credit union sector.

FSRA is responsible for the operation and prudent management of the DIRF. Pursuant to section 10.2 of the *FSRA Act*, the Board of Directors of FSRA has established a DIRF Advisory

Committee to advise the Board on matters related to the oversight of FSRA's management of the DIRF.

The investments of the DIRF are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund from investment income.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Public Sector Accounting Standards for Government Not-For-Profit Organizations (PSAS-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Management has used the following significant accounting policies in the financial statements and notes preparation.

(a) Financial instruments

All financial instruments are included on the Statement of Financial Position and are measured either at fair value or at cost as follows:

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the Statement of Remeasurement Gains and Losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable, accounts payable and accrued liabilities are valued at cost which approximate fair value given their short-term maturities. Deposit insurance advance receivable is valued at the lower of cost and net recoverable value.

- Fair value measurements are classified using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

    - Level 1 – unadjusted quoted market prices in active markets for identical assets or liabilities;
    - Level 2 – observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
    - Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(b) Revenue recognition

Premium revenue is determined in accordance with section 110 of Ontario Regulation 105/22 made under the CUCPA and the rules set out in the *Differential Premium Score Determination* published by FSRA on its website. The differential premium score (DPS) of a credit union is calculated with reference to its regulatory capital level and corporate governance, as reported on the Annual Information Return filed by the credit union within 75 days after its fiscal year-end. The annual premium payable is calculated by using the DPS to determine a premium rate and applying the rate to insured deposits of the credit union.

Premiums are invoiced annually within 90 days of the credit unions' fiscal year-ends. Premium revenue is recognized when earned by amortizing the annual premiums over the credit unions' applicable fiscal periods.

(c) Use of estimates and assumptions

In preparing the financial statements, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and disclosures. Estimates and assumptions may change over time as new information becomes available. Accordingly, actual results may differ from the estimates and assumptions. Areas where estimates and assumptions are made include deposit insurance advance receivable, other receivables, accounts payables and accrued liabilities, provision for deposit insurance loss, and disclosure of contingencies.

3. INVESTMENTS

A DIRF Investment Policy has been maintained to ensure that the investments are managed in compliance with applicable regulations and that an appropriate balance between capital preservation, liquidity, and reasonable yield is maintained. FSRA and the Ontario Financing Authority ("OFA") have entered into an Investment Management Agreement for OFA to manage the DIRF investment. The DIRF Advisory Committee has the oversight responsibility to oversee management in its monitoring of the performance of OFA.

The DIRF investments consist of discount notes and government bonds.

($000)	March 31, 2022		March 31, 2021	
	Fair Value	Cost	Fair Value	Cost
Discount notes	291,156	291,343	249,855	249,855
Government bonds	72,729	73,929	107,368	106,783
Total investments	**363,885**	**365,272**	**357,223**	**356,638**

($000)	Fair Value Hierarchy	March 31, 2022 Fair Value	March 31, 2021 Fair Value
Discount notes	Level 1	291,156	249,855
Government bonds	Level 2	72,729	107,368
Total		**363,885**	**357,223**

No investments have moved between hierarchy levels during the fiscal year.

Investment income of $1,271 is reported on the Statement of Operations (2021 - $2,503). As of March 31, 2022, unrealized losses of $1,387 are reported on the Statement of Remeasurement Gains and Losses (2021 – unrealized gains of $585).

The discount notes had yields in the range of 0.36% to 0.91% (2021 – 0.085% to 0.485%). The government bonds had yields in the range of 0.438% to 1.872% (2021 – 0.203% to 2.311%).

4. PREMIUM RECEIVABLE AND PREMIUM REVENUE

As prescribed in section 110 of O. Reg 105/22, the premium rates range from $0.75 to $2.25 per one thousand dollars of insured deposits.

Premium receivable of $35,238 represents primarily the annual premiums invoiced as of March 31, 2022 to credit unions with a December 31 fiscal year-end, for the year from January 1 to December 31, 2022 (2021 - $33,381).

5. DEFERRED PREMIUM REVENUE

Deferred premium revenue represents the unearned portion of premiums received from credit unions whose fiscal years straddle the DIRF's fiscal year-end. Deferred premium is recognized as revenue in the next fiscal year when prudential regulation duties are fulfilled.

Changes in deferred premium revenue balances are summarized as follows:

($000)	**March 31, 2022**	**March 31, 2021**
Balance, beginning of year	25,568	503
Received and receivable during year	37,675	59,439
Recognized during year	(36,250)	(34,374)
Balance, end of year	**26,993**	**25,568**

6. RELATED PARTY TRANSACTIONS

FSRA is a related party due to its obligation to administer the DIRF. FSRA collects deposit insurance premiums on behalf of the DIRF, and the two entities pay certain expenses on behalf of each other. Any unsettled receivable and payable balances as at the year-end are netted and reported on the Statement of Financial Position as Other receivables or Other payables. At March 31, 2022, Other payables of $143 include DIRF expenses of $191 payable to FSRA with respect to PACE professional fees, net of $48 receivable from FSRA representing HST on the DIRF expenses that will be recovered by FSRA (2021 – Other receivables of $92). Recoveries reported on the Statement of Operations consist of a $26 refund by FSRA representing release of excess DICO pre-amalgamation expense accruals that were paid to FSRA from the DIRF in fiscal 2020 (2021 – nil).

The Ontario Financing Authority ("OFA") is a related party in its capacity as the DIRF investment manager. Investment management fees of $119 were paid to the OFA in fiscal 2022 (2021 - $109). The fees are netted from investment income on the Statement of Operations.

7. PROVISION FOR DEPOSIT INSURANCE LOSS

On June 24, 2021, PACE Savings & Credit Union Limited ("PACE"), acting through FSRA as its administrator, entered into a confidential settlement of certain claims by investors in preferred shares that were distributed by PACE's subsidiary, PACE Securities Corporation and issued by another subsidiary, PACE Financial Limited, and by an unaffiliated entity (First Hamilton Holdings). This settlement agreement received court approval in October 2021. PACE's contribution to the settlement was determined to be $25,000.

In accordance with the provisions of the CUCPA, FSRA, in its capacity as administrator of the DIRF, used the DIRF to provide financial assistance to PACE by funding the settlement amount of $25,000 under an unsecured non-interest-bearing promissory note that matures and is due on December 31, 2022.

The DIRF also funded $4,120 in professional fees for advisory services in regard to the PACE purchase and assumption transaction described in Note 11. The professional fees are expenses of PACE, however the DIRF paid for these fees as a form of financial assistance to PACE while under administration that FSRA intends to recover from PACE.

FSRA is permitted by the CUCPA (Note 1) to use the DIRF to provide financial assistance to a credit union under administration to thereby assist in its continued operation if FSRA determines that its FSRA Act objects, including minimizing losses to depositors and to the DIRF and supporting the stability of the credit union sector, will be furthered by providing such assistance.

The above financial assistance, totaling $29,120 at March 31, 2022, was initially recorded at cost as deposit insurance advance receivable. This amount was assessed as to its collectability and a valuation allowance for the entire amount has been established based on its collection being undeterminable. As a result, the deposit insurance advance receivable is written down to nil (2021 – n/a). The valuation allowance of $29,120 is reported on the Statement of Operations and Fund Surplus as provision for deposit insurance loss (2021 – n/a).

8. OTHER REVENUES AND OTHER EXPENSES

Other revenue consists of recoveries from loans collected from liquidated credit unions in the amount of $473 (2021 - $316). These loans were previously written off.

Other expenses include $68 in fees for legal advice relating to uses of the DIRF.

9. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the DIRF if a counter party to a financial instrument fails to meet its contractual obligations. The DIRF is exposed to credit risk relating to the investments, deposit insurance advance receivable and collection of premium receivables.

Management minimizes DIRF investment credit risk by investing in high quality financial instruments permitted by legislation and by limiting the amount invested in any one counter party. Risks of net investment losses and not receiving investment income are considered minimal. An allowance on FSRA's $29,120 deposit insurance advance receivable from PACE has been established (Note 7). The risk of not collecting premium receivables is considered low due to the importance of deposit insurance to credit unions, management's effective collection measures and that payment is an obligation under the CUCPA. As of March 31, 2022, there were no significant premium receivables that were past due or impaired.

(b) Liquidity risk

Liquidity risk is the risk that the DIRF will not be able to meet its cash flow obligations as they fall due. At March 31, 2022, the DIRF had an investment balance of $363.9 million (2021 - $357.2 million). The Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs. On December 18, 2020, FSRA entered into a one-year credit facility with the OFA of $2.0 billion to be able to provide financial assistance to credit unions that could require financial support. The facility has been extended for one year and will expire on December 17, 2022. No amounts have been drawn on the facility.

(c) Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the DIRF. Short-term financial instruments (accounts receivable and payable) are not subject to significant market risk. Capital preservation is the primary investment objective of the DIRF, and all assets are invested in low-risk securities. Market risk to the DIRF is considered low.

(d) Fair value sensitivity

The fair value sensitivity of discount notes as at March 31, 2022 is $780 for a 1.00% change in rates (2021 - $446). The fair value sensitivity of government bonds as at March 31, 2022 is $922 for a 1.00% change in rates (2021 - $1,144).

There have been no changes in risks and policies to mitigate the risks.

10. GENERAL DEPOSIT INSURANCE CONTINGENCIES

The Fund may be exposed to deposit insurance claims and other obligations required by the CUCPA as a result of existing conditions or situations involving uncertainty. In its capacity as the prudential regulator, FSRA performs regular risk assessments to review the risk profiles of the credit unions, including adequacy of capital levels, effectiveness of governance, and potential impact of market, economic and other applicable conditions. Situations and conditions for potential insurance losses for high risk and moderate-high risk credit unions are assessed.

It is undeterminable at this time if any deposit insurance obligations, other than those described in Note 7, exist that will likely result in losses to the DIRF. A specific provision can only be established when conditions exist that will likely result in DIRF losses attributable to an individual credit union and the amount can be reasonably estimated.

11. PACE SAVINGS & CREDIT UNION LIMITED (PACE) AND SUBSEQUENT EVENTS

Pursuant to section 294 of the CUCPA 1994, PACE was placed under Administration in September 2018 by FSRA's predecessor, DICO, to protect members from failed board governance and misconduct by certain former executives.

During the fiscal year ending March 31, 2022, FSRA worked toward implementing a purchase & assumption (P&A) transaction resolution strategy to fulfill its statutory objects, including minimizing losses to depositors and the DIRF and supporting the stability of the credit union sector. A P&A is a resolution transaction where an acquirer purchases some or all the assets of the credit union, and assumes some or all of its liabilities, including the insured deposits, to maintain the failing credit union's core business operations. It is a desirable resolution method for a failing credit union when an amalgamation is not available.

All financial assistance from the DIRF, provided to PACE by FSRA in its capacity as administrator of the DIRF, was provided after obtaining legal advice confirming FSRA's capacity and powers to do so under the CUCPA and its predecessor Act, as applicable. Such financial assistance was provided to fulfil FSRA's objects, including minimizing losses to depositors and the DIRF and supporting the stability of the credit union sector.

(a) PACE Management Indemnification

In addition to the financial assistance described in Note 7, on January 3, 2022, FSRA as administrator of the DIRF, entered into an indemnification agreement with certain members of PACE management to retain such management to operate PACE and to assist with the completion of the P&A transaction. This indemnification became necessary due to the non-renewal of the existing PACE Directors and Officers insurance policy. The indemnification is a form of financial assistance to a credit union under administration in its continued operation, made pursuant to CUCPA and its predecessor Act. The maximum amount of the indemnity is $10,000. As at March 31, 2022, FSRA did not anticipate claims under this indemnification agreement.

(b) PACE Purchase and Assumption Transaction with Alterna Savings & Credit Union Limited

On April 20, 2022, PACE (acting through FSRA as its administrator) as vendor, Alterna Savings and Credit Union Limited (Alterna) as purchaser, and FSRA, in its capacity as administrator of PACE, entered into a P&A transaction agreement documenting Alterna's agreement to acquire most of the assets and liabilities of PACE to enable Alterna to continue to operate PACE's core business. Under this agreement, Alterna will take on PACE's employees, members, certain deposit accounts, certain loan portfolios, and PACE's head office and branches. As a critical part of the transaction, PACE members will continue to be served by PACE's employees and branches.

The P&A transaction closed on June 30, 2022.

Under the P&A agreement certain assets and liabilities are excluded from the P&A transaction (the Excluded Items) and will remain with PACE. The Excluded Items are primarily comprised of PACE's investment shares, profit shares, membership shares, prepaid card business, and PACE's claims and related litigation against the officers, directors and their insurers, related to the matters that resulted in the administration of PACE (the Recovery Litigation Claims). While substantially all of PACE's deposits and operating liabilities were assumed by the purchaser under the P&A, the DIRF continues to be exposed to obligations arising in respect of the Excluded Items, including the claims of any senior creditors of PACE to the extent they have been disadvantaged by the P&A transaction.

As part of the transaction, FSRA provided a limited guarantee (the Guarantee) to Alterna in which it guarantees certain payment obligations of PACE under the P&A agreement and other related agreements including the Loss Sharing and Transition Services Agreements described below (the Agreement).

The Guarantee includes PACE's payment obligations under a Loss Sharing Agreement ("LSA") executed when the transaction closed. Under this LSA PACE is required to make deficiency payments to Alterna for losses Alterna incurs on the retail and commercial loans it acquired from PACE as part of the transaction. The deficiency payments will be equal to 50% of Alterna's losses on retail loans and 100% of its losses on commercial loans, such losses being calculated after taking into account the loss provisions accrued by PACE and included in the calculation of the purchase price of such portfolio assets. The Guarantee also extends to any payments arising from PACE's representations and warranties under the P&A agreement.

Deficiency payments for commercial loans will cover a period of up to five (5) years after the closing date of the P&A transaction. For retail loans with a fixed maturity date, deficiencies will cover a period of up to twelve (12) months after the maturity date of the loan period. For all other retail loans, the coverage period will be up to three (3) years after the closing date of the P&A transaction.

The Guarantee also covers PACE's obligation to pay Alterna for services it will deliver to PACE under a Transition Services Agreement signed at closing and any potential purchase price adjustments that PACE may have to pay subsequent to the date of closing.

FSRA's liability, solely as administrator of the DIRF, to Alterna under the Guarantee is limited to the assets of the DIRF. Under the Guarantee, the DIRF's total exposure to losses from deficiency payments and representations and warranties and other obligations is limited to $155 million.

The Guarantee will remain in effect until six (6) months after PACE's payment obligations under the Agreements are, as discussed above, terminated.

(c) FSRA/PACE $500 million credit facility

On April 28, 2021, and pursuant to FSRA's authority under section 262(1)(a)(i) of the CUCPA 1994, FSRA as the administrator of the DIRF entered into a secured credit agreement with PACE to support PACE's continued operations. The credit agreement provides PACE with a $500 million revolving secured loan facility to provide liquidity either when PACE's liquidity falls below $100 million or if PACE experiences a rapid decline in liquidity that could cause material financial or operational difficulties. The facility matures on August 31, 2022 but may be repaid early without premium or penalty.

Any loan under this credit agreement is secured by the assets of PACE and its subsidiaries and will be the only material senior secured debt of PACE. As the DIRF is the primary source for making advances to PACE under the secured credit facility and consequently bears the risk of such advances, the credit facility is considered a potential DIRF exposure.

Subsequent to the year-end, in May 2022, FSRA made two advances totaling $25,000 to PACE under the secured credit agreement, to maintain PACE's business operations and facilitate the P&A transaction. Both advances were funded directly from the DIRF. The advances bear interest at a rate of 2.93% and provided temporary liquidity support to PACE, primarily to enable it to meet its mortgage commitments to its members.

On May 30, 2022, Alterna, PACE and FSRA signed a formal amendment to the purchase and assumption agreement requiring Alterna to repay the principal of the advances, and accrued interest, when the P&A transaction closed.

These advances were repaid by Alterna, with interest, when the P&A transaction closed on June 30, 2022.

(d) Wind-up of PACE Legal Entity

The Excluded Items, including the Recovery Litigation Claims, the prepaid card business and certain excluded liabilities, remained in the PACE legal entity after the closing of the P&A. PACE legal entity will be wound up after realizing its assets and distributing the proceeds therefrom to its creditors and capital providers in accordance with applicable law governing priorities. Costs associated with the PACE wind-up may, to the extent PACE has insufficient resources to pay its senior creditors and such costs, be borne by the DIRF. The impact of this on the DIRF is not yet determinable.

PACE's investment shares, profit shares and membership shares are part of the Excluded Items and remain an obligation of PACE if it has sufficient assets after paying higher ranking claims, including the $29,120 deposit insurance advance receivable as described in Note 7. These shares provided risk-bearing capital to PACE and are not insured by the DIRF – as such, any losses to PACE members arising from owning these shares do not impact the DIRF.

A total provision of $29,120 specific to PACE was established as at March 31, 2022, (2021 - nil) representing a valuation allowance for deposit insurance advance receivable (Note 7).

12. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.