

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**DEPOSIT INSURANCE RESERVE FUND
FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2025**



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* (the “FSRA Act”) and section 224 (1) of the *Credit Unions and Caisses Populaires Act, 2020* (the “CUCPA 2020”), the Financial Services Regulatory Authority of Ontario (“FSRA”) is responsible for the administration of the Deposit Insurance Reserve Fund (the “DIRF” or the “Fund”).

FSRA Management (“Management”) is responsible for the integrity, consistency, objectivity and reliability of financial statements. These financial statements were prepared in accordance with Canadian public sector accounting standards, and Management has exercised its judgement and made best estimates where appropriate, particularly when the transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances.

Management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance that the financial records are relevant, reliable and accurate, and that assets are properly accounted for and safeguarded. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors of FSRA (the “Board”) oversees management’s responsibilities for financial reporting through an Audit, Finance and Risk Committee (the “AFRC”), which is composed entirely of independent directors. This Committee reviews the financial statements and recommends them to the Board for approval. The AFRC is also responsible for reviewing FSRA’s internal controls and advising the Board on auditing matters and financial reporting issues.

The Office of the Auditor General of Ontario (the “OAGO”), appointed by the Board on recommendations of the AFRC, has audited the financial statements in accordance with Canadian generally accepted auditing standards, as stated in their Independent Auditor’s Report. The OAGO has full and unrestricted access to the AFRC to discuss their audit and related findings.

A blue ink signature of Dexter John, consisting of a stylized 'D' and 'J'.

Dexter John
Chief Executive Officer

A blue ink signature of Andrew Fung, consisting of a stylized 'A' and 'F'.

Andrew Fung
Interim Executive Vice President –
Corporate Services

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, 2025, and the statements of operations and changes in net assets, 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, 2025, 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.

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.



Toronto, Ontario
June 24, 2025

Shelley Spence, FCPA, FCA, LPA
Auditor General

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Financial Position
As at March 31, 2025**

(Thousands of dollars)	Note(s)	March 31 2025	March 31 2024
Assets			
Current assets			
Cash		286	414
Investments	3	535,536	470,501
Premium receivable	4	39,778	38,539
Investment income receivable		2,400	1,227
Total assets		<u>578,000</u>	<u>510,681</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued liabilities		43	77
Total liabilities		<u>43</u>	<u>77</u>
Net assets			
Accumulated operating surplus		576,907	511,298
Accumulated remeasurement gains (losses)		1,050	(694)
Total net assets		<u>577,957</u>	<u>510,604</u>
Total liabilities and net assets		<u>578,000</u>	<u>510,681</u>

The accompanying notes are an integral part of these financial statements.

On Behalf of the Board:



Joanne De Laurentiis
Board Chair



Rob Wellstood
Chair, Audit, Finance and Risk
Committee

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Operations and Changes in Net Assets
For the year ended March 31, 2025**

(Thousands of dollars)	Note(s)	March 31 2025	March 31 2024
Revenues			
Premiums	4	43,067	41,085
Investment income	3, 5	22,443	20,403
Recoveries	8	166	181
Total revenues		65,676	61,669
Expenses			
Provision for deposit insurance loss	6,7	67	252
Total expenses		67	252
Excess of revenue over expenses		65,609	61,417
Net assets, beginning of year		511,298	449,881
Net assets, end of year		576,907	511,298

The accompanying notes are an integral part of these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Statement of Remeasurement Gains and Losses For the year ended March 31, 2025

(Thousands of dollars)	Note(s)	March 31 2025	March 31 2024
Accumulated remeasurement losses, beginning of year		(694)	(1,411)
Unrealized gains attributable to:			
Investments designated to fair value category	3	<u>1,744</u>	<u>717</u>
Total remeasurement gains for the year		<u>1,744</u>	<u>717</u>
Accumulated remeasurement gains (losses), end of year		<u>1,050</u>	<u>(694)</u>

The accompanying notes are an integral part of these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

**Deposit Insurance Reserve Fund
Statement of Cash Flows
For the year ended March 31, 2025**

(Thousands of dollars)	Note(s)	March 31 2025	March 31 2024
Cash flows from operating activities:			
Excess of revenue over expenses		65,609	61,417
Adjustments for non-cash items:			
Amortization of bond (discounts) premiums		<u>(341)</u>	<u>56</u>
		65,268	61,473
Changes in working capital items:			
(Increase) in premium receivable		(1,240)	(1,552)
(Increase) in investment income receivable		(1,173)	(454)
Decrease in other receivables	6	-	116
(Decrease) in accounts payable and accrued liabilities		<u>(34)</u>	<u>(1,010)</u>
Net cash flows from operating activities		<u>62,821</u>	<u>58,573</u>
Cash flows used in investing activities:			
Purchases of investments		(7,383,267)	(7,946,663)
Proceeds from sales and maturities of investments		<u>7,320,318</u>	<u>7,886,674</u>
Net cash flows used in investing activities		<u>(62,949)</u>	<u>(59,989)</u>
Net decrease in cash		(128)	(1,416)
Cash, beginning of year		<u>414</u>	<u>1,830</u>
Cash, end of year		<u>286</u>	<u>414</u>

The accompanying notes are an integral part of these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

1. REPORTING ENTITY

Statutory authorities

FSRA was established under the *FSRA Act* without share capital. Pursuant to the provisions of the *FSRA Act*, on June 8, 2019, the Deposit Insurance Corporation of Ontario (“DICO”) amalgamated into FSRA. 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 DIRF.

In accordance with sections 224 (1) and 224 (3) of the *CUCPA 2020*, FSRA administers the DIRF with the power to manage and invest the money in the DIRF and may disburse the money from the Fund according to section 224 (2) of the *CUCPA 2020*.

Purpose and operation

Pursuant to section 224 (2) of the *CUCPA 2020*, 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 into 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 has established a Statutory Funds Advisory Committee (the “SFAC”) to advise the Board on matters related to the oversight of FSRA’s administration of the DIRF.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are prepared in accordance with the CPA Public Sector Accounting Handbook which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The Fund has chosen to use the standards for not-for-profit organizations that include Sections PS 4200 to PS 4270. The

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

significant accounting policies are summarized below.

(b) Measurement uncertainty

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the period. Significant areas requiring the use of estimates include deposit insurance advance receivable, provision for deposit insurance loss, and disclosure of contingencies.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. By their nature, estimates are subject to measurement uncertainty. Accordingly, actual results may differ materially from the estimates.

(c) Revenue recognition

Premiums are determined in accordance with section 110 of Ontario Regulation 105/22 made under the *CUCPA 2020* and the rules set out in the Differential Premium Score Determination (“DPSD”) document published by FSRA on its website. The annual premium payable by a Credit Union is calculated by using the Credit Union’s differential premium score calculated according to the DPSD rules to determine a premium rate and applying the rate to its insured deposits.

Premiums are invoiced annually within ninety (90) days of the Credit Unions’ fiscal year-ends. Premium revenue is recognized upon issuance of the annual premium invoice to a Credit Union. Outstanding premiums as at year-end are recognized as premium receivable in the statement of financial position.

Investment income is measured using the effective interest rate method and recognized when earned.

(d) Provision for deposit insurance loss

A provision for deposit insurance loss is recognized when the DIRF has a present obligation arising from a past event for a purpose under section 224 (2) of the *CUCPA 2020*, it is likely that the DIRF is required to settle the obligation, and a reasonable estimation of the payment amount can be made.

(e) Financial instruments

Financial assets and financial liabilities are recognized in the Fund’s statement of financial position when the Fund becomes a party to the contractual provisions of the instrument.

All financial instruments should be assigned to one of the two measurement categories at initial recognition: fair value, or cost/amortized costs.

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

Financial assets	Measurement basis
Cash	Amortized cost
Investments	Fair value (Note 3)
Accounts receivable	Amortized cost
Deposit insurance advance receivable	Amortized cost

Financial liabilities	Measurement basis
Accounts payable and accrued liabilities	Amortized cost

(i) Financial instruments measured at cost or amortized cost

Financial assets and liabilities measured at cost or amortized cost are initially recognized at acquisition cost, including transaction costs that are directly attributable to the acquisition or issuance.

Financial assets measured at amortized cost are assessed for collectability at each financial statement date. A valuation allowance is used to reflect financial assets measured at amortized cost at their net realizable value. Losses (gains) arising from changes in valuation allowances are recognized as expenses (revenues from recoveries of previously recognized allowances) in the statement of operations and changes in net assets in the period in which they arise.

When the DIRF is used to make an advance to a Credit Union for the purposes permitted by section 224 (2) of the *CUCPA 2020*, a deposit insurance advance receivable is initially recorded at cost. Valuation allowances are used to reflect the advance receivable at the lower of cost and net realizable value. These valuation allowances are recognized as provision for deposit insurance loss expenses. Any recoveries of the valuation allowances are recognized as revenue from recovery of provision for deposit insurance loss at the time when payment is received from the Credit Union, or when the recoverable amount can be reasonably determined and ultimate collection of payment is reasonably assured.

Financial assets at amortized cost are subject to impairment. At each financial statement date, the Fund assesses financial assets to determine whether there is any objective evidence of impairment. When a decline is determined to be other than temporary, the carrying amount of the financial asset is reduced and the amount of the impairment is recognized as a loss in the statement of operations and changes in net assets.

(ii) Financial instruments measured at fair value

When a financial instrument is in the fair value category, transaction costs are expensed upon initial recognition. Financial assets and liabilities at fair value are remeasured at their fair value at the end of each reporting period. Any unrealized gain or loss on investments is adjusted through the statement of remeasurement gains and losses. When an asset is sold, unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations and changes in net assets.

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

The Fund has defined and implemented an investment and risk management strategy to manage and evaluate the performance of its investments on a fair value basis. As a result, the Fund has elected to designate its investments to the fair value category.

Fair value measurements are classified using a fair value hierarchy based on the market observability of the valuation inputs 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.

(iii) Derecognition of a financial instrument

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the benefits and risks of ownership of the asset to another organization. The Fund derecognizes a financial liability or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires. On derecognition, the difference between the financial instrument's carrying amount and the sum of the consideration received and receivable is recognized in the statement of operations and changes in net assets.

(iv) Transaction costs

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers, and transfer taxes and duties.

3. INVESTMENTS

A DIRF Investment Policy has been established and approved by the Board 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 (the "OFA") have entered into an Investment Management Agreement for the OFA to manage the DIRF investments. The SFAC has the oversight responsibility to oversee Management in its monitoring of the performance of the OFA.

The DIRF investments consist of discount notes and government bonds.

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

		March 31, 2025		March 31, 2024	
	Fair value hierarchy	Fair value	Cost	Fair value	Cost
Discount notes	Level 1	467,511	467,511	405,607	405,607
Government bonds	Level 2	68,025	66,975	64,894	65,588
Total investments		535,536	534,486	470,501	471,195

During the years ended March 31, 2025 and 2024, there were no transfers of assets between Level 1 and Level 2.

Investment income of \$22,443 is reported on the statement of operations and changes in net assets (2024 - \$20,403). As of March 31, 2025, unrealized gains of \$1,050 are reported on the statement of remeasurement gains and losses (2024 – unrealized losses of \$694).

The discount notes had yields in the range of 2.644% to 3.440% (2024 – 4.960% to 5.120%). The government bonds had yields in the range of 2.719% to 4.558% (2024 – 0.738% to 4.558%).

4. PREMIUM RECEIVABLE AND PREMIUM REVENUE

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

Premium receivable of \$39,778 represents the annual premiums invoiced as of March 31, 2025, to Credit Unions with a December 31 fiscal year-end for the year from January 1 to December 31, 2025 (2024 - \$38,539).

5. RELATED PARTY TRANSACTIONS

FSRA is a related party due to its obligation to administer the DIRF, in addition to the DIRF being controlled by FSRA. FSRA collects deposit insurance premiums and files HST returns 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. There were no unsettled receivable and payable balances as at March 31, 2025 (2024 – Nil).

The OFA is a related party in its capacity as the DIRF investment manager. The OFA manages the investments on a fee-for-service basis. The investment management fees are paid by the DIRF from its investment income. Investment management fees of \$163 were paid to the OFA in fiscal 2025 (2024 - \$143). These fees are netted from investment income on the statement of operations and changes in net assets.

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

6. OTHER RECEIVABLES

Other receivables consist of a deposit insurance advance receivable.

In fiscal 2025, \$67 was paid from the DIRF to fulfill the DIRF's payment obligations under the Limited Guarantee as part of the Purchase and Assumption ("P&A") Transaction Agreement between Pace Savings & Credit Union Limited ("PACE"), Alterna Savings & Credit Union Limited ("Alterna"), and FSRA as the administrator of the DIRF (Note 11(a). 2024 - \$252). The disbursements for both years are intended to be recovered from the PACE liquidation (Note 11(b)), and the amounts were initially recorded as deposit insurance advance receivables. Due to the collectability of the respective receivable being undeterminable as at March 31, 2025, and 2024, a valuation allowance for the entire receivable amount was established at each year-end to write off the receivables. The valuation allowance was recognized as provision for deposit insurance loss expense and reported on the statement of operations and changes in net assets.

	March 31, 2025	March 31, 2024
Deposit insurance advance receivable		
Cost	67	252
Valuation allowance	(67)	(252)
Net realizable value	-	-
Total other receivables	-	-

7. PROVISION FOR DEPOSIT INSURANCE LOSS

FSRA is permitted by the *CUCPA 2020* to use the DIRF to provide financial assistance to a Credit Union under administration to thereby assist in its continued operation or to assist with the orderly winding up of a Credit Union (Note 1), if FSRA determines that its statutory objects under the *FSRA Act*, including minimizing losses to depositors and to the DIRF and supporting the stability of the Credit Union sector, can be furthered by providing such assistance.

As at March 31, 2025, a provision for deposit insurance loss expense of \$67 was recognized, representing the valuation allowance provided for deposit insurance advance receivable with respect to PACE P&A transaction and liquidation (Notes 6. 2024 - \$252).

8. RECOVERIES

Revenue from recoveries consists of amounts collected from members of liquidated Credit Unions relating to loans previously written off at DICO as deposit insurance losses, in the amount of \$166 (2024 - \$181).

9. RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's assets consist primarily of its investment securities. The Fund's investment strategy

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

is based on objectives of preserving capital, providing liquidity and obtaining a return within risk tolerances established in its Investment Policy. Risk exposures related to investments include credit risk, liquidity risk and market risk.

(a) Credit risk

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

The DIRF's cash is held at chartered financial institutions in Canada with least possible exposure to credit risk. 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 counterparty. The risks of net investment losses and not receiving investment income are considered minimal. 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 2020*. As of March 31, 2025, there were no significant premium receivables that were past due or impaired. An allowance of \$67 (2024 - \$252) on the DIRF's deposit insurance advance receivable from PACE liquidation has been established (Note 6).

(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. As at March 31, 2025, the DIRF had an investment balance of \$535.5 million (2024 - \$470.5 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 19, 2023, FSRA entered into a one-year credit facility (the "Facility") with the OFA for \$2.0 billion, with an option to extend twice for one year each, to be able to provide financial assistance to Credit Unions that could require financial support. The Facility is revolving to allow for flexible drawdowns and repayments over its term. The Facility was renewed on December 18, 2024, for a one-year extension, making the new expiry date December 18, 2025. No amounts were drawn on the Facility during fiscal 2025 (2024 – Nil).

(c) Market risk

Market risk arises from the possibility that changes in market prices (interest rates, foreign exchange rates, and other applicable market prices) will affect the value of the financial instruments of the DIRF that are measured at fair value. The DIRF's investments are subject to market risk. With capital preservation being the primary investment objective, all investments are low-risk debt instruments denominated in Canadian Dollars. The investments' main exposure to market risk is through interest risk. Interest risk is managed with the objective of enhancing interest income within established risk tolerances.

The fair value sensitivity of discount notes as at March 31, 2025, is \$1,703 for a 1.00% change in interest rates (2024 - \$840). The fair value sensitivity of government bonds as at March 31, 2025 is \$954 for a 1.00% change in interest rates (2024 - \$913).

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

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

10. DEPOSIT INSURANCE CONTINGENCIES

The Fund may be exposed to deposit insurance claims and other obligations mandated by the *CUCPA 2020* 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 through a Risk Based Supervision Framework, including the adequacy of capital and liquidity levels, effectiveness of governance, and potential impact of market, economic, and other applicable conditions. An Early Warning System is in place to monitor, and intervene in where necessary, any situations and conditions for potential insurance losses for high-risk and moderate-high-risk Credit Unions.

Other than the Alterna claims under the P&A Limited Guarantee of \$67 disclosed in Note 6 (2024 - \$252), there were no claims against the DIRF in fiscal years 2025 and 2024. As at March 31, 2025, no existing conditions or situations were identified that would likely result in losses to the DIRF.

11. PACE SAVINGS & CREDIT UNION LIMITED

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

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. FSRA assumed the responsibility to administer PACE since its amalgamation with DICO in June 2019.

During fiscal years 2022 and 2023, FSRA, as the administrator of PACE, worked toward implementing a purchase & assumption transaction (the "P&A Transaction") resolution strategy in accordance with the provisions of the *CUCPA* and FSRA's statutory objects under the *FSRA Act*. On April 20, 2022, PACE (acting through FSRA as its administrator) as the vendor, Alterna as the purchaser, and FSRA, in its capacity as administrator of the DIRF, 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.

The P&A Transaction closed on June 30, 2022. Alterna assumed PACE's employees, members, certain deposit accounts, certain loan portfolios, and PACE's head office and branches. As a critical part of the P&A Transaction, PACE members continued to be served by PACE's employees and branches.

Under the P&A Transaction, certain assets and liabilities were excluded (the "Excluded Items") and remained with the PACE legal entity. The Excluded Items primarily comprised PACE's investment shares, profit shares, membership shares, prepaid card business, and PACE's

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Deposit Insurance Reserve Fund Notes to the Financial Statements For the year ended March 31, 2025 (Thousands of dollars)

claims and litigation against the officers, directors, and their insurers related to the matters that resulted in the administration of PACE (the "Recovery Litigation Claims"). The PACE legal entity remained under administration by FSRA until August 24, 2022, on which date it was placed in liquidation (Note 11 (b)).

As part of the P&A Transaction, FSRA provided a Limited Guarantee to Alterna in which it guarantees certain payment obligations of PACE under the P&A Transaction Agreement and other related agreements including a Loss Sharing Agreement (the "LSA").

The LSA was executed when the P&A 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 are equal to 50% of Alterna's losses on retail loans and 100% of its losses on commercial loans, with 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 Limited Guarantee also extends to any payments arising from PACE's representations and warranties under the P&A Transaction 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.

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

The Limited Guarantee will remain in effect until six (6) months after PACE's payment obligations under the P&A Transaction Agreement and other related agreements are, as discussed above, terminated.

In fiscal 2025, \$67 was claimed by Alterna under the LSA (Note 6), with no other claims under the Limited Guarantee. In fiscal 2024, \$252 was claimed under the Limited Guarantee (\$224 under LSA, and \$28 under paragraph 15.3(k) of the P&A Agreement for costs required to remediate pre-closing non-compliance with Anti-Money Laundering laws).

(b) Liquidation 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 Transaction.

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On August 24, 2022, pursuant to an order of the Ontario Superior Court of Justice (the “Court”), the PACE legal entity was ordered to be wound up pursuant to section 240 of the *CUCPA 2020*. KPMG was appointed as liquidator (the “Liquidator”) to wind up the PACE legal entity, including 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 if FSRA determines that such assistance is required for the orderly wind-up of PACE. No costs associated with PACE liquidation were paid by the DIRF in fiscal 2025 (2024 – Nil).

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 FSRA’s claims against PACE filed with KPMG in the liquidation claims process described below. The investment, profit, and membership shares provided risk-bearing capital to PACE that are not insured by the DIRF, and as such, any losses to PACE members arising from owning these shares do not impact the DIRF.

On September 22, 2023, the Court approved the PACE liquidation Claims Process Order, and KPMG, in its capacity as court-appointed liquidator of PACE, was authorized to conduct a claims process for the purpose of identifying and determining claims against PACE. FSRA filed its claims on November 22, 2023. The claims impacting the DIRF are in the following five categories:

- (i) \$25,000 PACE’s contribution to an investor litigation settlement, funded by the DIRF in fiscal 2022.

On June 24, 2021, 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. FSRA used the DIRF to provide financial assistance to PACE by funding the settlement amount under an unsecured non-interest-bearing promissory note based on the provisions of the *CUCPA 2020* and the *FSRA Act*.

- (ii) \$5,892 professional fees incurred by PACE for advisory services with respect to the P&A Transaction in fiscal years 2022 (\$4,120) and 2023 (\$1,772), funded by the DIRF as a form of financial assistance advance to PACE.
- (iii) \$28 Alterna claims under s. 15.3(k) of the P&A Transaction Agreement, paid by the DIRF in fiscal 2024.
- (iv) \$184 Alterna claims under the LSA for the period from January to September 2023, paid by the DIRF in fiscal 2024.

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- (v) Potential future Alterna claims under the Limited Guarantee submitted by Alterna after November 22, 2023.

The DIRF disbursements under categories (i) to (iv) were expensed to the DIRF in the respective fiscal years as provision for deposit insurance loss. From November 22, 2023, to March 31, 2025, an aggregate amount of \$106 of LSA claims under category (v) was submitted by Alterna, of which \$39 was paid by the DIRF in fiscal 2024 and \$67 was paid in fiscal 2025, as provision for deposit insurance loss expense. Any amounts recovered from PACE liquidation will be recoveries of provision for deposit insurance loss.

During fiscal 2025, the liquidation proceedings of PACE remained ongoing. The Liquidator continues to work through claims received as part of the claims process approved by the Court. Until there is a resolution or determination of all claims, the recoverable amount of provision for deposit insurance loss cannot be determined.

(c) PACE Class Action Claim

During fiscal 2024, a former PACE member (the “Member”) holding Class A Profit Shares and Class B Special Shares filed a motion in the Ontario Superior Court of Justice seeking leave to issue a class action against FSRA and its CEO (the “Action”). The motion contained a draft statement of claim which alleged that between October 25, 2018, and November 29, 2019, the Member purchased a number of securities (“investment shares”) in the authorized capital of PACE while it was under the administration of FSRA, and the Member did not receive an offering statement prior to the purchases. The Member further alleged that other members also purchased investment shares of PACE between September 28, 2018, and August 24, 2022 (the “Class Period”), and were also not provided offering statements.

The motion was heard on July 2, 2024, and the Reasons for Decision were released on August 15, 2024 by the Court. The Court refused to grant leave to bring the Action as against the FSRA CEO but agreed to grant leave for the action to continue as against FSRA. The Member subsequently issued a statement of claim on behalf of himself and other members who purchased investment shares during the Class Period.

FSRA filed a Statement of Defence to the Action on April 30, 2025. The Court proposed a schedule for the Member’s motion to certify the Action as a class proceeding and for FSRA’s motion for summary judgment seeking dismissal of the Action. These motions are anticipated to be heard sometime in late 2025.